

Ethnic conflicts, civil war and economic growth: region-level evidence from former Yugoslavia¹

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Abstract

We examine the effect of civil war on subnational economic growth trajectories across 78 regions from five republics in former Yugoslavia for the period 1950-2015. By exploiting the ethnic tensions and the onset of the armed conflict, we leverage pre-conflict subnational growth trajectories against a stable and rich donor pool of regions from five Mediterranean countries in southern Europe without any armed conflict to estimate the missing counterfactual scenario. Our results based on hybrid synthetic control and difference-in-differences empirical strategy suggests that the war led to unprecedented per capita GDP losses with substantial heterogeneity across regions. Regions most heavily exposed to the high intensity of the armed conflict tend to experienced prolonged and permanent losses whereas the effect of war on capital cities appears to be somewhat more temporary. The estimated negative economic growth effects of civil in former Yugoslavia are robust to a large number of specification checks, placebo analysis and survive a large battery of falsification analyses. The intensity of ethnic tensions between Serbs and Croats accounts for up to 30 percent of the differences in the estimated effect of civil war.

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