SCHOOL OF
ECONOMICS AND
MANAGEMENT

Master's Program in Economic Growth, Population and Development

Bad Neighbors, Conflict and Economic Growth

A qualitative analysis of the economic spillover effects of Sudan's intrastate conflict on Egypt's economic growth

by

Julia Orinius Welander

ju6586we-s@student.lu.se

Abstract:

With the increased internationalization of conflicts during recent decades and the accompanying clustering of the predatory social conditions of new war economies in vulnerable neighborhoods around the world, studying the impacts of economic spillover effects of conflicts are more pressing than ever. This study seeks to investigate what economic spillover effects one such conflict – the intrastate conflict of Sudan – had on its neighboring state, Egypt's economic growth. This with the aim to contribute to previous research on the economic spillover effects of intrastate conflict by including context and temporality in a qualitative analysis of a specific case rather than quantitatively analyzing a larger sample. By deepening the understanding of how neighboring states' economic growth individually is impacted by the economic spillover effect, the ambition is to aid the future development of more specific policy and aid recommendations for affected states. The findings show that the economic spillover effects of Sudan's intrastate conflict did not significantly impact Egypt's overall economic growth. However, small possible spillover effects can be detected through the channels of capital, labor and trade.

Key words: Economic Spillover Effects, Economic Growth, Intrastate Conflict, Egypt, Sudan

EKHS21
Master's Thesis (15 ECTS)
August 2022
Supervisor: Abel Gwaindepi
Examiner: John Clegg
Word Count: 15,448

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Glossary

Conflict spillover – The process by which the conflict in one state contributes to the outbreak of conflict in another state.

Economic spillover effects – The spillover effects of a conflict that affects the economic growth of another state.

Host state – The state where a conflict originates.

Intrastate conflict – A conflict between the government and one or more non-governmental actors within the borders of a single state and without interference from external actors. However, intrastate conflict often has significant international dimensions and holds the risk of spilling over into bordering state.

Primary neighbor – A state that share a border with another state, i.e., is directly contiguous with another state.

Secondary neighbor – A state that is not directly contiguous with another state, but within a defined distance from the particular state. Studies define secondary neighbors differently.

1 Introduction

Throughout human history, peace has been the exception rather than the rule. The periods of years with peace make up less than 10 percent of recorded history, and conflict was, for a long time, viewed as a natural part of society. Following a decline in the number and severity of conflicts after World War II, the last quarter of the 20th century witnessed a global increase in armed conflicts, specifically intrastate conflicts (Starr, 2006; Kaldor 2012, p. 29). Some scholars (Kaldor, 2012; Münkler, 2005) argue that the post-Cold War world has changed the nature of conflicts, with these modern-day conflicts being referred to as new wars. These conflicts unfold in a fundamentally different globalized world where conflicts do not solely affect the host state but spillover to affect the outside world, especially neighboring states (Agrell 2012, p. 80; Kaldor 2012, pp. 1-2). As the number of such conflicts continues to increase, it is crucial to study their effects and how the ever-evolving political and social contexts in which they unfold affect their impact.

Research on conflicts' effects on societies did not emerge until the late 19th century, as their negative effects became more apparent (Aggestam & Höglund 2012, pp. 23-24). Since then, conflict spillover – when conflict in one state leads to the onset of conflict in another – has been studied extensively. Several studies have found evidence of a phenomenon known as the neighborhood effect of intrastate conflict, i.e., that intrastate conflict in a neighboring state increases the probability of new intrastate conflict erupting in neighboring states (Hegre & Sambanis, 2006; Salehyan & Gleditsch, 2006; Buhaug & Gleditsch, 2008). The transnational effects of new wars and the neighborhood effect highlight the importance of analyzing intrastate conflicts' effects on neighboring states. Further, one of the most empirically robust findings in research on causes of intrastate conflict is the link between economic development and peace, as states with low GDP per capita have a considerably higher risk of intrastate conflict than wealthier states (Fjelde 2012, p. 89; Collier 2007, p. 19).

This study will focus on a much less studied area of the effects of conflict: the economic spillover effects of intrastate conflict on neighboring states' economic growth. Influential

studies conducted during the past decades by Murdoch and Sandler (2002a, 2002b, 2004), de Groot (2010) as well as Dunne and Tian (2015, 2019) have expanded the knowledge of the topic. These studies have found that intrastate conflict – generally – negatively affects the economic growth of neighboring states. However, how these spillover effects affect neighboring states' economic growth in practice and how states may be affected differently has been harder to quantify. A qualitative and more in-depth approach is necessary to gain a deeper understanding of these aspects of economic spillover effects.

1.1 Purpose and Research Question

Intrastate conflict hinders economic growth and undoes past development gains and can therefore be seen as development in reverse for both the host state and its neighboring states. Previous research has found that the annual growth in states embroiled in conflict is, on average, 3 percentage points lower than in non-affected states, and similar effects have been shown for neighboring states. The cumulative impact on per capita GDP increases over time, with a typical seven-year intrastate conflict leaving a state approximately 15 percent poorer than if no conflict were present (Fang et al., 2020; Collier et al. 2003, pp. 13-15).

Africa has been marred by conflicts for the past decades, with the number of intrastate conflicts in the region increasing during recent years and mainly breaking out in areas in economic decline. In 2019, 25 out of 54 African states were affected by conflict, an increase from previous years (PRIO, 2020; Fang et al., 2020). Söderbaum (2012, pp. 193-194) maintains that conflict spillover to neighboring states occurs more in Africa than in other regions. Collier (2007, p. 37) suggests that low GDP per capita, slow economic growth and bad neighborhoods are possible causes. Such bad neighborhoods have been identified where neighboring states benefit less from the positive spillover effects of growth and the predatory social conditions of new war economies cluster and spread to a larger extent (Collier 2007, pp. 56-57; Beardsley, 2011). The neighborhood effect of intrastate conflict makes further research on African intrastate conflicts and their economic spillover effect on neighboring states important. The intrastate conflict in Sudan was one of the longest intrastate conflicts in recent history and made an interesting case to examine the economic spillover effects of conflict on neighboring states. In its entirety, the conflict was active intermittently between

1955 and 2005, claimed an estimated 2 million lives and displaced more than 4 million people internally. In addition, between 0.5 to 1 million refugees spilled into neighboring states (Ali, Elbadawi & El-Batahani 2005, p. 193).

Similar to the studies by de Groot (2010) and Dunne and Tian (2015, 2019), the data will be collected from Africa. Rather than conducting a large-n quantitative study comparing African states, a single-n qualitative case study employing the method of comparative historical analysis (CHA) focusing on Sudan's neighboring state, Egypt, will be conducted. This study aims to contribute to previous research on the economic spillover effects of intrastate conflict by matching the effects intrastate conflict may have had on Egypt's economic growth to the theorized impacts in previous research.

Miguel and Roland (2011) contend that context matters since each society's institutions, politics and history are unique. This aspect became increasingly important in the post-Cold War world due to the changing nature of conflict. Further, they argue that empirical evidence is required to be accumulated from multiple cases before claims about the consequences of conflict can be made with confidence. For regions caught in the conflict trap – like Sudan and its neighborhood – the knowledge that intrastate conflict in a neighboring state may impact them is important but knowing how it may impact them is vital to form future policy and aid recommendations (Collier et al. 2003, p. 1). The study aims to answer the following question:

How have the economic spillover effects of Sudan's intrastate conflict affected the economic growth of its neighboring state Egypt?

1.2 Background

1.2.1 Sudan’s Modern History and the Conflict

The British – and its quasi-protectorate Egypt – came into control over Sudan in 1889, and a joint-authority government was introduced: Britain controlled the south and Egypt the north. Generally, northern Sudan was inhabited by individuals who identified as Arab and Muslim,

whereas the south was inhabited by individuals who identified as African and Christian. While the state was multi-ethnic, cultural and lingual, and the abovementioned division is a simplification, the union of religion and identity has been thought to have shaped Sudan's institutions, internal disputes and international relations (ACORD, CCFD–Terre Solidaire, 2013). In the south, the Southern Policy was implemented by the British between 1920 and 1946 to hinder economic integration between the north and the south. The policy did not create ethnic and religious divisions in Sudan but exacerbated them. The British were concerned by the north's Islamic and Arab influence and worked to preserve the English langue, believes and values in the south. Limited contact occurred between the north and the south, and the south became progressively more isolated and less developed as the state's political and economic power was centered in Khartoum (ICG, 2002). The power imbalance between the elites in Khartoum and the marginalized groups in the peripheral areas also largely shaped the conflict, making it about political, economic and developmental differences in addition to racial, religious and linguistic differences (Shinn 2015, p. 268; Johnson 2016, pp. 1-2).

The First Sudanese Intrastate Conflict ended in 1972 with the signing of the Addis Ababa Agreement. It established the South Sudanese Autonomous Region, which granted the south a degree of cultural, political and religious autonomy from the north. However, in the late 1970s and early 1980s, strategic minerals and petroleum reserves were found in the south. Khartoum's government began projects to exploit these natural resources without input or consent from the south (ACORD, CCFD–Terre Solidaire, 2013). The infringement on the peace agreement was accompanied by the Northern government's policies forcing Arab culture and language on the south and the decision to implement Islamic laws throughout the state in 1983. The Second Sudanese Intrastate Conflict broke out later the same year as the Southern Sudan People's Liberation Army (SPLA) revolted against the government in the north. Protests swept the state during 1988 and 1989 due to the state's deteriorating economy, and in 1989 prime minister al-Mahdi was to sign a peace plan predicted to end Islamic laws in the south to resolve the war. In response, a coup deposed al-Mahdi, and the National Islamic Front (NIF) came to power. This led to increased polarization and violence within the state and increased regional involvement in the conflict, giving it a religious tone that had not characterized the first intrastate conflict (Prendergast & Mozersky, 2004; ACORD, CCFD–Terre Solidaire, 2013). Between 1992 and 2001, full-blown conflict ravaged the state and guerilla tactics were used by both the government and the opposition, with several failed

peace talks throughout the decade. The SPLA and other opposition groups gained control and power by the late 1990s, which led to renewed peace negotiations. From 2002 to 2005, peace negotiations were held in Kenya and fighting decreased in 2003 and 2004. Finally, the Sudanese government and SPLA signed the Comprehensive Peace Agreement (CPA) in 2005 (Operation Broken Silence, 2019).

The Second Sudanese Intrastate Conflict included numerous actors and dyads. Eight Muslim-based parties that opposed Southern autonomy and supported Islamic law in the south prior to the 1989 coup went against the government, formed the National Democratic Alliance (NDA) with the SPLA in 1995 and fought against the fundamentalist NIF regime. The Democratic Unionist Party (DUP), which formed part of the NDA, had close ties with Egypt and other Gulf states. In contrast, the SPLA was supported by Kenya, Uganda and Ethiopia (Prendergast & Mozersky, 2004). Beyond cultural and religious ties over the borders, disputes over resources – primarily oil – and land and water spurred on the conflict. The regional divisions prevented the peace process and led to two countering peace initiatives, the Egyptian-Libyan Joint Initiative and the Inter-Governmental Authority on Development (IGAD), which delayed peace. For some neighboring states, continuing intrastate conflict in Sudan was beneficial as it meant keeping their large neighbor destabilized. For others, support for the opposition continued to eliminate perceived threats to their national security or governments (ICG, 2002). The regional interventions internationalized fueled and helped sustain the over fifty-year-long intrastate conflict in Sudan.

1.2.2 Egypt’s Modern Economic History

The modern economic history of Egypt changed dramatically after the 1952 military coup ended a century of capitalistic development. Instead, the new military regime implemented a state-led development strategy that meant, for example, nationalization of industry, inward-looking trade policy, high income and wealth taxation, comprehensive land reform and the public sector dominating the economy (Louis, El Mahdy & Handoussa 2004, p. 51; IMF, 2018). The new government, led by Gamal Abdel Nasser, created a Ministry of Military Production and sought to ensure that the military would have an important role in the economy. The military's involvement in the Egyptian economy grew further after Egypt's peace agreement with Israel in 1978. From the early 1980s onwards, the military was granted

a direct role in carrying out profitable activities as a counterbalance to the on-budget cuts in defense spending that were made to attract international donors rather than to downsize the military. Meanwhile, part of the defense spending was diverted from the budget. At the same time, the military discovered new sources of income by engaging in economic activity such as building out infrastructure, healthcare, the production of goods such as cement, steel and glass and even tourism (El Beblawi, 2008).

Under president Anwar Sadat, the Open Door policy – or El Infitah – was introduced in 1974. The policy was introduced to reduce the state's control over the economy and encourage private – both domestic and foreign – investment in Egypt by offering incentives and subsidies to agricultural and industrial activities (Louis, El Mahdy & Handoussa 2004, p. 52). However, Adly (2021, p. 164) contends that the Open Door policy did not reduce the state's role compared to the market but solely reconfigured it. While more neoliberal policies were adopted, the economy was increasingly globalized and grew; the economy was kept quite closed throughout the 1970s (Abed, 2020). The state continued to play a crucial role in the capitalization of companies that frequently had political ties through, for instance, selective protectionism, generous subsidies and the growing dominance of the military-controlled and profit-driven civilian economy (Adly 2021, p. 164).

In the early 1980s, the Egyptian government continued to stress the role of the public sector without abandoning the liberalization measures of the 1970s. The Egyptian government kept the economy running through the inflow of rent and borrowing from abroad without addressing the economy's large structural issues (Abed, 2020). Although, by the second half of the decade, the state suffered severe economic imbalances and experienced an external debt crisis as oil prices dropped (Adly 2021, p. 169).

To save the economy, the government began a comprehensive Economic Reform and Structural Adjustment Program (ERSAP) under the supervision of the World Bank and IMF in 1991, which stressed the liberalization of trade and the importance of FDI. The program led to considerable economic recovery during the 1990s, aided by the write-off of American, Arab and half of the other public debt through the Paris Club (El Beblawi, 2008). However, the economy continued to be vulnerable to external shocks and was, in the early to mid-2000s, negatively affected by several financial crises and political instability in the region (Louis, El Mahdy & Handoussa 2004, p. 52). In 2004, a second ERSAP was introduced, which further

liberalized trade through, for example, rationalizing the tariff structure and lessening the number of products subject to nontariff barriers (Zaki 2021, p. 196).

1.3 Delimitations

This study focuses its analysis on the period of the Second Sudanese Intrastate Conflict between 1983 and 2005. Some data from before the period analyzed, beginning in 1973, and after the period, ending in 2015 is used for comparison and further contextualization. Due to the scope of the study, it is impossible to examine all possible economic spillover effects of intrastate conflict. Therefore, findings from previous research were used to guide the choice of the channels of influence analyzed in the study, which narrowed it down to four channels: capital, labor, conflict spillover and trade. Finally, the manner in which conflict influences economic growth, as described in previous research, can be difficult to measure. Several quantitative and qualitative data sources were used to generate a comprehensive and holistic understanding of the case studied.

2 Theory

This section will provide an overview of previous research on the more broadly researched conflict spillover, economic spillover and conflict's changing nature – often described in the literature as new wars. Following this, the study's theoretical framework is presented. The framework consists of the four channels through which economic spillover, in theory, is thought to affect the economic growth of neighboring states.

2.1 Previous Research

2.1.1 Neighborhood Effects and Conflict Spillover

Previous research, as well as contemporary and historical examples alike, have, in a multitude of ways, shown that intrastate conflicts are often linked. In cases where interrelation exists between states, the effects of intrastate conflict go outside the borders of the host state and affect not only the stability and security of neighboring states but also increase the probability of new intrastate conflict erupting in neighboring states (Sambanis, 2001; Hegre & Sambanis, 2006; Salehyan & Gleditsch, 2006; Gleditsch, 2007). This phenomenon, known as the neighborhood effect of intrastate conflict, was strengthened by Buhaug and Gleditsch (2008). They manage to separate the effect of neighborhood conflict from domestic determinants of intrastate conflict and find evidence for a remaining neighborhood conflict. Forsberg (2009) brings up intrastate conflicts in the Caucasus, West Africa and the Great Lakes region as contemporary conflicts that exemplify the phenomenon.

In addition to the existence of the neighborhood effect of intrastate conflict, previous research on conflict spillover has examined what factors may contribute to conflict spillover, with some of the most commonly cited factors being external support, refugees and ethnic linkages as well as perceived uncertainty.

Young et al. (2014, p. 7) find that external support – or international intervention – increases the likelihood of conflict spillover and the duration of conflict. Additionally, Salehyan investigates (2007) the external sponsorship of insurgencies in relation to conflict spillover and posits that when insurgent forces participate in intrastate conflict in the host state, conflict spillover is more probable.

Studies by Salehyan and Gleditsch (2006) and Gomez et al. (2010) suggest that an influx of refugees from the host state engaged in intrastate conflict increases the probability of conflict spillover to neighboring states. Salehyan and Gleditsch find that refugees from neighboring states may impact the social stability in states by making them more fragile and susceptible to conflict. Gomez et al. posit that refugees may have both positive effects by stimulating local economies through, for example, increasing local market sizes and negative effects through, for example, increasing public expenditure. Shared ethnicity – or ethnic linkages – over borders have been correlated with conflict spillover.

Further, the results of a study by Buhaug and Gleditsch (2008) suggest that cultural ties between ethnic groups in the host state and the neighboring states increase the probability of conflict spillover and the risk of conflict spillover is due to ethnic linkages is a feature of separatist conflicts. Forsberg (2008) illustrates this statistically in her research on the Tuareg in Mali and Niger and the Afar in Ethiopia and Djibouti. Gleditsch (2007) further finds that ethnic linkages between states also increase the likelihood of external support and intervention in intrastate conflicts, contributing to conflict spillover.

A more general factor that has been argued to increase the risk of conflict spillover is perceived uncertainty. Danneman and Ritter (2013) discuss how being unable to anticipate the outcome of a neighboring state's conflict may cause government actors to behave more offensively or more defensively. Defensive action can cause increased internal repression in an attempt by the state to decrease the risk of possible spillover. On the other hand, offensive action can mean direct intervention in the intrastate conflict to end it quickly or facilitate negotiations.

2.1.2 Economic Spillover

The topic of economic spillover effects of intrastate conflict on neighboring states is far less researched than that of conflict spillover. Murdoch and Sandler (2002a, 2002b, 2004) have contributed greatly to knowledge on the topic in a series of influential papers where they find evidence of significant spillover effects of intrastate conflict on a neighboring state's economic growth. They find that intrastate conflict has a significant but rather modest negative impact on steady-state levels of GDP per capita (Murdoch & Sandler, 2002a). The time periods analyzed in the different papers vary slightly – but all begin in 1960 and span into the 1990s – as do the sample and contiguity, or spillover, definitions.

For two of the studies, Murdoch and Sandler use worldwide samples (2002a, 2004). In contrast, the sample is divided by geographical region in the other study, and individual results for each region are reported (2002b). This study suggests that economic spillover effects reach less far – in terms of geographical distance – in Africa (approximately 100 kilometers in the short run and 500 kilometers in the long run) – than in Asia or Latin America. Further, the results presented for Africa show that African states' GDP per capita is less affected than states in Asia and Latin America, with conflict in a neighboring state resulting in one-tenth of a percent of GDP per capita growth loss. The results also imply that Africa has a greater ability to recover from and grow after the conclusion of intrastate conflict in the short run. All three of Murdoch and Sandler's studies find that intrastate conflict negatively affects economic growth in neighboring states in the short run but that the long-run effects are less definitive. When examined over a 25-year period, there was less conclusive evidence of an adverse effect of intrastate conflict on growth; Murdoch and Sander (2002a) argue this is likely because intrastate conflicts generally are short-lived, so their short-term effects are diluted by convergence.

Murdoch and Sandler's analyses were further developed by de Groot (2010). While finding merit in Murdoch and Sandler's studies, de Groot argues that the theoretical model would benefit from including multidirectional spillover effects. By distinguishing between primary and secondary neighbors – with the secondary neighbors within a set contiguity threshold – de Groot captures both uni– and multidirectional spillover effects. De Groot uses data for Africa from the period 1960 to 2000, and the distinction between neighbors brought different results. Similar to Murdoch and Sandler, de Groot finds that primary neighbors' economic growth is

negatively affected by intrastate conflict and that the effects are more significant in the short run. However, he suggests that secondary neighbors may benefit from conflict spillover due to a growth trade-off effect that punishes primary neighbors and benefits, secondary neighbors. Further, de Groot investigates different forms of conflicts rather than intrastate conflict and finds the results consistent.

Dunne and Tian further explore and build on the findings of Murdoch and Sandler (2002a, 2002b, 2004) and de Groot (2010) in two studies where they expand the calculation of economic spillover effects beyond geographical distance measure to also account for economic and political factors (2015) and state fragility (2019). Like de Groot, they focus the studies on Africa but use data from between 1960 and 2010 (2015) and 1960 to 2014 (2019). In the first study (2015), the concept of distance is expanded to include economic – trade – and political – democracy – distances. In the study, states with more trade integration and political similarities with the host state are considered closer to the host nation's conflict, and their economic growth is expected to be affected more by economic spillover effects. When solely including geographical distance in the model and distinguishing between primary and secondary neighbors, Dunne and Tian (2015) find that conflict negatively affects primary neighbors' economic growth. They find no significant effects on secondary neighbors, consistent with the findings of Murdoch and Sandler (2002a, 2002b, 2004) but differing from de Groot (2010). When the political and economic factors were introduced to the model, the estimated negative spillover effects of conflict decreased significantly, highlighting the importance of including such factors and that including only geographical distance may be insufficient. In the second study (2019), states' fragility is accounted for in the model. The study results suggest that while fragile and non-fragile states are negatively affected by the spillover effects of conflict, the effect is larger on fragile states. The first study considers all conflicts, whereas the second solely considers intrastate conflicts.

Carmignani and Kler (2018) contend that potential transmission channels of conflict spillover must be identified to help policymakers and governments reduce the risk of conflict spillover in future conflicts. They aim to identify and investigate such transmission channels – or mechanisms – to discover how intrastate conflict in host states causes slower growth in their neighboring states. They argue that previous research on economic spillover effects is based on neoclassical growth equations that concentrate on the direct effects of neighborhood intrastate conflict while neglecting the possible indirect effects. Therefore, previous research

is limited as it cannot answer how intrastate conflict leads to slower growth in neighboring states, solely that it does and to what extent. Carmignani and Kler (2018) find that intrastate conflict in a neighborhood increases the probability of conflict onset in a primary neighbor, decreases the quality of domestic institutions in neighboring states and lessens neighboring states' degree of economic integration with the world at large. However, these findings are based on simulations and provide an overarching explanation of the general effects of how intrastate conflict affects the economic growth in neighboring states rather than a deep contextual understanding as this study aims to do.

2.1.3 Contribution

While reaching different conclusions, the studies on economic spillover effects (Murdoch & Sandler, 2002a, 2002b, 2004; de Groot, 2010; Dunne & Tian, 2015, 2019) all – excluding Carmignani and Kler (2018) – generally use similar quantitative methods based on neoclassical growth models and begin their time periods in 1960. The studies provide a much-needed understanding of the economic spillover effects of intrastate conflict on neighboring states. However, their similar methodological approaches limit the types of understanding that can be achieved. They focus on examining if intrastate conflict affects the economic growth in neighboring states and, if so, to what extent rather than how it affects economic growth in the specific neighboring states. The question of how was discussed in the study by Carmignani and Kler (2018) but in quite theoretical terms, and it has not been tested through, for example, case studies or similar approaches.

Further, Dunne and Tian (2019) argue that measuring the actual cost of conflict in neighboring states is difficult and that it could solely be attempted through case studies of individual states. They contend that, due to the different headers completed and levels of detail available in different states, such studies are hard to conduct, and their results are difficult to compare. However, one could argue that to expand the understanding of the topic further and build on policy and aid recommendations made in previous research; more case-specific insight is needed.

2.2 Theoretical Framework

Previous research (Murdoch & Sandler, 2002a, 2002b, 2004; de Groot, 2010; Dunne & Tian, 2015, 2019) has identified channels through which intrastate conflict in a host state may affect the economic growth of neighboring states: capital, labor, conflict spillover and trade. These channels of influence form the study's theoretical framework. Previous research discusses the possible effects on host states, primary neighbors and secondary neighbors. As this study focuses on primary neighbors (section 3.3.2), neighboring states refer to primary neighbors and solely the theoretical effects for primary neighbors will be specified in the following section.

2.2.1 Capital

The first channel is capital. The primary manners through which conflict and capital may influence growth are the destruction of capital stock, investment transfer to less productive activities and decreases in foreign direct investment (FDI).

The first way conflict can influence economic growth is through the destruction of capital stock (de Groot, 2010). If applicable, this effect is not thought to affect neighboring states directly but rather through collateral damage (Dunne & Tian, 2015).

Neighboring states affected by conflict may transfer investments to less productive activities (de Groot, 2010). Intrastate conflict in a neighboring state can lead governments to reallocate resources from productive expenditure – education, healthcare and infrastructure – to destructive expenditure – defense or military spending – which negatively impacts economic growth (AEGIS, 2010). Defense spending may increase to fund military personnel deployment, increase border control or manage increased inflows of refugees (Dunne & Tian, 2015). However, the incentives to increase investments in less productive asses are thought to be lower the farther the neighboring states are from conflict (de Groot, 2010).

Additionally, intrastate conflict may divert FDI flowing into the entire region where an intrastate conflict is active (Dunne & Tian, 2015). The heightened perceived risk and

uncertainty about the future that conflicts cause make investment elsewhere more appealing (Murdoch & Sandler, 2002b). Few industries benefit from conflict, and the vast majority of companies will deliberately seek to avoid investing in a conflict-affected state or region. The effect may be greater if potential investors fear the possibility of conflict spillover (de Groot, 2010).

2.2.2 Labor

The second channel is labor. The primary manners through which conflict and labor may influence growth are the destruction of productive labor, assignment of labor to less productive activities and refugees.

The main points for why the destruction of productive labor and the assignment of labor to less productive activities may negatively affect the economic growth of neighboring states are similar to the ones mentioned for capital (section 2.2.1). Conflict tends to force individuals into lower-risk sectors, such as agriculture or, more specifically, subsistence agriculture (de Groot, 2010). Uncertainty about the future and fears concerning the return of conflict – or spillover of conflict – keep individuals in these low-risk and low-productivity activities (AEGIS, 2010). Further, as more resources are put towards defense, labor is reassigned to less productive activities such as soldering and border patrols, which are thought to negatively affect the economic growth of affected neighboring states (Dunne & Tian, 2015).

Inflows of refugees fleeing intrastate conflict may also affect the economic growth of neighboring states. Frequently, primary neighbors take in the majority of refugees fleeing intrastate conflict in the region. Large intakes of refugees can be expensive and put a strain on neighboring states' resources. In combination with increasing the population, this can, in the short run, reduce income per capita in recipient states. The long-run effects are less clear. Part of the negative effect may be canceled out by human and physical capital brought by some refugees, but the effects could be made worse if the influx of refugees results in conflict spillover (Dunne & Tian, 2015; Salehyan & Gleditsch, 2006). However, the negative effect is likely to be more significant for primary neighbors, as refugees that are not able to continue into a secondary neighbor state or beyond are thought to have lower human capital (de Groot, 2010).

2.2.3 Conflict

The third channel is conflict. The primary manner through which conflict may influence growth is the spillover of the host state's intrastate conflict to a neighboring state (de Groot, 2010). External support by neighboring states, the influx of refugees and ethnic linkages are the most cited factors contributing to conflict spillover (section 2.1.1). Conflict spillover can have significant negative effects on primary neighbors, especially if they become entangled in host state conflicts (Dunne & Tian, 2015).

2.2.4 Trade

The fourth channel is trade. The primary manners through which conflict and trade may influence growth are the disruption of trade and diversion of trade.

Disruption of trade flows is thought to affect the host state mainly but can also negatively affect neighboring states (Murdoch & Sandler, 2002a, 2002b). Factors that contribute to the decrease in trade have been found to be closed borders or increased border security and blocked trade routes, as these factors, for example, increase transportation costs (Kaldor 2012, pp. 113-114; Qureshi, 2013).

Intrastate conflict can also lead to diversion of trade flows between the host state and primary neighbors (de Groot, 2010). Trade integration in Africa is quite limited, but the trade that does occur is primarily between direct neighbors (Kassa & Sawadogo, 2021). However, intrastate conflict may also positively affect primary neighbors' economic growth. As mentioned above, there is generally limited trade between neighbors in Africa, which means that most African states' trade is with developed states. When intrastate conflict occurs in the host state and the developed states may have to change whom they trade with, nearby states with similar resources are attractive options (de Groot, 2010). This effect is significant if the host state trades with goods that can be subsidized within the region (AEGIS, 2010).

3 Methods

The considerations and methodological choices made when conducting the study will be discussed in the following sections. To provide an in-depth understanding of the case of Egypt throughout the main period studied, the study will be conducted as a single-n descriptive case study with Comparative Historical Analysis (CHA) being the foundation of the methodological choices (Halperin & Heath 2017, p. 156).

3.1 Research Design

As discussed in section 2.1, all previous studies analyzing intrastate conflict's economic spillover effect on neighboring states are quantitative. A qualitative approach was chosen to contribute to existing research on the economic spillover effects of intrastate conflicts and examine the importance of context for economic spillover effects. Previous research has identified channels through which intrastate conflict is thought to impact the economic growth of neighboring states. This study aims to assess these theoretical findings and compare their predicted effects to those observed in Egypt's case. This examines how context and temporality can affect the economic spillover effects of intrastate conflict as each channel of influence's impact may be altered by a state's specific social, economic and political context, and the impact may also change over time.

The study is conducted as a single-n qualitative case study analyzing the economic spillover effects of Sudan's intrastate conflict on its neighboring state Egypt, during the Second Sudanese Intrastate Conflict between 1983 and 2005. To answer the research question, the method of comparative historical analysis (CHA) is used, with the within-case method being pattern matching (section 3.2). Pattern matching is used in CHA case studies to examine if and how cases conform to theory. The study examines a single case as a smaller selection is most appropriate when conducting CHA case studies (Lange 2013, p. 94; Yin 2017, p. 54).

A well-performed case study is said to possess two main attributes: it should intend to say something meaningful and interesting about the case and aim for the possibility of generalization. It should be internally and externally valid (Halperin & Heath 2017, pp. 214-217). Traditional validity measures were developed based on quantitative research, and there are no generally accepted criteria for accessing validity – especially internal validity – in qualitative studies (Hayashi Jr., Abib & Hoppen, 2019). However, Halperin and Heath (2012, p. 174) refer to internal validity as the extent to which one can draw unambiguous conclusions from one's results. As case studies focus on analyzing specific issues in their context, they generally have higher internal validity than other qualitative studies (2012, p. 217). Efforts were made to ensure the validity and reliability of the results through transparent selections of cases, time periods and data.

Additionally, qualitative small-n case studies' ability to produce externally valid results has been questioned and contributes to a less clear scientific context and less precise results than large-n quantitative studies (Tellis, 1997; Gerring, 2007; Baxter & Jack, 2008). However, Halperin and Heath (2012, pp. 215-217) argue that conducting single-n or small-n case studies is beneficial as they permit researchers to maintain a clear focus on theory and work to question and extend theory. As the aim of the study is to understand the issue of economic spillover effects further by trying to match the cases and theory, conducting a small-n case study was deemed beneficial despite the abovementioned criticisms as it allows the researcher to maintain a clear focus on the theory with it being at the center of the study (p. 223). Further, Yin maintains that single-n and small-n case studies aim to reach analytical generalizations rather than numerical or statistical generalizations. The strongest foundations for such generalizations are developed when a smaller selection of cases is studied in-depth in their empirical contexts (Yin 2017, pp. 20-21).

3.2 Comparative Historical Analysis

CHA combines historical process research – which examines a series of events that occur over a longer period of time to examine processes change over time – and cross-sectional comparative research (Streeck 2015, pp. 264-265). It searches for historically grounded explanations of outcomes and focuses on macro-configurational outcomes of processes such

as state-building, democratic transitions or, as in this case, economic development (Thelen & Mahoney 2015, p. 5).

CHA emphasizes case-based research that is empirically grounded and contends that temporality and context are vital in analyzing societal and political developments (Thelen & Mahoney 2015, p. 3). The analysis assumes that the cases studied are subject to a historical dynamic and change over time rather than being fixed. Levitsky and Way (2015, p. 97) argue that while analyses based on constant cause explanations – such as the ones discussed in section 2.1 – have produced important insights, recent research suggests historical and contextual factors mediate the effects of standard economic variables and are important additions to analyses spanning longer time periods. Thelen and Mahoney (2015, p. 8) argue that "abstracting a case from its context in the interest of parsimony can lead to deeply misleading results."

CHA is a broad framework that encompasses numerous comparative and within-case approaches. Adjustment of CHA methods is encouraged as it has been argued to aid in developing and expanding CHA's methodological toolkit. For most CHA approaches – such as causal narrative or process-tracing – causality is at the center of the analysis. The macro outcomes studied frequently are aggregated combinations of processes and events (Thelen & Mahoney 2015, pp. 20, 28). However, rather than highlighting causal processes, this study is concerned with examining pre-existing theories on economic spillover effects and exploring how a specific case conforms to – or contradicts – the pattern predicted by theory when analyzed, keeping historical and contextual factors at the center of the analysis. This makes a within-case method examining causality irrelevant. Therefore, pattern matching was instead chosen as the within-case method. Pattern matching is used to study whether a case conforms to or opposes a chosen theory. By matching the several predictions made in theory to the findings of an individual case, one case can offer much insight into a theory on several data points and provide insight into the theory's validity (Lange 2013, pp. 118, 163-164). Further, pattern matching has a more theoretical orientation than other CHA within-case methods, leading theory to have a more central role in studies employing the technique and largely guiding the analysis (Lange 2013, pp. 52-53).

3.3 Case Selection

In CHA, selecting appropriate cases is not solely vital for a valid explanation as gaining a true understanding of actual, rather than stylized, cases are what leads to new explanations of occurrences (Thelen & Mahoney 2015, p. 13). However, the risk of selection bias is higher when conducting small-n qualitative case studies than when conducting large-n quantitative studies, and the issue must be considered carefully (Lange 2013, pp. 154-155). A more qualitative approach was adopted to avoid selection bias – and issues related to cherry-picking – and be transparent in the case selection, as suggested by Halperin and Heath (2012, pp. 175-176). Halperin and Heath's approach consists of three steps: identifying the population of interest, outlining a clear selection criterion to narrow down the number of possible cases, and choosing the case or cases that will be investigated. How many cases are chosen is dependent on the research question and aim.

First, the population of interest – all states that have experienced prolonged intrastate conflict– was considered. The focus was only on states that had experienced prolonged conflict to enable examination of how context and temporality may impact the effects of economic spillover on economic growth. Second, solely states in which the intrastate conflict occurred during the last quarter of the 20th century were considered. The reason for this was two-fold: first, the changing nature of conflict, as discussed by Kaldor (2012) and Münkler (2005) and second, data availability. As mentioned above, clear selection criteria are vital to avoid selection bias. Finally, the case of Sudan was chosen. During its time as a unified state between 1956 and 2011, Sudan had nine neighboring states that could be chosen for the study. The intrastate conflict in Sudan was active intermittently between 1955 and 2005. In 2005, the CPA was signed, and while sporadic eruptions of violence continued after the signing of the peace agreement, it marked the official end of the conflict (UCDP, n.d.-d).

3.3.1 Time Period Selection

The conflict in Sudan began in 1955, one year before the state's independence from the United Kingdom (the UK) in 1956 and conflict in the region has intermittently remained active since. The government of Sudan and the SPLA signed the CPA in 2005, which marked the end of

the intrastate conflict. After a referendum in early 2011, South Sudan seceded from Sudan and formed a sovereign state (Ottaway & El-Sadany, 2012). The partition of Sudan created new conflicts with new dyads – for example, a 2-year interstate conflict between Sudan and South Sudan – but these will not be considered in the study as the study aims to examine the economic spillover effects of intrastate conflict (UCDP, n.d.-a). Furthermore, interstate and intrastate conflicts evolve, affect states differently and should, therefore, be studied separately (von Einsiedel, 2017). Studying both would be beyond the scope of this study.

To avoid selection bias, the time period selection is based on the periodization of the conflict in earlier research and available data. The conflict is most frequently divided into three periods: the First Sudanese Intrastate Conflict between 1955 and 1972, the period of peace after the Addis Ababa Agreement between 1972 and 1983 and the Second Sudanese Intrastate Conflict between 1983 and 2005 (Pinaud 2021, pp. 24-33; Srinivasan 2021, pp. 21-22; Poggo 2009, pp. 1-4). Although some researchers suggest that the Second Sudanese Intrastate Conflict's nature changed considerably between 1989 and 1991 when a coup deposed prime minister Sadiq al-Mahdi, an Islamist regime, came into power and a new criminal act was introduced. Sudan was a deeply segregated state along ethnic and religious lines, and the Islamist regime increased polarization and violence in the political environment, especially through the implementation of a new stricter criminal act in 1991 (Operation Broken Silence, 2019; Sørbø & Ahmed 2013, pp. 3-5; Johnson 2016, pp. 83-85).

The final time period selection consists solely of the period of the Second Sudanese Intrastate conflict between 1983 and 2005. An absence of available data made it impossible to examine the economic growth in neighboring states before the conflict began in 1955, the First Sudanese Intrastate Conflict between 1955 and 1972 or the period of peace between 1972 and 1983 in the study. When available, years before the period are included in the analysis to allow for comparison between the economic growth of the chosen neighboring states during conflict and the absence of conflict.

3.3.2 Neighbor Selection

In CHA research, situating one’s analysis clearly in a specific case or set of cases in a specific context is important to achieve valid and meaningful results (Thelen & Mahoney 2015, p. 13).

The period analyzed in the study spans Sudan being one unified state and the process of Sudan's separation into two sovereign states, which began with the signing of CPA in 2005 as it stipulated that the region – southern Sudan – would hold a referendum on independence in 2011. Therefore, all nine of former Sudan's primary neighbors are considered in the neighbor selection (UCDP, n.d.-d). Solely the primary neighbors are considered as focusing on primary neighbors is the convention in most previous research, with only de Groot (2010) finding a significant effect of economic spillover on secondary neighbors. Further, including both primary and secondary neighbors would be beyond the scope of the study (Forsberg, 2009). The neighboring states under consideration are the Central African Republic, Chad, the Democratic Republic of Congo, Egypt, Eritrea, Ethiopia, Kenya, Libya and Uganda.

The absence of data and low-quality data is a general issue when researching Africa (section 4.2.1) and becomes a greater issue when researching states involved in or affected by conflict, as such states are less likely to be reporting data. However, a further hindrance when collecting data on Africa was discovered in conducting this study: inaccessibility of data. For several of the indicators chosen for the study, data prior to the late 1990s or early 2000s exists in larger data sets or physical records but is not accessible from databases such as the World Bank. Therefore, the absence and inaccessibility of data became the main selection criteria for the neighbor selection. Time series data on employment in agriculture is not available for any of the states considered before 1990, nor is diversion of trade before 1995. This does not exclude states from consideration, as data can be collected from other sources, such as reports and academic literature. Nevertheless, the Central African Republic, Chad, the Democratic Republic of the Congo, Eritrea and Libya were not selected for the case study as data are missing or unavailable for several indicators for these states. Further, sufficient complementary data from other sources are not available. Egypt, Ethiopia, Kenya and Uganda have enough data on the chosen indicators to be analyzed in the study (Table 1).

Pre-existing economic instability and fragility could make differentiating between endogenous and exogenous factors impacting the economic growth of neighboring states more difficult. Although all economies are periodically unstable and endogenous and exogenous factors both affect states' growth, this did not exclude states from being considered (Sinta, 2018). However, in the final selection between Egypt, Ethiopia, Kenya and Uganda, instability caused by conflict was considered. Intrastate conflicts occurred in Ethiopia and Uganda during large parts of the period examined in the study. Distinguishing what effects

Sudan's intrastate conflict had and what effects their own intrastate conflicts had would be difficult, if not impossible (UCDP, n.d.-b; UCDP, n.d.-e). Finally, Egypt was selected for the study rather than Kenya as more data is available and the close historical relationship between Sudan and Egypt makes for an interesting dynamic to analyze.

Table 1: Data Availability Neighbors

Channels	Indicators	CF	TD	CD	EG	ER	ET	KE	LY	UG
GDP		✓	✓	✓	✓	✓	✓	✓	✓	✓
Capital	Productive expenditure	×	-	×	✓	-	✓	✓	-	✓
	Destructive expenditure	×	×	×	✓	×	✓	✓	×	✓
	FDI	✓	✓	✓	✓	✓	✓	✓	✓	✓
Labor	Employment, sector	×	×	×	×	×	×	×	×	×
	Employment, military	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Refugees	✓	×	×	✓	×	✓	✓	×	✓
Conflict	Conflict data	✓	✓	✓	✓	✓	✓	✓	✓	✓
Trade	Trade, export/import	×	×	×	✓	×	✓	✓	×	✓
	Disruption of trade	✓	×	×	✓	×	✓	✓	×	✓
	Diversion of trade	×	×	×	×	×	×	×	×	×

Explanation: ✓= data available, × = data missing for 5 consecutive years or more, - = no data available

CF = Central African Republic, TD = Chad, CD = the Democratic Republic of the Congo, EG = Egypt, ER = Eritrea, ET = Ethiopia, KE = Kenya, LY = Libya, UG = Uganda

4 Data

In the following sections, the sources chosen for the study will be presented and discussed. The study will use both qualitative and quantitative data as both is necessary to answer the research question posed in section 1. 1.

4.1 Data Selection

The study will utilize qualitative and quantitative data to investigate how the intrastate conflict in Sudan affected its neighboring states' economic growth. In CHA, and more specifically, pattern matching studies, all manners of data are considered. Lange (2013, p. 53) contends that it is important to review all available evidence from past analyses and statistics to perform pattern matching studies properly and not omit any relevant information. Such studies focus on evaluating theory in specific contexts and aim to produce analytical generalizations pertinent to a specific set of cases. Data providing insight and information about the studied contexts is prioritized over having a strict selection criterion or direct comparison between cases on all indicators being possible.

Nevertheless, CHA's less restrictive approach to data selection and use of historical secondary data has been criticized. Goldthorpe (1991) suggests that CHA researchers' dependence on different sorts of data negatively impacts the data's quality and the analysis's quality. Further, Goldthorpe criticizes historical analyses' primary use of secondary data and contends that concentrating too much on secondary data promotes bias. Arguing that historical secondary data may not be appropriate when seeking insight on general research questions when contemporary data is available is fair but considering Goldthorpe's argument as a general rule is not. As argued throughout this thesis, historical processes and context matter. Therefore, analyses focusing on social and political issues cannot be extracted from history as these processes evolve and change over time. Historical secondary data is vital to understand them in the contemporary world. Lange (2013, pp. 143-144) maintains that erroneous results and

bias are always risks when conducting research and that research is rarely concluded without some data opposing the conclusion. He further argues that this holds if primary data, secondary data or any combination of the two is used. Researchers must acknowledge that data can be inaccurate, and data must always be interpreted. Data quality and validity are vital in every research process, not solely those conducting historical analyses.

The study relies on secondary data sources with no primary data collection. Although gathering primary data is not uncommon in CHA research and would allow for full control over data collection and knowledge of data quality, it would be beyond the scope of the study to collect the amount of data required to answer the research question (section 1.1) with the chosen methods (section 3). Previous historical analyses are the most common sources of secondary data within CHA, but other preexisting social scientific analyses are often also employed as secondary data sources (Lange 2013, pp. 141-142). The quantitative data will be collected from reputable organizations, academic literature and agencies to avoid issues related to the reliability of the data (see Table 2).

Larger organizations and databases are generally transparent with their reason for collecting the data and how their operations are funded, effectively minimizing the risk of unreliable data (Halperin & Heath 2012, pp. 170, 177). However, it is nevertheless essential to be aware of eventual measurement errors and thoroughly examine the data used in the study. Reports and other qualitative data sources will be used without control over the data collection methods and with knowledge of their potential unreliability and bias. Halperin and Heath (2012, pp. 180-181) raise the concern that government agencies may manipulate data to present their state more favorably when presenting information on sensitive issues. Multiple data sources are used when available to enable triangulation and counterbalance these limitations. Triangulating a larger variety of sources affirms the reliability of the data.

4.2 Source Material

As the study aims to, through a qualitative single-n case study, examine how the case of Egypt aligns with previous theory on the economic spillover effects of intrastate conflict on neighboring states' economic growth, theory largely guides data selection. In theory, the channels through which intrastate conflict is thought to influence economic growth in neighboring states, or more specifically in what manner the channels may influence economic growth, are used as measures of economic spillover effects. In addition, GDP is included to provide an overview of the state's overall economic growth. The manners are deemed valid measures as they are based on previous research findings on conflicts' economic spillover effects (Halperin & Heath 2012, pp. 169-170).

Quantitative data was collected from various sources as data for the earlier part of the studied period did not exist at larger databases for several indicators. While data availability was the main selection criterion for the case selection, data was not available for all years on all indicators, notably employment in agriculture and diversion of trade. Qualitative sources are used to provide a holistic understanding of the context during the time periods when data was missing.

Data on trade, or more specifically, trade complexity, was especially difficult to attain. Data from the World Bank, the OEC and several reports and academic books were used as additional data sources. Specifically, data on trade between Sudan and its neighbors and employment in agriculture in the 1970s and 1980s was unavailable from larger agencies or organizations' databases. Data was collected from qualitative sources – such as country studies published by the Library of Congress' Federal Research Division – where data for all years is unavailable. Instead, an overview of trade relations is given. Further, data on governments' expenditures from IFPRI and SIPRI is used to complement data on domestic investment as data on investment by sector was unavailable. Data on conflict spillover is mainly collected from UCDP, with reports and academic literature functioning as complementing sources.

Additionally, data on investments – concerning if intrastate conflict in the host state led neighboring states to invest in less productive activities – was available from 1980, but more

specific data was not available. For example, in the data procured, no distinction was made between public expenditure on different levels of education. Previous research on conflict and education has found that secondary schooling is disproportionally negatively impacted by conflict compared to other levels of education (Justino, 2010). If more specific public expenditure data were available, it could have been analyzed if similar patterns could be found in states neighboring an intrastate conflict. Further, the data did solely show public expenditure on the national level, which made it impossible to analyze if, for example, regions in neighboring states located closer to the occurrences of violence in the host state could be more affected by conflicts. This aspect could have been interesting to analyze as closer geographical distance to conflict has been proven to increase the effects of conflict spillover (Murdoch & Sandler, 2002b).

Table 2: Quantitative Data - Description of Indicators and Sources

Indicators	Sources
GDP	World Bank (2022)
Productive expenditure	IFPRI (2015)
Destructive expenditure	IFPRI (2015); SIPRI (2022)
FDI	World Bank (2022)
Employment, sector	World Bank (2022); Elmusa (1991)
Employment, military	SIPRI (2022)
Refugees	UNHCR (2022)
Conflict data	UCDP (n.d.-a)
Trade, export/import	World Bank (2022)
Disruption of trade	World Bank (2022); OEC (n.d.); Elmusa (1991)
Diversion of trade	OEC (n.d.); IMF (1990); DeLancey (2015)

4.2.1 Limitations of African Data

One of the main problems researchers raise when conducting research on Africa is that the data is poor. Data either do not exist completely for the periods studied or are of low quality and lack reliability and validity (Kinyondo & Pelizzo, 2018; Center for Development, 2014). During the past few decades, much literature has critiqued African statistics and the quality of the data collected (Devarajan, 2013; Jerven, 2010, 2014; Chen et al., 2013). Meanwhile, Bédécarrats, Cling and Roubaud (2016) argue that as African public statistics have faced declining financial and human resources by the state during the past decades, international databases from the global North have rapidly increased in numbers. Further, they contend that big data has contributed to the destabilization of African public statistics. Some African statisticians view the development as a form of neocolonialism by questioning African statistical institutes' credibility or the gradual infringement of the thriving market for statistical data.

In response to the criticism, several pan-African efforts were launched during the 2010s to increase the reliability of African data, such as SHaSA, STATAFRIC and AFRISTAT. Furthermore, not studying research problems relating to Africa due to possible unreliability or inaccuracies in data is not reasonable. The continent is home to almost 17 percent of the world's population, and its development differs considerably from, for example, the West and Northeast Asia (Sooklal, Simelane & Anand 2018, pp. 1-6; United Nations, 2021; Ghani & O'Connell, 2014). Therefore, the study is conducted using African data while acknowledging the aforementioned limitations.

5 Analysis

In this part of the study, how the economic spillover effects of Sudan's intrastate conflict affected the economic growth of Egypt will be analyzed. The theoretical framework outlined in section 2.2 will guide the analysis. However, some theoretical channels will be given more attention than others as some channels have had more influence on economic growth than others. Additionally, GDP will be analyzed briefly to give an overview of the general growth of the economy. To answer the research question posed in section 1.1, it is imperative to consider how the indicators are predicted to respond to conflict spillover or disruption in general. Given the inherent volatility of some indicators, such as investments – both domestic and FDI – and trade, they can be expected to react quickly to perceived changes in the investment climate. One must also keep in mind that intrastate conflict's spillover effects are generally theorized to have short-run effects on the economic growth of neighboring states, with De Groot (2010) describing the effects as negative growth shocks.

5.1 GDP

The main time period studied in the study is the period of the Second Sudanese Intrastate Conflict between 1983 and 2005. However, in this overview of Egypt's GDP, years before and after the conflict are included to provide historical context.

Following a long time of low GDP growth, between 1974 and 1985, the Egyptian economy experienced high GDP growth rates, which averaged close to 10 percent (World Bank, 2022). While the growth occurred following the Open Door policy in 1974, the growth is most often described as a result of the large increase in oil prices and workers' remittances (El Beblawi, 2008). The onset of the Sudanese conflict in 1983 did not result in a noticeable contraction in GDP nor GDP per capita. As a result of the oil glut, oil revenues and workers' remittances decreased, and GDP slowed between 1986 and 1991. The annual growth average of around 4 percent, and GDP and GDP per capita contracted in 1988 and 1991 (Nassar, 2011; World

Bank, 2022). However, the increased intensity of the Sudanese conflict – due to the 1989 coup by NIF – did not register a change in GDP nor GDP per capita. The implementation of the first ERSAP in 1992 helped stabilize and liberalize the economy, which, together with a large debt write-off through the Paris Club, led to economic recovery and increased GDP growth until 1999 (El Beblawi, 2008). The annual increase in GDP averaged between 5 and 6 percent. The Egyptian economy experienced several shocks, such as the Asian Financial Crisis, the Luxor terrorist attack and the decline in oil prices in the late 1990s early 2000s, which led to a decline in the Egyptian economy's GDP. Annual GDP growth fell to 3.5 percent in 2001, 2.4 percent in 2002 and 3.2 percent in 2003 (World Bank, 2002; El Beblawi, 2008). With the assistance of the second ERSAP, growth resumed in 2004, and annual GDP growth between 2006 and 2008 was over 7 percent (World Bank, 2022). The positive growth was further assisted by increasing oil prices, exports and growth in sectors such as construction (Nassar, 2011). However, the positive annual GDP rates were brief. The Global Financial Crisis and political instability brought by the Arab Spring led to a sharp decrease in annual GDP rates in the late 2000s and early to mid-2010s. However, by 2015 annual GDP had increased to 4.4 percent (World Bank, 2022).

5.2 Capital

Conflict and capital may influence growth through the destruction of capital stock. However, as the conflict did not spillover (5.4), this effect does not apply to the case analyzed in this study and will not be discussed further.

5.2.1 Productive Expenditure

In response to intrastate conflict in a neighboring state, governments may reallocate resources from productive expenditures such as education, healthcare and infrastructure to destructive expenditures such as military spending due to increased national security concerns (de Groot, 2010).

Public expenditure on education was 4.49 percent of GDP in 1983 and 4.79 percent of GDP in 2005, and while there were small changes between years, spending was never lower than 3.91

percent of GDP or higher than 5.18 percent of GDP. The longest period of decrease in public expenditure on education was during the economic downturn during the late 1980s rather than in connection with the onset of the Sudanese conflict (IFPRI, 2015). Further, the Egyptian government's spending on education is close to the regional average in the Middle East and North Africa of 4.75 percent (World Bank, 2022).

Overall, public expenditure on healthcare increased from 1.2 percent of GDP in 1983 to 1.35 percent of GDP in 2005. From 1983 to 1992, healthcare expenditure experienced a continual decrease from 1.2 percent of GDP to 0.83 percent of GDP in connection with the conflict and general low GDP growth from 1986. Between 1993 and 2003, public expenditure on healthcare continued to increase, with the increase being slightly larger in 2002 and 2003 than in the other years observed (IFPRI, 2015). However, Egypt's public expenditure on healthcare is low compared to other emerging economies, and, in response, the private health sector grew throughout the 1990s and 2000s (Columbia University, 2022).

The Egyptian public expenditure on infrastructure – transport and communications – increased from 0.81 percent of GDP in 1983 to 1.46 percent of GDP in 1988 despite the beginning of the Sudanese conflict. During the economic crisis in the late 1980s, levels decreased, and public expenditure on infrastructure was 0.94 percent of GDP in 1992. In the mid to late 1990s, public expenditure on infrastructure increased and was 1.34 percent of GDP in 1997, only to steadily decrease again from 0.96 percent of GDP in 1998 to 0.53 percent of GDP in 2005 (IFPRI, 2015). Although, some of the expenditure on infrastructure may be concealed by the considerable involvement of the Egyptian military. For decades, the military has been engaged in infrastructure projects such as roads, tunnels and ports (Sayigh, 2019; Barayez, 2016).

5.2.2 Destructive Expenditure

Contrary to the impact theorized in previous research, the decrease in Egypt's military expenditure was nearly constant throughout the studied period. The exception to the trend was an increase from 7.96 percent of GDP in 1983 when the Sudanese intrastate conflict began to 8.27 percent of GDP in 1984. Overall, military expenditure as a share of GDP decreased by

almost 66 percent from the previously mentioned 7.96 percent of GDP in 1983 to 2.71 percent of GDP in 2005 (SIPRI, 2022).

Nevertheless, several researchers argue that the data reported by the Egyptian government is not entirely accurate. Kuimova (2020) argues that an in-depth investigation of the Egyptian government's budget figures shows gaps in the data reported. While parts of military spending are included in the budget, such as salaries and administrative costs, Kuimova finds that costs related to, for example, arms procurement is not. Additionally, the Egyptian military's entrenchment in the economy (section 1.2.2) further complicates the situation. The Egyptian military is not willing to share specific information about its operation – citing national security – and information regarding the revenue of military-owned businesses is not available. As a result, whether these income sources impact Egypt's military expenditure is unknown (Kuimova, 2020). Further, as previously mentioned in section 1.2.2, the Egyptian military has been involved in different sectors of the Egyptian economy – including ones that supply social services such as healthcare – since the 1980s. While researchers such as Ali (2011) assert that military expenditure in Egypt has negatively impacted spending on productive public expenditures, such as healthcare, the results of such studies are made more complex when the fact that the military has also provided healthcare services is considered (Ottaway, 2022).

5.2.3 FDI

Despite the introduction of the Open Door policy in 1974 and an accompanying investment law that aimed to increase FDI in Egypt, FDI’s contribution to GDP was relatively low compared to other developing nations for most of the period studied (Mossallam 2021, p. 213). In the 1980s, net inflows of FDI averaged 2.5 percent of GDP. When the conflict began in 1983, FDI inflows were 1.6 percent and contrary to theory, FDI increased to 2.1 percent in the year following the outbreak of the conflict and continued to increase in the following two years as well. Like the Open Door policy of the 1970s, in the 1990s, ERSAP continued an incentive-based strategy to attract foreign investors. However, the efforts were seemingly futile as the 1990s saw a decrease in FDI, with the average net inflow of GDP being 1.25 percent with few fluctuations (World Bank, 2022; Mosallam 2021, p. 214). The early 2000s, before the signing of the CPA in 2005, fared slightly better with an average net inflow of 2.08

percent of GDP. In the years following the signing of the peace agreement, net inflows of FDI increased and averaged 8 percent of GDP. However, inflows of FDI saw a sharp decrease in the late 2000s, likely due to the global financial crisis (World Bank, 2022).

Furthermore, the majority of FDI in Egypt was – and still is – concentrated in extractive sectors, most notably in oil and gas (Roccu 2021, p. 187). These sectors are capital-intensive and have minimal linkages to other sectors important to the Egyptian economy, like agriculture or tourism in the service sector (Adly 2021, p. 170). With the sectors being capital-intensive, they do not generate significant employment opportunities or bring on technology transfer. Finally, there is no potential for developing a value chain in the sector as it depends on oil extraction with a low value-added (Zaki 2021, pp. 208-209). Theory expects that intrastate conflict may divert FDI inflows to the entire region where an intrastate conflict is active, as investing in a conflict-affected area increases risk and is an uncertain investment (Murdoch & Sandler, 2002b; Dunne & Tian, 2015). However, in an OECD (2018) paper, another argument is brought forth: foreign investors still invest in fragile and conflict-affected regions, but they are more careful when they do so and concentrate their investments in more capital-intensive sectors – such as resource sectors – that are more isolated from domestic economies and, therefore, protected from political instability. This phenomenon cannot solely be observed in Egypt but in Africa in general during the period studied (OECD, 2002).

5.3 Labor

5.3.1 Destruction of Productive Labor

All major economies have undergone large changes to their economic structures in the past centuries. These changes have increased productivity within each sector and reallocated labor across sectors and industries from traditional low-productivity sectors to more skill-intensive high-productivity sectors (Morsy, Levy & Sanchez, 2014). While this process may manifest differently in the economies that began their development later compared to the West in the 19th century, as data shows that more labor moves to services rather than industry, the process has been present in all developing economies. Meanwhile, conflict is theorized to stall this process and delay economic development in both the host state and neighboring states as

uncertainty about the future and fear of conflict returning force individuals into low-risk sectors with low productivity and then keep them in those activities (de Groot, 2010; AEGIS, 2010).

Agriculture – a low-risk and low-productivity sector – has traditionally been an important sector of the Egyptian economy and remains important throughout the period studied. However, while Egypt comprises approximately 1,000,000 square kilometers, solely about 40,000 square kilometers of the area along the Nile is arable, and 98 percent of the population resides in this narrow area of land. The Egyptian state managed to increase its arable land over the past half-century. However, as the population grew from 46.7 million in 1983 to 75.5 million in 2005 – and 105.2 million in 2022 – land, especially arable land, continued to be scarce, and the state became even more dependent on food imports to successfully met public demand. As agriculture had reached its limit, structural transformation was needed to grow the economy (Ikram 2019, pp. 490-491). The high population density in Egypt has meant that small-scale farmers have dominated the agriculture sector, and 90 percent of farms are smaller than 2 hectares (Fang et al., 2006; FAO, 2015). Further, unlike the situation in other states at similar stages of development as Egypt, the majority of Egyptian agriculture has focused on commercial production rather than subsistence production (Britannica, 2022). While conflict, in theory, is thought to cause labor to stay in low-risk and low-productivity sectors such as agriculture, or more specifically, subsistence agriculture, such developments would be less probable in Egypt due to the limited amount of arable land.

Further, data on employment by sector in Egypt show that employment in agriculture has declined throughout the period studied, with the exception of a small increase in agricultural employment between 2003 and 2007. Data is solely available in larger databases from 1991, but Elmusa (1991, p. 175-177) has combined data sources and found that in 1976 about 44 percent of Egyptians were employed in agriculture, and ten years later, in 1986, the number had declined to 37 percent. Similar to the development in several other emerging economies, labor moved to services – 31 percent in 1986 – to a larger extent than industry – 16 percent in 1986 (Elmusa 1991, pp. 175-177). During the period of the conflict from 1986 – data is not available for 1983 – to 2005, the share of the Egyptian population employed in agriculture decreased by 16.4 percent, and during the period after the conflict from 2006 to 2015, the decrease was slightly larger at 17.3 percent (World Bank, 2022).

However, several scholars argue that the structural transformation in Egypt has been slower than in other emerging economies and that reallocation of labor to high-productivity sectors did not occur to the same extent, especially in the 2000s (Morsy, Levy & Sanchez, 2014; AfDB, 2014). Although this could indicate that structural transformation was negatively affected by the conflict in Sudan, the Egyptian failure to transform its economic structure and increase productive labor is more feasibly explained by factors given in previous literature. Factors given are, for example, not enough openness to trade, not enough diversification in exports, the inability of industry to absorb larger numbers of workers – due to an education system that failed to provide the skills and values needed in industrial society – and, therefore, slow labor productivity growth (Morsy, Levy & Sanchez, 2014; Ikram 2019, pp. 500; Elmusa 1991, p. 178).

5.3.2 Assignment of Labor to Less Productive Activities

Theory states that conflict in a neighboring state may lead labor to be reassigned to less productive activities related to defense, such as soldering and border control, in order to either limit the risk of spillover to one's state or intervene in the neighboring conflict (Dunne & Tian, 2015). However, Tartter (1991, pp. 302-303) contends that Egypt did not consider Sudan a military issue for Egypt. The 1989 coup in Sudan that resulted in the state having an Islamist regime concerned Egypt and led them to support the opposition group DUP, but Egypt did not believe that Sudan's conflict posed enough danger to its national security to intervene militarily (sections 1.2 and 5.4). As discussed throughout this study, the states' long-standing cultural and political ties meant that Egypt regarded Sudanese territory as adding depth to its strategic defenses. The border between the states solely had policing to prevent drug trafficking and smuggling; no military personnel was stationed there for border control during the period studied. Generally, the perceived threat of military confrontation with neighboring states or the need to intervene in conflicts subsided enough during the 1980s that the government said it was in the process of downsizing, relative to the size of the population, its armed forces in 1990 (Tartter 1991, pp. 293). Between 1990 and 1994, the Egyptian armed forces personnel as a share of the total labor force decreased from 2.80 percent to 2.39 percent. Yet, in 1995 the share increased again to 3.37 percent and, though it fluctuated slightly, remained over 3 percent until 2011. In 2015, ten years after the CPA was signed, the share was 2.88 percent (SIPRI, 2022).

Shama (2021, pp. 50-52) mentions two changes to Egypt's regional politics concerning national security that could explain the increase in military personnel beginning in 1995. First, concern for the Israeli nuclear arsenal, located close to the Israeli-Egyptian border, led Egypt to attempt to pressure the Israeli government to sign the Nuclear Nonproliferation Treaty between 1994 and 1995. Second, in 1995 Mubarak was the victim of a failed assassination attempt supposedly carried out by Sudanese Islamists in Addis Ababa, which resulted in the Egyptian leader fearing for his life and relations with Sudan becoming strained, which could have caused an increase in military personnel. Nevertheless, the changes in the share of military personnel are quite small, and in absolute terms, the size of the Egyptian armed forces stayed fairly constant.

5.3.3 Refugees

Historically, large numbers of Sudanese have resided in Egypt for longer periods, often moving quite freely over the formerly porous border. However, conditions have changed over the years. While several waves of Sudanese refugees have flowed into Egypt since the beginning of the Sudanese conflicts in the 1950s, the situation for Sudanese in Egypt is more difficult than it has traditionally been (Grabska, 2006). In Egypt, UNHCR Cairo is primarily responsible for protecting refugees and asylum seekers. Egypt is a signatory of the 1951 Convention Relating to the Status of Refugees and the 1969 Convention Governing the Specific Aspects of Refugee Problems in Africa. Therefore, the state is bound to grant refugees basic rights. However, the Egyptian government was averse to obliging with the conventions – of which the state was a founding signatory – and implementing refugee status determination procedures. This limited refugees' rights in Egypt and led UNHCR to begin screening Sudanese refugee status applications in 1995 (Giri, 2007; Sperl, 2001).

Prior to 1995, the Wadi El Nil agreement between Sudan and Egypt granted Sudanese citizens access to employment, education, healthcare and property ownership in Egypt. After the agreement was abrogated due to Sudanese Islamists being the alleged aggressors behind the assassination attempt on Mubarak in mid-1995, relations between the states deteriorated, and Sudanese citizens lost their special rights. Between 1999 and 2003, solely 33 percent of Sudanese refugees who applied for refugee status in Egypt were accepted. The lack of refugee

status made the integration of Sudanese and other large migrant groups, such as Somalis, difficult as they lacked access to education, healthcare, employment and freedom of movement (Grabska, 2006). Beginning in 2003, UNHCR Cairo expanded their interpretation of the refugee definition in conformity with the 1969 convention mentioned above. The percentage of Sudanese refugees given refugee status increased to about 60 percent (Kagan, 2006). In addition, the Four Freedoms Agreement was signed by Sudan and Egypt, allowing both Sudanese and Egyptians to work, reside, own property and move freely between the states. The agreement permitted Sudanese citizens to enter Egypt without visas or special permits, and no Sudanese citizens would have to seek refugee status to stay in Egypt legally. However, the legislation has yet to be fully implemented by Egypt on the ground, and the situation for the Sudanese in Egypt continued to worsen (Mohyeldeen, 2020).

Several scholars have further emphasized that the poor situation for – and lack of integration of – Sudanese refugees in Egypt has been exacerbated by Sudan and Egypt's colonial pasts, which manifests itself in discrimination and racism. Gran (2006, p. 108) explains that "Egyptian nationalism and culture [has been] shaped by the legacy of race, and by the Sudan as a racial other, long after imperialism and the slave trade had withered away." The view of the Sudanese as beneath the Egyptians, and the Egyptian government's reluctance to let refugees integrate, has led to the emergence of negative stereotypes of the Sudanese and blatant housing and employment discrimination, which then reinforces the already low socio-economic status of Sudanese refugees in Egypt (FMRS, 2006; Giri, 2007). Dunne and Tian (2015) discuss that part of the negative effect of refugees on a state's economy can be canceled out by the human and physical capital brought by refugees, but this is only possible if the refugees are allowed to integrate and be active in the recipient state's economy. The treatment of the Sudanese in Egypt, at least since the abrogation of the Wadi El Nil agreement, shows that Egypt has actively chosen not to take advantage of the possible positive economic effects refugees could bring.

In previous research, large inflows of refugees are theoretically thought to negatively impact the economic growth of especially primary neighboring states in the short run. Large intakes of refugees may be expensive and result in reduced income per capita in recipient states (Dunne & Tian, 2015). Egypt's aforementioned long noncompliance with the refugee conventions means that no data on Sudanese refugees in Egypt are available before 1994. However, data on the total number of refugees in Egypt are available. They show a large

increase in refugees in 1983 when the Second Sudanese Intrastate Conflict began, with 35,000 refugees recorded compared to 5,500 in 1982 and 1984 (UNHCR, 2022). A refugee crisis occurred in the Horn of Africa in the early to mid-1980s, meaning that the refugees could have arrived from other states affected by conflict, drought or political turmoil in the region at the time, such as Somalia or Ethiopia. Although, Egypt was not one of the main refugee destinations for refugees fleeing these states (Turner 1993, p. 63).

A percentual large, but in the context relatively small, increase in the number of Sudanese refugees in Egypt can be observed between 2002 and 2003 – when UNHCR Cairo expanded their interpretation of the refugee definition – and the slightly higher number of refugees continued from 2003 throughout the rest of the main period studied. Throughout the rest of the years included in the study, no large changes in the number of refugees can be observed, and no reduction in income per capita can be observed in or around the years the number of refugees increased (World Bank, 2022). Nevertheless, the number of Sudanese refugees was still low compared to levels in Sudan's other neighbors. The number of Sudanese refugees in Kenya and Ethiopia averaged 32,900 and 81,600 a year between 1990 and 2000 and 49,100 and 55,200 between 2001 and 2011. Similarly, high numbers of refugees could be found in Chad, the Democratic Republic of the Congo and the Central African Republic. In Uganda, the number of refugees was even higher and averaged 162,500 between 1990 and 2000 and 152,500 between 2001 and 2011. Compared to the inflows of refugees in these states, the number of refugees received by Egypt was quite small. The average annual number was 2,050 between 1994 and 2000 and 10,700 between 2001 and 2011. Compared to Egypt's population, which was 46.7 million in 1983 and 75.5 million in 2005 and the largest in the region, the number of Sudanese refugees was quite small, and no decrease in GDP per capita was recorded in the years Egypt accepted more refugees (World Bank, 2012).

Additionally, Egypt was the least fragile state in the region, with a fragility index of 88.8 in 2005 (World Bank, 2022; Fragile States Index, 2022). Dunne and Tian's (2019) study suggests that the economic spillover effects of conflicts negatively impact both fragile and non-fragile states. However, the effect is more significant in fragile states.

Table 3: Refugees and Asylum Seekers in Egypt, 1994–2015

Year	Sudanese Refugees	South Sudanese Refugees	Total Refugees	Sudanese Asylum Seekers	South Sudanese Asylum Seekers	Total Asylum Seekers
1994	755	-	7,218	-	-	-
1995	1,221	-	5,401	-	-	-
1996	1,461	-	6,026	-	-	-
1997	1,587	-	6,486	-	-	-
1998	1,863	-	6,276	-	-	-
1999	2,577	-	6,553	-	-	-
2000	2,833	-	6,840	8,727	-	11,164
2001	4,659	-	7,223	11,293	-	15,644
2002	7,629	-	80,488	7,404	-	12,080
2003	14,178	-	88,745	2,373	-	5,390
2004	14,904	-	90,335	8,122	-	8,741
2005	13,446	-	88,934	10,191	-	11,003
2006	12,157	-	88,014	12,521	-	16,355
2007	10,499	-	97,550	13,226	-	14,865
2008	10,146	-	97,851	13,137	-	14,635
2009	9,818	-	94,392	11,984	-	13,425
2010	10,035	-	95,044	12,476	-	14,283
2011	10,324	-	95,078	14,426	-	18,915
2012	12,124	178	109,923	10,664	764	16.938
2013	12,927	299	230,070	13,488	1,518	23,145
2014	12,730	542	236,085	13,997	2,467	25,603
2015	11,296	1,686	212,492	17,316	2,461	38,135
Explanation: - = data not available						

Source: UNHCR, 2022

5.4 Conflict Spillover

The relationship between Sudan and Egypt goes far back, and for a long time, the states have had close political, social and economic ties. In research on the states' relationship, Egypt is described as historically having considered Sudan a younger brother that it had a responsibility to protect as if Sudan's issues were matters of Egypt's national security (ICG, 2002). Due to this relationship, Egypt repeatedly involved itself in Sudanese politics and the conflict. However, it did not intervene directly in the conflict at any point, and no conflict spillover has been recorded by UCDP (n.d.-d).

Prunier (2012, p. 255) describes the Egyptian view of Sudan and the Sudanese government as quite colonial – and almost infantilizing – in the 1980s. Politicians and the military alike found it difficult to let go of the nation, arguing that Egypt had to be prepared to intervene in Sudan as the people and government were incompetent and unable to govern themselves. However, according to UCDP's (n.d.-d) mapping of the conflict, no fatalities were recorded close to the Egyptian border. The closest recorded incidence of violence was recorded in Port Sudan, approximately 200 kilometers from the Sudanese-Egyptian border. The vast majority of the fatalities recorded by UCDP (n.d.-d) were recorded in southern Sudan. In addition, the conflict did not affect the water flow of the Nile to Egypt, something which could have led Egypt to intervene due to its dependence on the Nile for water security (Ottaway, 2022). Prunier (2012, pp. 255-256) contends that Egypt's impatience and worry for the Nile were moderated by a practical determination to stay out of direct conflict and stay a neutral and stable regional power. The government in Cairo was cautious of the new Islamist government in Khartoum after 1989. Still, it prioritized maintaining good relations with Khartoum as Egypt's general policy at the time was to promote moderation, cooperation and African regional stability. Egypt was willing to supply limited military assistance and sell arms to African states – such as Sudan – that assured Egypt they would be used solely for national defense (Tartter 1991, pp. 302-303).

As mentioned in section 3.3.1, the 1989 coup gave the conflict a religious tone that had not characterized the first intrastate conflict and did not solely increase polarization and violence within Sudan but also increased regional involvement in the conflict. In the case of Egypt, the state's policy toward Sudan was conflicted, which was represented in its engagement in the

conflict. The rise of political Islam throughout the Middle East during the 1980s led Egypt's foreign policy to increasingly focus on regime security and aim attention to dealing with and diluting the fundamentalism of the new Sudanese regime as Egypt wanted stability and moderation in the region (ICG, 2002). Subsequently, the relationship between Khartoum and Cairo became more strained (Darwisheh, 2020). While Egypt supported the opposition group DUP which formed part of the NDA, the state also sought to promote political and economic stability and therefore wanted the DUP leader to be included in the government in Khartoum. However, after the failed assassination attempt on Mubarak in 1995 (section 5.3.2), relations between the states worsened, and Egypt's policy toward Sudan and the conflict became isolation (Shama 2021, p. 52). The policy quickly proved unsuccessful, however, and in the late 1990s, Egypt again involved itself in the conflict by, together with Libya, sponsoring an alternative peace agreement to the ongoing IGAD process. As discussed, Egypt favored a unified Sudan, specifically a unified Sudan with a strong Northern government under Egypt's sphere of influence to ensure regional and national stability and, more importantly, its Nile water supply (ICG, 2002). In 2008, Egypt committed roughly 1,500 military personnel to the United Nations Mission in Sudan (UNMIS) to monitor developments in present-day South Sudan and prepare for potential independence (Shinn 2015, p. 278).

As Danneman and Ritter (2013) discuss, the perceived uncertainty created by the risk of conflict spillover may lead governments to act more offensively or defensively. In the case of Egypt, the government chose less invasive intervention methods – political and economic isolation and facilitating negotiations – rather than intervening militarily, which is theorized to increase the risk of conflict spillover and increase the duration of the conflict (Young et al. 2014, p. 7; Salehyan, 2007).

5.5 Trade

5.5.1 Disruption of Trade

Despite the Open Door policy, Egypt’s trade policy remained inward-looking throughout the 1970s, which continued into the 1980s (Louis, El Mahdy & Handoussa 2004, p. 51). Further, Egyptian trade was not very diversified, with oil and petroleum making up the large majority

of Egypt's exports, followed by traditional low value-added products such as textiles (Elmusa 1991, pp. 157, 180). Exports decreased significantly between 1983 and 1987, decreasing from 22.9 percent to 12.6 percent of GDP due to the oil glut in 1986 (Mouawad, 2008). After the crisis, exports recovered and increased to 28.4 percent in 1992. In 1993, exports fell sharply and continued to decrease throughout the rest of the 1990s before stabilizing at 15.1 percent of GDP in 1999. The early 2000s saw a more positive development for exports, with a slower increase between 1999 and 2002 from 15.1 percent to 18.3 percent, and then a faster increase between 2002 and 2005 from 18.3 to 30.3 percent of GDP (World Bank, 2022). ERSAP led Egypt to liberalize its external trade, which explains the large export increase from 2004 onwards (Zaki 2021, p. 194). Additionally, Egypt's economy had a trade deficit throughout the entirety of the period studied. The trade deficit reached record highs in the earlier part of the 1980s as a result of the oil glut and increased food imports. The deficit was partly offset by remittances and transfers from abroad (Britannica, 2022; Louis, El Mahdy & Handoussa 2004, p. 52).

However, no data indicate that the changes in trade over the period were caused by the Sudanese conflict disrupting trade. The borders between Sudan and Egypt were never closed during the conflict, nor did border security increase (section 5.3.2). Further, the conflict did not block or destroy any of Egypt's important trade routes, which is theorized to affect economic growth by increasing transportation costs (Kaldor 2012, pp. 113-114; Qureshi, 2013). The vast majority of Egyptian trade is done through the state's ports. Alexandria, Port Sudan and Suez are the main ports, and the port infrastructure was further expanded in the 1980s with Damietta by the Nile and Bur Safajah on the Red Sea (Elmusa 1991, pp. 161-164). In addition, Egypt's main trade routes do not go through Sudan as their main trading partners have been OECD states during the entire period studied. The small amounts of intra-regional trade conducted have been mainly with Sudan and the other North African states (Elmusa 1991, pp. 209-210; OEC, n.d.).

5.5.2 Diversion of Trade

Generally, intra-regional trade has been low in Africa. As a share of the region's total exports, intra-regional trade solely increased from around 5.2 percent in 1980 to around 10 percent in 2010 (Longo & Sekkat, 2001; UNCTAD, 2019). However, Sudan and Egypt shared border,

language and culture have resulted in more bilateral trade between them than between many other states in the region, which theoretically should mean Egypt would be less negatively impacted by the Sudanese conflict (Ebaidalla, 2016; Dunne & Tian, 2015). Still, Sudan and Egypt have never been one of each other's main trading partners but were between 1995 and 2015 one of each other's main African trading partners (OEC, n.d.).

The 1995 assassination attempt strained Sudan and Egypt's relationship throughout the 1990s, and Egyptian exports to Sudan decreased from $60.1 million in 1995 to $29.4 million in 1996 but soon recovered. Conversely, Sudanese exports to Egypt decreased less, from $20.4 million in 1995 to $23.9 million in 1996, but stayed much lower than the 1980s levels throughout the 1990s as Egypt politically and economically isolated the Islamist Sudanese regime (IMF, 1990; OEC, n.d.). Sudan mended its relations with Egypt in the late 1990s as the isolation critically harmed its economy (Darwisheh, 2020). Trade between the states expanded in the early 2000s with the founding of the COMESA free trade area in 2002, the signing of the Four Freedoms Agreement – which was more successful in increasing trade than people's rights and freedoms – and the signing of the CPA in 2005 (Ebaidalla, 2016; Shinn 2015, p. 278). Finally, bilateral trade between Sudan and Egypt grew rapidly during the ten years following the signing of CDP, and Egyptian exports to Sudan rose from $305 million in 2005 to $674 million in 2015. Likewise, Sudanese exports to Egypt rose from $99 million in 2005 to $161 million in 2015 (OEC, n.d.).

In the 1980s and 1990s, Sudan's main exports were cotton, livestock and sorghum (DeLancey 2015, pp. 214-15). As mentioned in the previous section, Egypt's main exports were oil and petroleum. In 1985, oil and petroleum made up 79 percent of Egypt's total exports. The share fell after the 1986 drop in oil prices but remained Egypt's main export throughout the 2000s (IMF, 2005; OEC, n.d.). Major oil finds occurred in Sudan in 1980, but further exploration and production did not happen due to the state's inadequate infrastructure and the intrastate conflict. As peace talks began in the late 1990s, numerous international companies and states began investing and trading in Sudan's oil industry. Sudan's main export quickly became oil, and in 2000, 2005 and 2010, Sudan's oil export revenues exceeded Egypt's (DeLancey 2015, pp. 181-183; OEC, n.d.). The trend may have also continued in 2015; however, most of the Sudanese oil fields are located in South Sudan, and data on South Sudanese oil export revenues in 2015 is unavailable. Sudan's conflict leading to a delay in international companies' and states' investment and trade in Sudan's oil industry could suggest that Egypt's

economy benefitted from the continuation of the conflict as they enjoyed less competition in the oil industry.

Theory states that intrastate conflict may lead developed states to change whom they trade with and that nearby states with similar resources are attractive options (de Groot, 2010). In theory, the opposite could be true after conflict in this case. When the intrastate conflict in Sudan calmed, states could move their business from Egypt to Sudan. However, breakdowns of Sudan and Egypt's main export destinations reveal that Sudan's main export destinations after the oil industry expanded were states in East Asia and India, whereas Egypt's were Western OECD states; the only state the two had in common was Saudi Arabia (OEC, n.d.).

6 Conclusion

In a time when conflicts are increasingly internationalized, and the predatory social conditions of new war economies cluster in already vulnerable neighborhoods, studying the impacts of economic spillover effects of intrastate conflicts are more pressing than ever. This study aimed to contribute further to research in the field by matching the effects Sudan's intrastate conflict may have had on Egypt's economic growth to the theorized impacts in previous research.

The results of the study opposed most findings in previous research on the theorized effects of the economic spillover effects of intrastate conflict. None of the theorized effects were found for the influence of capital, and resources were not reallocated from productive expenditure to destructive expenditure. However, the validity of the data reported by the Egyptian government was questioned and made the results less concrete. While FDI was concentrated in capital-intensive sectors, which could be a possible economic spillover effect, it also increased during the period, contrary to theory.

Regarding the influence of labor, slow structural transformation and labor movement out of the agricultural sector could result from economic spillover effects. However, state-specific variables are more feasible explanations for the development. The analysis found a slight increase in military personnel in line with previous research. Sudanese refugees did not integrate into the Egyptian economy, and Egypt missed out on possible positive economic spillover effects. The steady inflow of refugees throughout the period studied could have impacted growth negatively. Nevertheless, Egypt received relatively small numbers of refugees compared to its population size, suggesting that the overall impact on economic growth was small.

As Egypt did not intervene militarily in the Sudanese conflict and no conflict spillover was recorded, conflict spillover had no impact on Egypt's economic growth. The analysis did not find evidence for the conflict disrupting Egyptian trade or diversion of trade from Sudan to

Egypt. However, the analysis found that trade decreased between Sudan and Egypt for a period due to the conflict. However, Sudan was never one of Egypt's main trading partners, and the interruption of trade is not thought to have significantly affected Egypt's economic growth.

Finally, data on Egypt's GDP did not record any noticeable decreases in GDP or GDP per capita in the year or years following the onset of the Sudanese conflict in 1983 or following the increased intensity of the conflict in 1989. Nonetheless, this finding is not surprising. Previous research has found that economic spillover effects on GDP per capita are smaller in Africa than in other regions, where approximately one-tenth of a percent of GDP per capita is lost in general. Further, states with more political similarities and more trade integration with the host state – such as the relationship between Egypt and Sudan – are thought to be affected less by economic spillover effects.

Based on these findings, future research focusing on regions other than Africa or states with fewer linkages to the host states could be beneficial to expand the empirical knowledge on the subject and develop more case-specific policy and aid recommendations.

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