

Corporate Production of State Capacity

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Overview

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We use the introduction of cash-for-protection contracts in Colombia to examine how corporate investment in state institutions influences conflict dynamics.

Theory & Context

MNCs and conflict

- ▶ MNCs/FDI increase value of state prize, deteriorates institutions (Besley and Persson 2010)
- ▶ Foster corruption in LDCs (Pinto and Zhu 2016), esp in resource rich countries, e.g., Indonesia, Angola
- ▶ “Oil curse”: rent-seeking, repressive capacity

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- ▶ “Oil curse”: rent-seeking, repressive capacity

- ▶ But, ignores firms: Incentive to protect their investments, have sufficient funds to “buy protection”, host and home government support

Income shocks and rebel constraints/tactics

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- ▶ Conventional vs. irregular attacks
- ▶ Rebel: Conventional attacks when costs of local mobilization are low (Bueno de Mesquita 2013)
- ▶ Government: Greater state capacity raises costs of rebel conventional attacks, shift to irregular tactics (Carter 2015)
- ▶ Hypothesis: Rebels resort to irregular violence as local state capacity increases

Context

- ▶ Empirical challenge: Rarely “observe” when and how private firms invest in state capacity
- ▶ This paper: Novel data on mineral leases, with “cash-for-protection” contracts (e.g., BP, Occidental)

Background

- ▶ Conflict since 1960: rural based insurgency
- ▶ Rebel groups: FARC (main), ELN
- ▶ Income: Oil (state), coffee (rebels)

Data & Identification

Rebel violence

- ▶ Primary outcomes: CERAC database identifies guerrilla **attacks** (on civilians and indirectly on state forces) and direct armed **clashes** with state forces or paramilitary groups.
 - ▶ **Indirect attacks**: sabotage, ambush, bombings
 - ▶ **Direct engagements**: pitched fights, overrun police stations and bases, seize and temporarily hold village centers

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- ▶ Both sources combine media reports and locally collected narratives of violence; collected and reviewed by Jesuit network

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- ▶ **Local coffee revenue:** coffee production \times national price
— Non-mechanized, labor-intensive commodity
- ▶ **Shocks:** exogenous price movement (oil); market supply and weather variation (coffee) [Dube and Vargas 2013]

Specification

Primary estimation: municipal-year OLS,

$$\begin{aligned}
 Y_{m,t} = & \alpha_m + f_t + \mu_{rt} \\
 & + (Oil_{m,t=1988} \times O.Price_t)\beta_1 \\
 & + X_{m,t}\beta_4 + \lambda_{m,t}.
 \end{aligned} \tag{1}$$

Secondary estimation: municipal-year 2SLS,

$$\begin{aligned}
 Y_{m,t} = & \alpha_m + f_t + \mu_{rt} \\
 & + (Oil_{m,t=1988} \times O.Price_t)\beta_1 \\
 & + (Coffee_{m,t=1997} \times Co.Price_t)\beta_2 \\
 & + X_{m,t}\beta_4 + \lambda_{m,t}.
 \end{aligned} \tag{2}$$

Results

Impact of security contracts on rebel response to oil revenue shocks

	Indirect attacks		Direct engagements	
	Pre	Post	Pre	Post
Oil sector revenue	-1.533 ^γ (0.885)	2.013* (0.937)	1.267* (0.614)	-0.249 (0.575)
N	7984	9980	7984	9980
Clusters	32	32	32	32

Difference-in-difference estimator with clustered standard errors (department, first-admin)
 $\gamma p < .1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Impact of security contracts on rebel response to oil revenue shocks

	Indirect attacks		Direct engagements	
	Pre	Post	Pre	Post
Oil sector revenue	-1.509 ^γ (0.840)	2.148* (0.891)	1.270* (0.624)	0.0632 (0.494)
Coffee sector revenue	1.648 (1.534)	-0.150 (0.152)	0.640 (0.578)	-0.912** (0.289)
N	7824	9780	7824	9780
Clusters	32	32	32	32
Kleibergen-Paap F	7.095	16.03	7.095	16.03

Instrumental variables estimates; instruments: rainfall and temperature \times external production. Difference-in-difference estimator with clustered standard errors (department, first-admin)

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Decomposing main result: rebel tactics

	Road blocks		Ambush		Bombings		Infrastructure	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Oil sector revenue	0.00877 (0.0524)	0.661*** (0.116)	-0.513*** (0.0639)	0.481** (0.157)	-1.950 (1.320)	4.134 ^γ (2.336)	-0.247 (0.458)	5.749*** (0.821)
N	4823	9980	4823	9980	4823	9980	4823	9980
Clusters	32	32	32	32	32	32	32	32

Difference-in-difference estimator with clustered standard errors (department, first-admin)

$\gamma p < .1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

	Kidnappings		Assasinations	
	Pre	Post	Pre	Post
Oil sector revenue	2.827*** (0.652)	-1.633*** (0.370)	0.998*** (0.106)	-0.0514 (0.185)
N	4823	9980	4823	9980
Clusters	32	32	32	32

Difference-in-difference estimator with clustered standard errors (department, first-admin)

$\gamma p < .1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Decomposing main result: government tactics

	Extrajudicial detention		Ordinance neutralized		Rebel captures	
	Pre	Post	Pre	Post	Pre	Post
Oil sector revenue	0.126 (0.0898)	2.632*** (0.175)	0.0117 (0.0368)	6.507*** (0.561)	-14.99 ^γ (8.162)	20.02*** (2.025)
N	4823	9980	4823	9980	4823	9980
Clusters	32	32	32	32	32	32

Difference-in-difference estimator with clustered standard errors (department, first-admin)

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Conclusion

- ▶ Finding: Introduction of security contracts increases local state capacity, which neutralize/decrease rebel attacks against the state but increases “irregular” tactics
- ▶ Next steps: Spillover effects, persistence

Backup

Impact of security contracts on rebel response to oil revenue shocks, exclude para.

	Indirect attacks		Direct engagements	
	Pre	Post	Pre	Post
Oil sector revenue	-1.533 ^γ (0.885)	2.012* (0.938)	1.240* (0.603)	-0.413 (0.600)
N	7984	9980	7984	9980
Clusters	32	32	32	32

Difference-in-difference estimator with clustered standard errors (department, first-admin)
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	Indirect attacks		Direct engagements	
	Pre	Post	Pre	Post
Oil sector revenue	-1.509 ^γ (0.840)	2.148* (0.892)	1.243* (0.613)	-0.0994 (0.500)
Coffee sector revenue	1.648 (1.534)	-0.149 (0.152)	0.631 (0.570)	-0.870** (0.291)
N	7824	9780	7824	9780
Clusters	32	32	32	32
Kleibergen-Paap F	7.095	16.03	7.095	16.03

Instrumental variables estimates; instruments: rainfall and temperature \times external production. Difference-in-difference estimator with clustered standard errors (department, first-admin)
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