

The Economic Costs of Conflict: A Production Network Approach

Mathieu COUTTENIER, Nathalie MONNET and Lavinia PIEMONTESE

Abstract :

We provide new evidence on how conflict adversely affects economic outcomes. Specifically, we ask whether and how the production network is a first-order determinant of the propagation of conflict to firms outside of conflict zone. Using microdata on Indian manufacturing plants and geo-coded information on Maoist insurgency, we first provide an estimate of the *direct* exposure to conflict. Firms located in conflict affected areas suffer a loss of 7-11% of their output. Estimating structurally a general equilibrium model of production networks, we then obtain an estimate for the overall macroeconomic impact of the Maoist insurgency by taking this propagation effects into account. We find that the Maoist insurgency resulted in a 0.4-0.7% decline in aggregate output of Indian's manufacturing sector. Only the 20% of this loss is due to *direct* exposure to conflict, whereas the remaining 80% explained by the *indirect* exposure to conflict through the network production.