



Economic Premise

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Conflict and Development—Lessons from South Asia 56610

Ejaz Ghani and Lakshmi Iyer

South Asia is the second most violent place on earth after Iraq. Conflicts in Afghanistan and Pakistan have attracted global attention. Parts of India, Sri Lanka, and Nepal have experienced long-running conflict. Conflicts result in death, misery, social trauma, destruction of infrastructure, and have huge spillover effects. What is conflict? Where is it concentrated? Is conflict a problem for development, or a failure of development? What should policy makers do?

What Is Conflict?

Conflict is a clash between two opposing groups, and can be external or internal to the country. An example of external clash is state-to-state conflict (interstate war). This kind of conflict has declined. But internal conflict is on the rise. Indeed, internal conflicts have resulted in three times as many deaths as external conflicts, or interstate wars, since World War II (Fearon and Laitin 2003).

Internal conflict is a loose term. It can be classified into two broad categories (Ghani and Iyer 2010). The first category is conflict against the state. Examples of this are civil war, separatist movements, and suicide bombings. Suicide bombings are an extreme manifestation of conflict carried out by a relatively organized group of nonstate actors, and their goal is the destabilization of the state; all such incidents will be referred to here as terrorism. The second category is people-to-people conflict. Examples of this include conflicts between ethnic and social groups, localized land conflicts, religious riots, homicides, domestic violence, common violence, or other crimes. Ethnic and religious violence stand out in people-to-people conflict (Stewart 2010; Varshney 2002).

The two types of internal conflicts have evolved differently in South Asia. People-to-people conflict has declined: in India, clashes between Hindus and Muslims have not increased over the past decade, and homicide rates have declined substantially. But conflict against the state has increased. Researchers tend

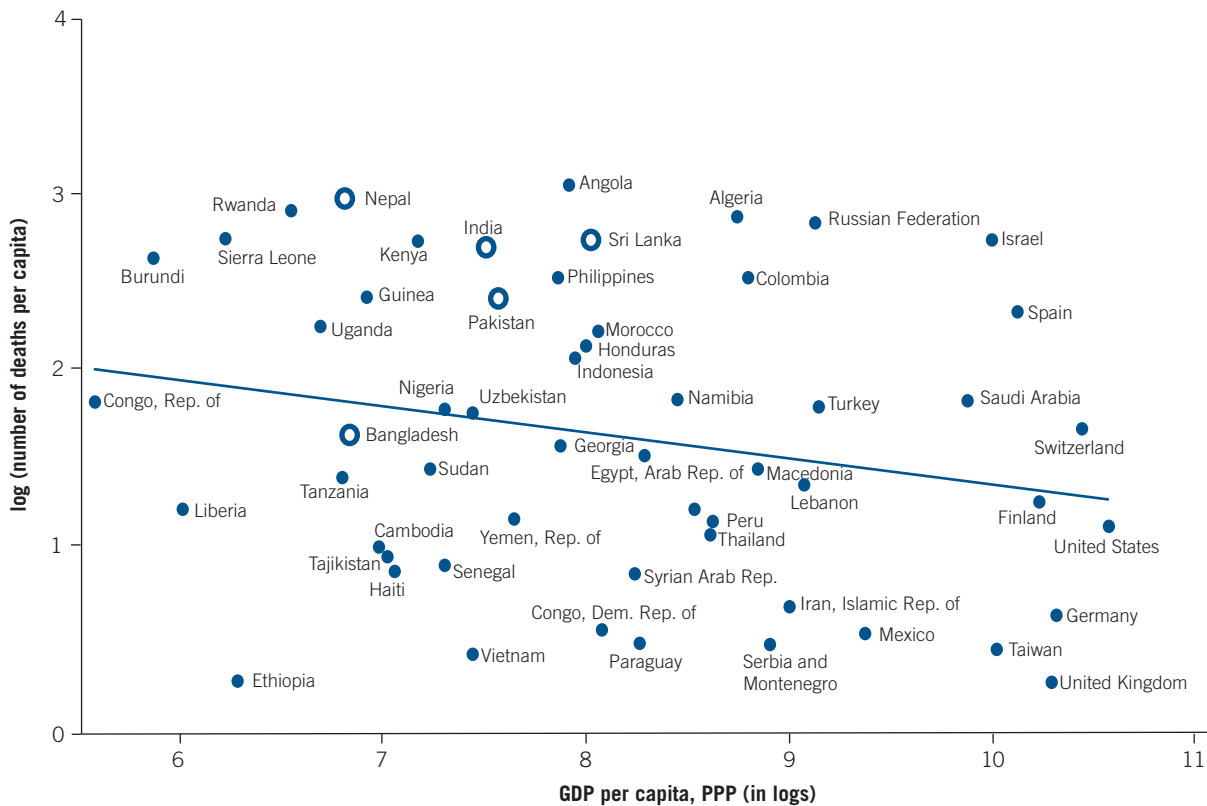
to focus on conflict against the state, because it has greater implications for the stability of the state itself, and therefore impacts states' abilities to implement developmental policy. The impact of people-to-people conflict is less severe compared to conflict against the state.

These two categories of conflict make it easier to explore potential relationships between conflict and development. Such an approach is also better aligned with the economic literature on institutions and economic growth (Acemoglu, Johnson, and Robinson 2001). Of the different types of institutions which have been identified as important to development—market-creating institutions, market-regulating institutions, market substituting institutions—the type that has received relatively little attention is that of conflict management or market-legitimizing institutions. Yet political stability is a prerequisite for implementing changes to any of the other types of institutions. Even in a best-case scenario, the presence of even low-level conflict places constraints on the kinds of policies governments can implement.

Is Conflict a Problem for Development, or a Failure of Development?

Figure 1 plots the internal conflict rate and real per capita income for a large group of countries. The vertical axis reports the number of people killed in terrorist incidents (normalized by population) as a measure of conflict rate (it excludes state-to-

Figure 1. Conflict and Violence (1998–2004)



Source: LaFree and Dugan (2008).

Note: The figure takes the arithmetic mean for fatalities and income per capita for the period 1998–2004. Fatality is the number of total confirmed fatalities for the incident. The number includes all victims and attackers who died as a direct result of the incident.

state conflict and common crime). The horizontal axis plots real GDP per capita. The downward sloping line suggests that countries that have low per capita income have a higher conflict rate. This is consistent with other findings in the literature that report higher conflict rates in low-income countries (Collier et al. 2003).

However, the relationship between conflict and per capita income is not very tight. High income can't guarantee peace and stability. There are many countries that are outliers. It is quite striking that many South Asian countries are outliers: India, Pakistan, Sri Lanka, and Nepal all have much higher conflict rates than expected for their stage of development.

One cannot infer *causality* from figure 1. Conflict may be contributing to low per capita income, or low income may be contributing to conflict. The poverty-conflict link is a two-way relationship. A better understanding of causality has big policy implications. If it is conflict that holds back growth, then policy makers should focus on controlling conflict, perhaps by increasing military and police interventions to reduce conflict. But if it is low income and high poverty that cause conflict, then the focus should be on direct policy interventions to reduce poverty and human misery. In India, there is some evidence that states that had more welfare and less police had less

violence than states that had more police and less welfare (Justino 2009).

If cross-country data suggest an inverse association between conflict incidents and per capita income, would subnational data also show that conflict rates are higher in lagging regions compared to leading regions within countries (lagging regions have lower per capita income compared to national average)? Indeed, this is exactly the situation in South Asia.

Figure 2 shows that in India, Bangladesh, Nepal, Pakistan, and Sri Lanka, conflict is concentrated in the lagging regions. The lagging regions of Pakistan (Balochistan, Federally Administered Tribal Areas [FATA], and North-West Frontier Province [NWFP]), India (Maoist insurgency in Bihar, Chhattisgarh, Jharkhand, and Orissa), and Sri Lanka (northern province), have high conflict rates. Nepal appears to be an exception in terms of showing greater conflict in leading regions (figure 3).

The differences in conflict intensity across leading and lagging regions are statistically significant, as shown by formal t-tests (table 1). In South Asia as a whole, lagging regions experienced more than three times the number of terrorist incidents per capita, compared with leading regions, and almost twice as many deaths per capita in such incidents (see table 1, panel A, first two rows). This is a large difference and remains statisti-

Figure 2. South Asia Conflict Intensity Map



Source: Conflict categories created by authors based on data from the RAND-MIPT Terrorism Incident Database for the period 1998–2007.

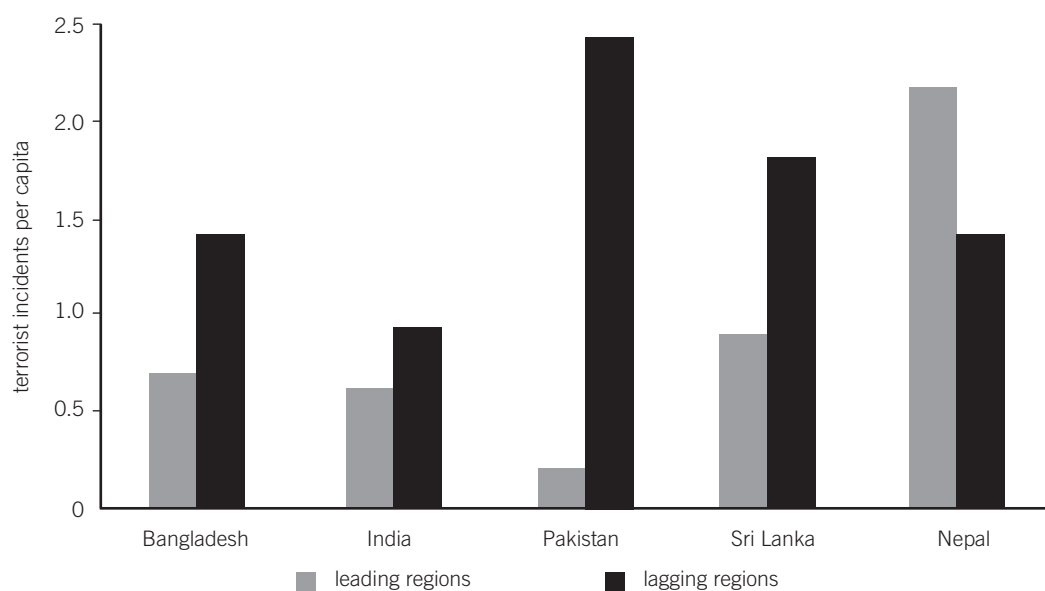
cally significant even after controlling for changes that affected the whole region in any given year.

Some of this difference is attributable to cross-country differences: Afghanistan and Nepal are both much poorer than rest of South Asia, and have suffered high levels of conflict. But, consistent with the results in figure 3, the difference between lagging and leading regions is present within individual countries as well: lagging regions within Bangladesh, India, Pakistan, and Sri Lanka have more than twice the levels of per capita conflict than leading regions within the same countries.

What Explains Higher Concentration of Conflict in Poor Regions?

That conflict is higher in lagging regions is consistent with the cross-country literature on the incidence of civil war, which shows that poor countries are at greater risk of internal conflict (Collier and Hoeffler 2004); Fearon and Laitin 2003). Time-series studies of conflict find that poor economic circumstances are more likely to result in conflict: Miguel, Satyanath, and Sergenti (2004) find that civil war is more likely to begin in Af-

Figure 3. Comparing Terrorist Incidents across Leading and Lagging Regions within Countries



Source: RAND-MIPT Terrorism Incident Database.

Note: In the interests of showing the within country details, the per capita figures are per million population for Bangladesh and India, and per 100,000 for Pakistan, Sri Lanka, and Nepal. The latter three countries experienced significantly higher levels of overall conflict per capita over this period. The MIPT data for Nepal are not of high quality.

Table 1. Are Conflict Differences between Leading and Lagging Regions Statistically Significant?

Variable	Place	Leading regions	Lagging regions	Difference	Regression difference
Panel A: MIPT data, 1998–2007					
# terrorist incidents per million population	South Asia	0.399	1.195	0.796	0.796***
# fatalities per million population	South Asia	0.521	1.738	1.217	1.217**
# terrorist incidents per million population	Bangladesh	0.115	0.105	-0.011	
	India	0.165	0.363	0.198	
	Nepal	2.056	1.511	-0.545	
	Pakistan	0.249	2.509	2.260	
	Sri Lanka	0.858	2.495	1.637	
Panel B: GTD2 data, 1998–2004					
# terrorist incidents per million population	South Asia	0.269	0.559	0.290	0.290**
# fatalities per million population	South Asia	4.045	11.963	7.918	7.918**
# terrorist incidents per million population	Bangladesh	0.096	0.050	0.047	
	India	0.159	0.129	-0.030	
	Nepal	0.864	0.698	-0.166	
	Pakistan	0.204	0.254	0.050	
	Sri Lanka	1.039	1.641	0.602	

Source: LaFree and Dugan (2008); RAND-MIPT Terrorism Incident Database.

Note: Regression differences are calculated by regressing the conflict intensity on a dummy for lagging region and year fixed effects. GTD2 = Global Terrorism Database II. *** Represents significance at 1 percent, ** represents significance at 5 percent, and * represents significance at 10 percent.

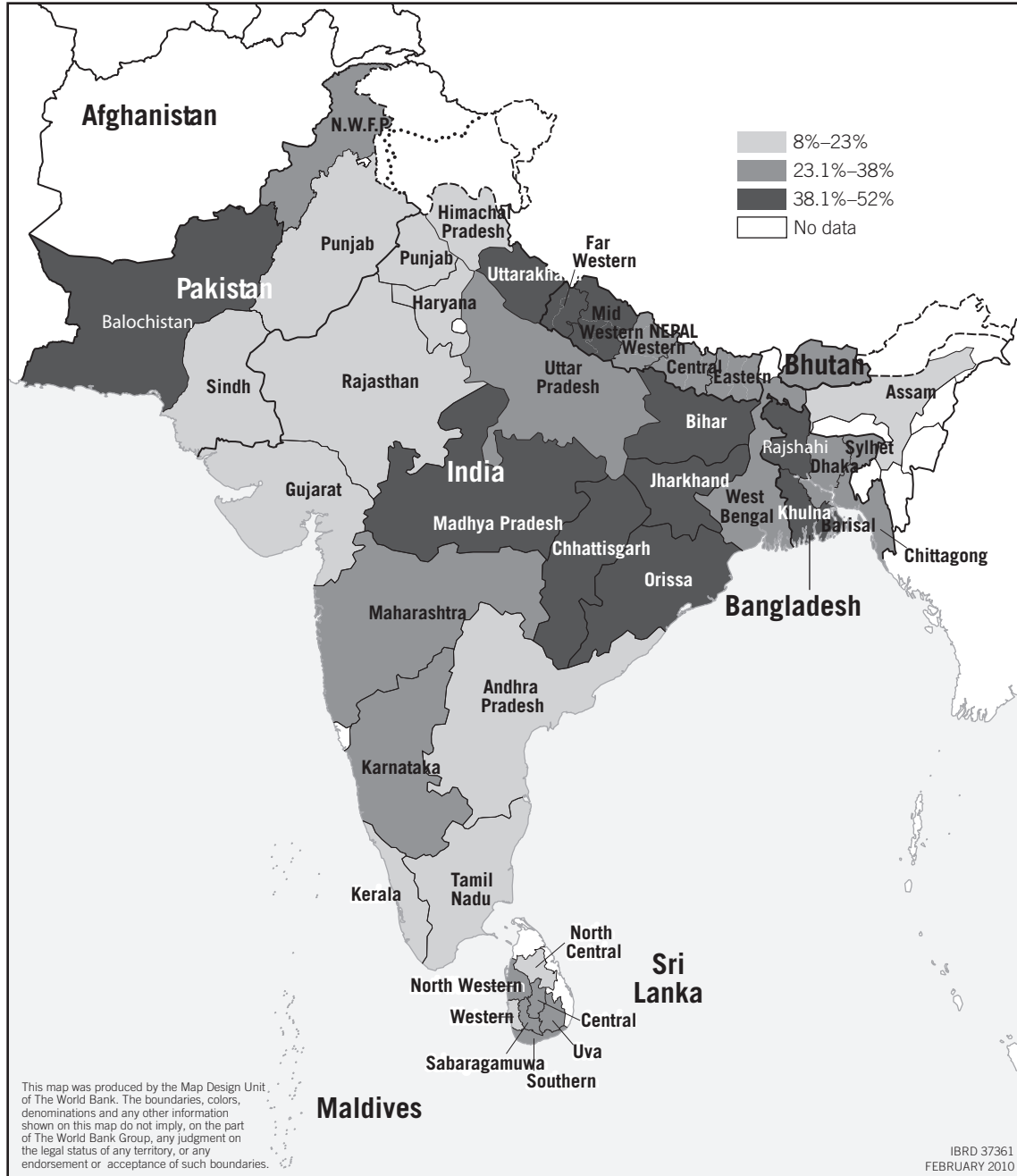
rican countries in years following poor rainfall; Hidalgo et al. (2008) find that poor rainfall is associated with an increased incidence of land invasions in Brazil; and Dube and Vargas (2009) document a robust association between reduced coffee prices and the incidence of terrorism in Columbia. Do and Iyer (2010) find similar results in an analysis of conflict intensity across the districts of Nepal.

Figure 4 shows the distribution of poverty rates across the regions of South Asia, measured by the head-count ratio. The

head-count ratio measures the percentage of population in a given area whose consumption is below the poverty line for that region. The head-count ratio here has been calculated with respect to national poverty lines for the different countries.

Does poverty incidence match with the incidence of conflict? The analysis does show a higher incidence of conflict in poor and landlocked regions. Furthermore, there is a close relationship between higher poverty rates and greater conflict. One can easily see that western Pakistan, Afghanistan, Nepal, and

Figure 4. Map of Poverty Head-Count Ratio in South Asia



Source: Ghani (2010).

some parts of eastern India have both high levels of poverty and high levels of conflict.

This relationship is visible in figure 5, where we see higher levels of conflict in poorer regions of South Asia. This relationship is not uniform within each country; in particular, it is much less strong across regions of Bangladesh. Indeed, this is not a tight relationship. Poverty figures may reflect the effect of any conflict in that region as well, and thus these figures cannot be used to make a causal statement. Furthermore, the existence of conflict complicates the collection of detailed data. In particular, poverty figures are not available for the northern and eastern provinces of Sri Lanka, which had the highest levels of conflict in the whole of South Asia.

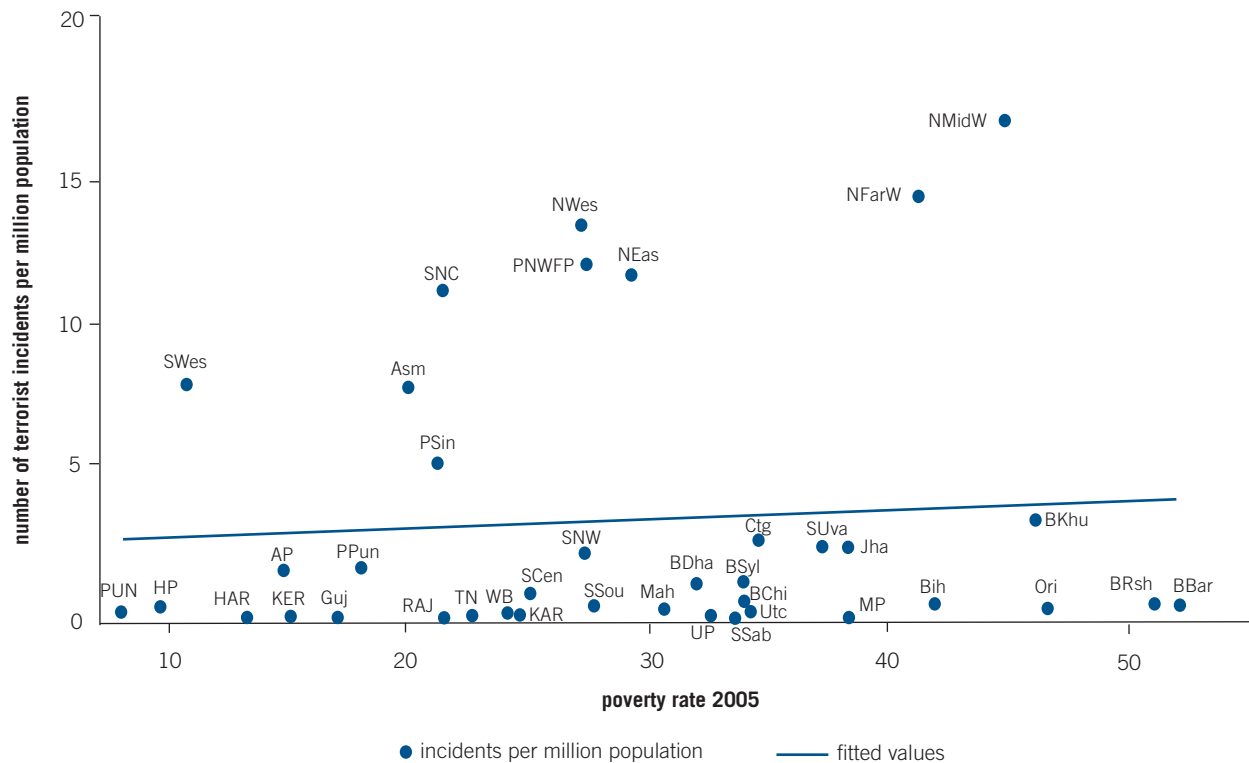
Several different interpretations can be made for any observed relationship with poverty. It might be easier for rebels to recruit people to their cause in poorer areas, because their opportunity cost of conflict is relatively low. This “opportunity cost” hypothesis means that the relationship between poverty and conflict will be different for an ethnically based or separatist conflict, because recruitment will be made on the basis of ethnicity or regional affiliation, rather than the lowest cost of recruitment. However, another potential interpretation is that poorer regions have poorer state capacity, and hence the govern-

ment is not able to deal with the rebels effectively. In fact, separatist or ethnic conflicts are often driven by the perception of a specific region or group being discriminated against by the state.

The cross-country literature on civil wars has documented several other features that appear to be important. For instance, Fearon and Laitin (2003) show that geographic conditions that favor insurgency, such as the presence of forest cover, are significantly associated with the incidence of conflict. How far does this matter for the South Asian context? States in India that have a higher forest cover have higher conflict intensity (see figure 6). This is consistent with numerous accounts of Naxalites using forest cover to hide effectively from law enforcement forces. Data from Sri Lanka and Nepal show a similar relationship.

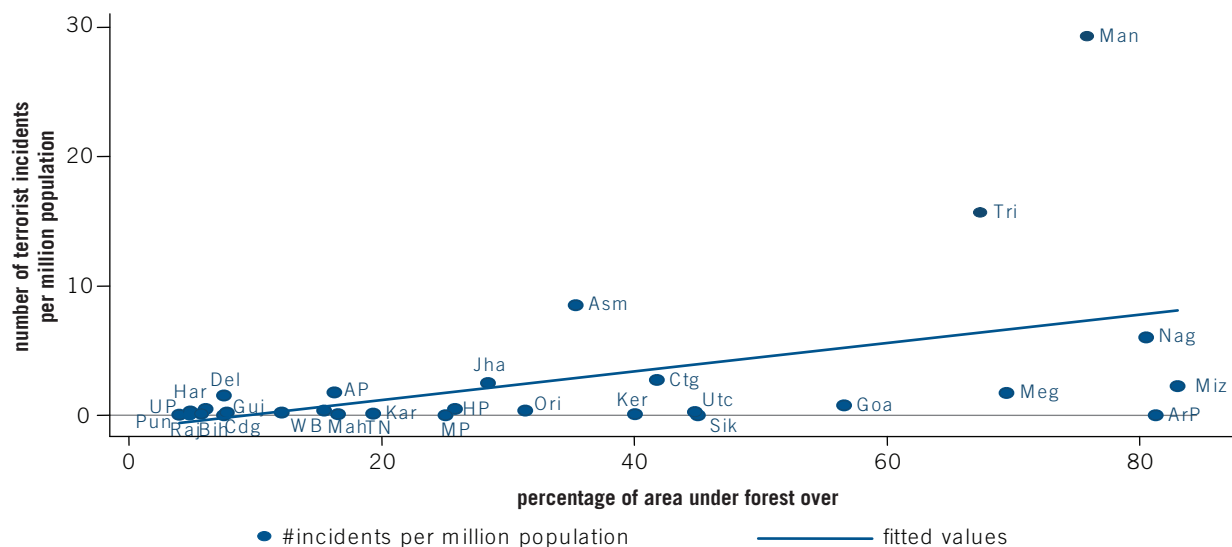
In addition to economic and geographic circumstances, social divisions are often cited as a driver of conflict. For instance, the separatist movement in Sri Lanka began with the demands of ethnic Tamils for greater autonomy. Similarly, the Maoist rebels in Nepal often claim to be fighting on behalf of marginalized sections of society, such as members of the lower castes. India’s northeastern states, which are the scene of long-running separatist movements, are socially and ethnically different from the majority of the states in India.

Figure 5. Relationship between Conflict Intensity and Poverty Rates



Source: RAND-MIPT Terrorism Incident Database. Poverty numbers are computed by World Bank staff from individual country data sources. Note: MIPT data are at region level. Figure excludes Balochistan and Central Province in Nepal, which are large outliers. Data on poverty levels are not available for northern and eastern provinces of Sri Lanka.

Figure 6. Forest Cover and Conflict Intensity in South Asia



Source: RAND-MIPT Terrorism Incident Database on conflict for Indian states.

Conflicts can be triggered by low economic growth (a lower economic opportunity cost of rebellion against the state in poor areas), unequal distribution in gains from development, and political marginalization. Or conflict can result from shocks such as natural calamities or commodity price shocks. The lagging regions of South Asia suffer from both types of problems—low economic growth and higher vulnerability to natural calamities (Ghani 2010; Ahmed, Kalegama, and Ghani 2010).

The consequences of conflict on development are more severe in lagging regions due to weak institutions, poor geography, and weak integration with global markets. These are also the characteristics that limit economic growth in lagging regions. Leading regions also suffer from conflict but are better able to contain and manage them because of administrative and economic dynamism (which includes job creation capacity and effective safety net programs).

What Should Policy Makers Do to Reduce Conflict?

A speech given by the Prime Minister of India, Dr. Manmohan Singh, to a conference on Internal Security and Law and Order in 2005, sums up the story of conflict and development:

Whatever be the cause, it is difficult to deny that extremism has huge societal costs. Investments are unlikely to fructify, employment is not likely to grow and educational facilities may be impaired...the threat of Naxalism is geographically spread out to the more backward regions and districts of our country.

Reducing conflict is a prerequisite to political stability, which, in turn, is the prerequisite for implementing pro-growth policies. Even in a best-case scenario, the presence of low-level conflict constrains the policies governments can implement to promote growth.

Policy makers in South Asia have tried various policies to reduce conflict. The most common approach is to use police forces to establish law and order in the affected areas. The police forces in South Asian countries, however, tend to be understaffed and underequipped. In cases in which police forces are insufficient, the armed forces are called in to deal with the insurgency. In most cases, this has not been a successful strategy. Even when successful in defeating the insurgents, as in Sri Lanka, the human cost associated with military operations is very high.

A different approach to dealing with insurgencies is to conduct negotiations and sign peace agreements with the insurgents. To be effective, this approach needs two requirements: (1) the government must conduct coordinated negotiations and fulfill at least some of the insurgents’ demands; and (2) the insurgent group must be genuinely interested in joining the political mainstream. This approach has been tried in some areas of South Asia. For instance, the Indian government has signed peace deals with several separatist groups in the northeastern states, granting them a higher degree of local autonomy in some cases. Similarly, negotiations with some Tamil groups in Sri Lanka, such as the EPRLF, have resulted in their integration into mainstream politics.

Complementary to the security-based solution is an economic solution, whereby the government expands welfare programs and reduces poverty in the conflict-affected areas to undercut the support for the insurgency. This approach is consistent with economic backwardness as a cause of conflict. This approach has been tried in some conflicts in South Asia, but it has failed because of poor economic policy selection and poor implementation in conflict regions.

Policy choices and their implementation are critical in preventing an escalation of conflict and in postconflict reconstruc-

tion. Economic policies should be geared not just to maximize growth, which would take time, but also to address the distributional or political factors that led to the conflict. Policy choices must be structured to reduce real or perceived inequities. Aid agencies should work through the existing government institutions, be practical to create jobs quickly, and in most cases, work on short-term economic goals first and address medium- and longer-term efficiency considerations later. This approach calls for humanitarian treatment for conflict-affected people, closure of refugee camps, and reintegration of refugees within society.

Cross-border cooperation between countries should be an integral part of any strategy to reduce conflict. Many of the internal conflicts in South Asia have cross-border dimensions. The Taliban in Afghanistan obtain significant support from Pakistan's border areas. The Maoists in Nepal formed close links with the Maoist movements in India. Many separatist groups in India's northeastern states had training camps and cells in neighboring countries such as Bangladesh and Bhutan. The Liberation Tigers of Tamil Eelam (LTTE) and other Tamil separatist groups in Sri Lanka have traditionally enjoyed support from the Tamil diaspora in India and other countries. In such a context, regional cross-border cooperation is an essential part of any counterinsurgency strategy. Considerable potential exists for regional cooperation in reducing conflict, but this has been an underutilized strategy in combating terrorism in South Asia.

South Asian governments have taken a variety of different approaches to counter terrorism. Reviewing these approaches in the South Asian and global context, it appears that the armed forces or local militias have not been overly effective in combating terrorism. Strengthening police forces or conducting negotiations to induce insurgents to join the political mainstream appear to be more effective approaches. Regional cooperation initiatives, which have been underutilized so far, are likely to be important in countering terrorism. The challenge is to find the right combination of these different approaches toward countering conflict, as well as the optimal economic policies to be adopted in postconflict environments.

About the Authors

Ejaz Ghani is *economic advisor* at the World Bank. Lakshmi Iyer is associate professor at Harvard Business School. A summary of this article appeared in the World Bank Ending Poverty in South Asia Blog and VOX EU. The views expressed here are those of the authors and not of World Bank or Harvard Business School.

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