Political Economy of Development, Conflict, and Business Networks

Child, T.B.

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Field interviews from Afghanistan suggest current theories of aid effectiveness do not adequately account for nonfinancial incentives of conflict. Our model demonstrates how development aid by a foreign occupier exacerbates violence through popular discontent, if projects are ideologically controversial. We test the model in Afghanistan from 2005 to 2009, using unique data from NATO on reconstruction and public opinion, and a US-Government violence log. Projects in the health sector successfully alleviate violence, whereas those in the education sector actually provoke conflict. The destabilizing effects of education projects are strongest in conservative areas, where public opinion polls suggest those projects breed antipathy towards international forces. Further underscoring the role of local perceptions, project-driven violence appears to be homegrown, rather than sourced externally. Our findings do not support competing theories; are not driven by reverse causation; and are robust to many sources of endogeneity.

Previous research on firm performance does not adequately account for the interrelatedness of professional connections, political ties, and family affiliation. Many widely-cited findings may therefore be subject to confounding bias. Accordingly, we assemble new data covering professional, political, and family networks for 1,290 large East Asian firms. We find professional networks buoyed performance during the 2008 financial crisis; political and family networks did not. We suggest information access is a key mechanism underlying the effect of professional networks. A one standard deviation improvement to a firm’s professional network cushioned the fall in quarterly ROA by approximately 35% during the crisis.