

What are the best economic predictors for armed conflict and peace?

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Introduction

The causes of armed conflict have long engaged scholars and policymakers, yet substantial evidence suggests that economic conditions provide crucial predictive insights. While wars may appear rooted in ethnic or political grievances, economic factors often create the underlying conditions that make violence possible. Countries experiencing income shocks, resource dependence, inequality, and youth unemployment face significantly higher conflict risks, though the strength of these predictors varies across different contexts.

This essay argues that while income shocks and youth unemployment serve as immediate triggers for conflict, resource dependence and inequality create the structural conditions that determine longer-term vulnerability to armed violence. Rather than operating as direct causes, these economic factors function through distinct mechanisms that are mediated by institutional quality, governance capacity, and social cohesion. This analysis demonstrates that the predictive power of economic indicators depends critically on these mediating factors, with significant implications for targeted conflict prevention strategies.

Income Shocks

Income shocks are a key economic indicator for assessing the risk of armed conflict, capturing sudden and significant changes in household or national earnings that alter incentives for political violence. Sudden income shocks, whether from commodity price collapses, agricultural failure, or global financial crises, consistently predict conflict in vulnerable economies. Collier and Hoeffler's opportunity cost framework posits that as household incomes fall, the relative attractiveness of rebellion rises, since the returns from legal economic activity diminish.¹

Empirical analysis in Sub-Saharan Africa demonstrates that a five percent reduction in GDP per capita growth correlates with nearly a 50 percent increase in civil war probability.²

Climate-induced shocks provide further support: Somalia's recurring droughts and famines coincided with militia competition over grazing land, while the 2000s India National Rural Employment Guarantee Act mitigated shocks, reducing Maoist insurgency in rural districts.^{3 4}

The mechanism is multidimensional: declining household incomes weaken fiscal capacity, constrain state services, and reduce the opportunity cost of joining insurgencies. However, income shocks are context-dependent. Oil-rich states like Saudi Arabia experience revenue volatility yet avoid internal conflict, aided by redistributive patronage and elite stabilization.⁵ Conversely, Tunisia experienced unrest despite modest macroeconomic fluctuations because gains were unevenly distributed and institutions were weak.⁶ This highlights the interaction between economic shocks, social safety nets, and institutional resilience.

Economic theories like the Keynesian Theory underscore that income shocks are not merely triggers; their effects are mediated through labour markets, fiscal policy, and risk-sharing mechanisms. In policy terms, shock absorption through social transfers, insurance schemes, and agricultural stabilization can materially reduce conflict risk, though implementation challenges remain in resource-constrained states. Income shocks therefore function as a conditional predictor, particularly potent in agrarian or resource-dependent economies with weak redistribution.

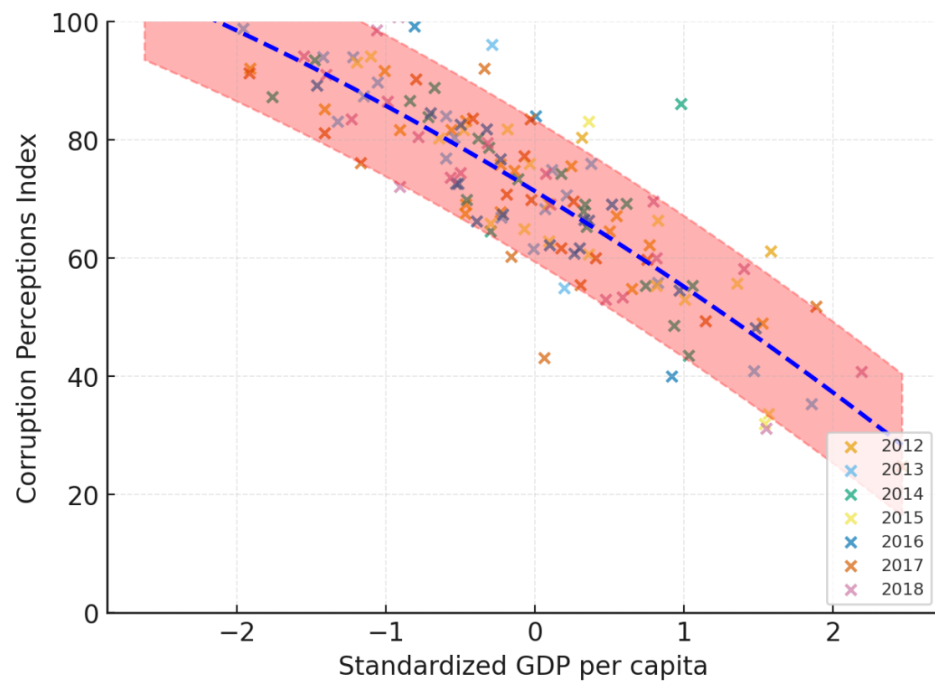


Fig 1: Lower income levels are associated with higher perceived corruption, highlighting how economic vulnerability can contribute to instability and conflict risk.⁷

Natural Resource Dependence

While sudden income shocks primarily alter household incentives for rebellion, structural economic factors, such as dependence on natural resources, shape broader opportunities for organized violence by providing rents and funding streams for armed groups. Natural resource dependence typically measures the share of a country's GDP, exports, or government revenue from resources. Dependence on natural resources has long been linked to conflict risk, but its predictive power is highly contingent on institutional capacity, governance quality, and existing social divisions. The resource curse hypothesis suggests resource wealth can weaken institutions by encouraging rent-seeking and corruption, and because these weakened institutions cannot effectively manage or distribute resource rents, the same wealth can fund rebellion.⁸ Resources such as diamonds, gold, and coltan fuelled wars in Sierra Leone and the Democratic Republic of Congo, where armed groups, including militias and paramilitary factions, taxed or illicitly traded commodities to sustain operations.⁹

By boosting potential gains from controlling the state, resource rents create strong incentives for rebellion and prolong confrontations, particularly where state capacity is weak.

Yet the resource curse is not universal. Norway avoided conflict by channelling oil wealth into a sovereign wealth fund and maintaining transparency, while Botswana managed diamond wealth through robust bureaucratic capacity.^{10 11 12} These examples illustrate that institutional quality mediates the relationship between resources and violence: strong institutions can transform resource rents into instruments for peace rather than triggers for conflict. In contrast, ethnically divided, weak states remain most vulnerable, as armed groups exploit resource wealth to challenge authority.

The impact of resource dependence is shaped by temporal and sectoral dynamics. West African conflicts intensified in the 1990s due to diamond demand,¹³ while the current global transition to renewable energy could redirect tensions toward cobalt and rare earth metals, showing how resource-driven risks evolve over time, creating new conflict hotspots not captured by historical patterns. Policy interventions such as transparent revenue management and equitable benefit-sharing demonstrate that rents can be harnessed to reduce rather than exacerbate instability. The predictive value of resource dependence therefore lies not in resource presence but in the interaction of rents with governance, institutional capacity, and social cohesion.

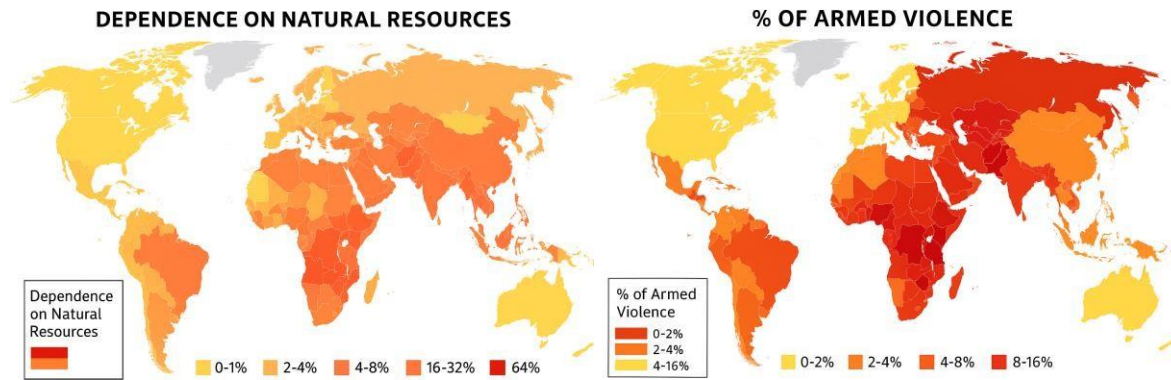


Fig 2: Map showing how high natural resource dependence aligns with elevated armed violence, supporting the resource-curse framework while highlighting the role of governance and institutional mediators.^{14 15}

Economic Inequality

Resource dependence affects state capacity and incentives for conflict and can exacerbate underlying inequalities, particularly when resource rents are unevenly distributed across regions or social groups, linking structural wealth availability to grievance-based mobilization. Economic inequality drives grievance-based conflict, though its effects depend on type, distribution, and institutional context. Relative deprivation theory explains that perceived discrepancies between expected and actual outcomes generate collective grievances, often along identity lines.¹⁶ Horizontal inequality, disparities across ethnic, regional, or religious groups, is particularly salient. Rwanda's 1994 genocide shows that modest overall inequality can become lethal when systematic exclusion marginalizes specific groups.¹⁷ Similarly, Colombia's protracted civil war had roots in land inequality, as rural populations excluded from economic opportunities were mobilized by FARC around redistributive claims.¹⁸

Still, inequality is neither necessary nor sufficient for conflict. Brazil maintained high Gini coefficients without civil war, while relatively equal societies have experienced violence.¹⁹

This reflects the critical role of mediating variables such as inclusive governance, social mobility, and elite commitment to stability. Political economy models emphasize that inequality functions through incentive structures: when inequality undermines access to public goods or legal economic opportunity, grievances can crystallize into mobilization, but when safety nets or institutional responsiveness exist, inequality may not translate into violence.^{20 21}

Post-conflict analysis reinforces this insight: persistent inequality correlates with relapse risk because peace dividends are not widely shared.²² Policymakers face trade-offs between rapid redistribution, which may destabilize elites, and gradual integration, which may prolong grievances. Inequality therefore predicts conflict most robustly when combined with identity exclusion and weak institutions.

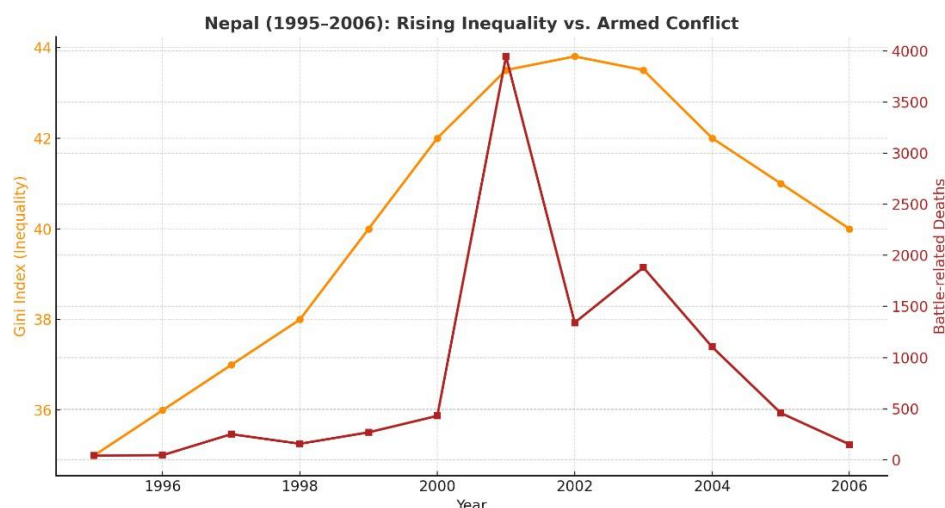


Fig 3: The graph showing economic inequality (Gini Coefficient) and number of battle-related deaths in Nepal, suggests that higher income inequality more battle-related fatalities are experienced during civil conflict.^{23 24 25}

Youth Unemployment

Inequality often intersects with demographic pressures: marginalized youth facing limited economic opportunity represent both a concentrated grievance and a pool of potential recruits, illustrating how social and economic exclusion heightens conflict risk. Demographic dynamics, particularly youth unemployment, provide another critical lens for understanding armed conflict.

The youth bulge hypothesis posits that societies with surplus young adults, particularly males, face lower opportunity costs for rebellion and larger pools of recruits.²⁶ Human Capital Theory and Relative Deprivation Theory show this: educated but underemployed youth represent both frustrated expectations and concentrated mobilization potential. The Arab Spring demonstrates this: Tunisia, Egypt, and Libya experienced mass uprisings fueled by educated yet economically marginalized youth.²⁷

In contrast, East Asian economies absorbed similar pressures through rapid industrialization and labour market integration, preventing violent conflict.²⁸ Micro-level evidence supports the predictor: cash transfers, vocational training, and targeted employment initiatives in Liberia and Uganda reduced youth participation in violence, though effects were often modest.²⁹

Emerging trends like automation, AI-driven labour displacement, and slow job creation in middle-income countries may exacerbate youth unemployment, renewing conflict risk in previously stable regions. However, youth unemployment alone does not guarantee violence; governance, social cohesion, and alternative opportunities remain decisive mediators. Policy strategies must integrate demographic planning with economic development, combining employment creation with social and political inclusion. Youth unemployment therefore serves as a key risk factor, with its impact intensified by economic stagnation and weak institutions.

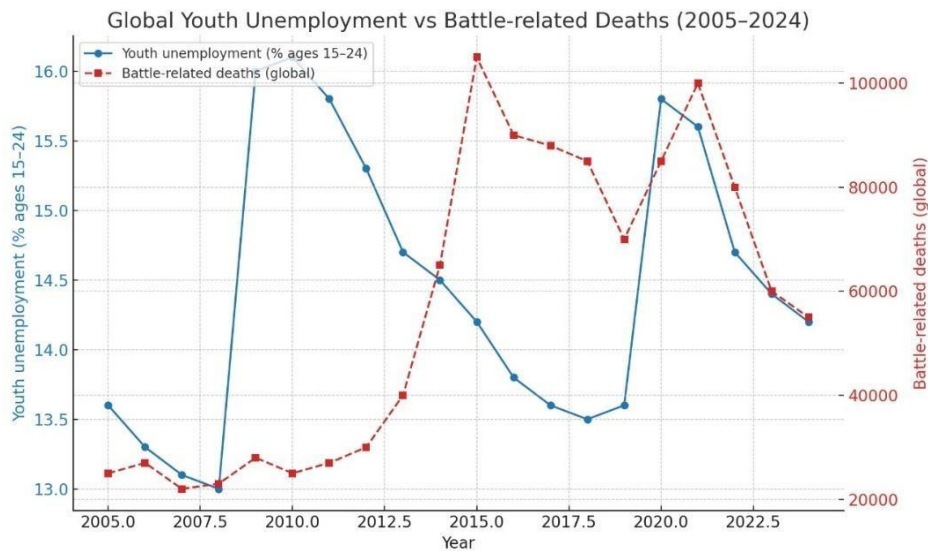


Fig 4: Global Youth Unemployment vs. Battle-Related Deaths (2005–2024). Higher youth unemployment trends are followed by delayed spikes in global conflict fatalities, indicating a positive correlation.^{30 31 32}

Conclusion

Economic predictors provide insights into conflict and peace, but their predictive power varies with governance, identity, and institutions. Income shocks and youth unemployment often trigger unrest quickly, while resource dependence and inequality shape longer-term risks, yet none is determinative alone. Some factors matter more at different stages, and standard models like opportunity-cost theory or relative deprivation theory do not fully explain cases where grievances exist but violence does not, as in resource-rich states with strong social transfers or cohesive informal institutions. Contemporary trends like climate change, technological disruption, demographic pressures, and energy transitions reshape vulnerabilities. Policies such as social transfers, transparent resource management, redistribution, and youth employment integration can reduce conflict. Considering which factors matter most in different situations and how they interact is crucial for anticipating conflict and promoting durable peace.

Endnotes

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