

State Political Risk and Industrial Performance: Evidence from Sub-Saharan Africa

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ABSTRACT

Research Originality: This study offers an original external instrumental variable (IV) analysis of the causal link between state political risk and industrialization in Sub-Saharan Africa, using constitutionally fixed executive elections as a novel instrument.

Research Objectives: This study tests the hypothesis that state-sanctioned violence negatively impacts industrial growth in Sub-Saharan Africa.

Research Methods: This study employs a Two-Stage Least Squares (2SLS) model on a panel of 30 African countries (2000–2023). State political risk is measured by the Political Terror Scale, which captures state-sanctioned violence and is instrumented by fixed election timing. Industrial value-added growth is the dependent variable.

Empirical Results: We find no statistically significant causal effect of state-sanctioned violence on industrial growth. This null result is robust across 2SLS, Limited Information Maximum Likelihood (LIML), and GMM estimators.

Implications: Industrial policy in moderately unstable African contexts should prioritize core economic and regulatory constraints over broad political risk mitigation. The findings point to significant industrial resilience.

Keywords:

political risk; industrial growth; instrumental variables; fixed elections; African economies

How to Cite:

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INTRODUCTION

Industrialization has long been regarded as the cornerstone of structural transformation and sustained economic development worldwide (Fotio & Karim, 2024). Nonetheless, Sub-Saharan Africa's industrial development presents a persistent and troubling paradox of profound concern to development economists and policymakers. The continent's share of global manufacturing declined from approximately 3% in the 1970s to less than 2% by 2023, placing it at the bottom of the global value chain (Boumbouya & Ocran, 2025). As of 2022, manufacturing value added per capita in Sub-Saharan Africa stood at just US\$207, compared with a global average of US\$1,879, while the sector accounted for only 10.4% of GDP and 7.4% of total employment (Santiago et al., 2024). This industrial stagnation, described as "premature deindustrialization" (Rowthorn & Rowthorn, 2024), occurs despite the historical role of industrialization as a universal driver of modern economic progress (Gollin & Kaboski, 2023; Lewis, 2024). It persists alongside notable aggregate economic growth in the 21st century, thereby presenting a central puzzle for scholars and policymakers (Fosu & Twumasi, 2022).

The dominant explanatory framework in political economy attributes Africa's industrial struggles primarily to state political risk, also known as political terror or state-sanctioned violence, and to broader institutional weaknesses. Throughout this article, we use the term state-sanctioned violence to refer specifically to political repression, torture, killings, and disappearances perpetrated by government agents, as measured by the Political Terror Scale. This form of political risk is distinct from other forms of instability, such as coups, civil wars, or criminal violence. Rooted in New Institutional Economics, this view holds that state-sanctioned violence creates profound uncertainty by undermining property rights and disrupting production cycles, thereby deterring the long-term, irreversible investments essential for industrialization (Acemoglu et al., 2014; Acemoglu & Robinson, 2012). This macro-institutional logic is further complemented by microeconomic theories of investment under uncertainty. These theories posit that state-sanctioned violence dramatically increases the perceived risk of expropriation, leading firms to postpone capital commitments. This behavior is often described as the *rational option value of waiting*, which can aggregate into sector-wide stagnation (Wan et al., 2024; Baker et al., 2016). Recent firm-level studies further suggest that industries characterized by higher asset fixity and greater dependence on complex supply chains are particularly sensitive to such disruptions (Akcigit et al., 2021; Inoue & Todo, 2011).

Empirical studies have largely reflected these theoretical expectations, establishing a robust negative correlation between various measures of political instability and economic performance, both in broad cross-country samples and in studies focusing on Africa (Dalyop, 2019; Fosu & Twumasi, 2022). A growing consensus further suggests that industrial sectors, due to their reliance on fixed capital and complex supply chains, are disproportionately vulnerable to such risks (Inoue & Todo, 2011; Collier & Venables, 2012; Sugihara, 2018). Studies such as those by Dalyop (2019) and (Lompo et al., (2025) have cemented the view of instability as a primary impediment to growth, while more

recent work extends this perspective to sectoral analyses (Bodea et al., 2016). Nonetheless, a parallel and evolving strand of literature on African political economy complicates this narrative. Research highlights the adaptability of firms operating within hybrid governance systems, where informal networks, kinship ties, and flexible operational strategies can buffer enterprises against macro-political shocks (Williams, 2021; Diaz-Cayeros, 2026). Furthermore, insights into the political geography of development suggest that ruling elites often have strong incentives to spatially insulate vital economic enclaves, especially those generating state revenue, from the violence used to consolidate power elsewhere (Fambeu, 2024). This creates a potential disconnect between national measures of terror and localized industrial outcomes (Berman et al., 2017).

The literature, however, is marked by unresolved tensions that motivate this study and render the topic enduringly interesting. A methodological tension persists where a fundamental endogeneity problem confounds well-documented correlations. According to Wiebusch & Aniekwe (2019), poor industrial performance may itself fuel political instability through unemployment and social discontent, leaving causal inference elusive. Most existing studies rely on observational methods that are vulnerable to reverse causality, with few attempting causal identification (Tuki, 2024; Radil, 2026). Also, there is a rigidity in measurement, with many studies relying on broad governance indices that conflate political violence with unrelated institutional features, thereby obscuring the specific channel through which violence might matter (Zallé, 2017). Moreover, the substantive theoretical tension is sharpening, whereby while institutional theories strongly predict that political instability will harm industrial growth, evidence of African resilience attributed to hybrid governance, spatial insulation, and elite strategies of selective protection challenges this deterministic view (Raleigh, 2016; Radil, 2026). This tension raises a pivotal, unanswered question: Is the observed negative correlation between state violence and industrial outcomes causal, or is it an artifact of endogenous forces and masked by resilience mechanisms?

The literature, however, carries several unresolved tensions that motivate this study. A well-documented correlation between political instability and poor economic performance exists, yet it remains confounded by a fundamental endogeneity problem. As Wiebusch and Aniekwe (2019) observe, poor industrial performance may itself fuel political instability through unemployment and social discontent, leaving causal inference elusive. Most existing studies rely on observational methods that are vulnerable to reverse causality, with few attempting causal identifications. Whether political terror causes industrial stagnation, or whether stagnating economies appear more politically unstable, therefore remains an open question (Tuki, 2024).

Adding to this concern, much of the existing evidence suffers from a measurement problem. Many studies rely on broad governance indices that bundle state-sanctioned violence together with unrelated institutional features such as regulatory quality or bureaucratic effectiveness (Che et al., 2015; Knack & Keefer, 1995; Handoyo, 2023). This aggregation risks obscuring the specific channel through which political terror might

matter for industrial outcomes (Zallé, 2017). A clear test requires isolating state-sanctioned violence from other governance dimensions.

A further theoretical tension sharpens the puzzle. While institutional theories strongly predict that political instability will harm industrial growth, emerging evidence of African resilience challenges this deterministic view. Firms operating within hybrid governance systems, where informal networks and kinship ties buffer enterprises from macro-political shocks, may be less vulnerable than assumed (Lifongo, 2026). Ruling elites also have strong incentives to spatially insulate vital economic enclaves from the violence used to consolidate power elsewhere (Fambeu & Tsambou, 2025). These possibilities raise a pivotal question: is the observed negative correlation between state violence and industrial outcomes truly causal, or an artifact of endogeneity masked by resilience mechanisms?

This study directly confronts these interconnected gaps. To our knowledge, it offers the first rigorous external instrumental variable analysis of the causal relationship between state-sanctioned political violence and industrialization in Sub-Saharan Africa. The novelty rests on three elements. We address endogeneity directly using constitutionally fixed executive elections as an instrument, thereby moving beyond correlation. We isolate state-sanctioned violence using the violence-specific political terror scale rather than broad governance indices. Moreover, we explicitly test the institutional theory prediction against the competing hypothesis that African industrial sectors are resilient to moderate political instability.

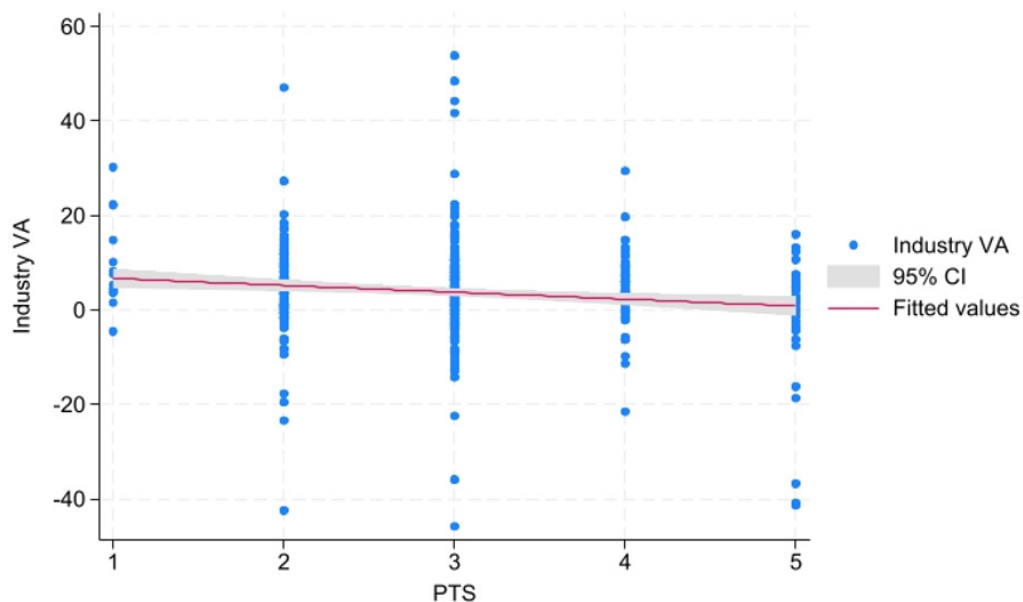
A null finding would not merely contradict conventional wisdom. It would compel a significant recalibration of theory, redirecting scholarly and policy focus toward the specific institutional functionalities and binding economic constraints that dominate the investment landscape in contexts of moderate instability (Boumbouya & Ocran, 2025; Zallé, 2017; Fotio & Karim, 2024). A significant negative finding would instead validate dominant institutional theories and strengthen the case for political risk mitigation as an industrial policy priority. Either outcome offers a causally identified contribution to both academic debates on the institutional prerequisites for development and the strategic design of effective industrial policy in contemporary Africa.

METHODS

This study utilizes an unbalanced panel dataset covering 30 Sub-Saharan African countries over 23 years from 2000 to 2023. The year 2000 marks the beginning of the modern Political Terror Scale (PTS) data, with consistent country coverage, and follows the wave of democratization and political reforms across many African countries in the late 1990s. The endpoint 2023 represents the most recent year with complete data across all variables at the time of analysis. Countries were selected based on data availability for constitutionally fixed executive elections and for complete model variables, thereby ensuring broad regional representation (Acemoglu et al., 2014; Lompo et al., 2025). Data were compiled from multiple sources, including industrial and macroeconomic variables from the World Bank's World Development Indicators (WDI); state-sanctioned violence

from the Political Terror Scale (PTS); election timing from the Database of Political Institutions (DPI) and National Elections Across Democracy and Autocracy (NELDA) dataset (Hyde & Marinov, 2012); and governance indicators from the Worldwide Governance Indicators (WGI). After listwise deletion to maintain consistency, the final sample comprised 373 country-year observations. All continuous variables were winsorized at the 1st and 99th percentiles to mitigate the influence of extreme outliers (Autor et al., 2008; Gentzkow et al., 2011). Figure 1 presents a preliminary scatter plot of this relationship after Winsorization, providing a visual check of the raw correlation before introducing multivariate controls and addressing endogeneity. The figure indicates a weakly negative relationship between Political Terror and Industry Value Added. The large dispersion of points at each PTS level highlights substantial variation in industrial performance, and the wide 95% confidence interval suggests that this bivariate relationship is imprecisely estimated.

Figure 1. Industrial Growth and Political Terror with Fitted Line and 95% Confidence Interval



Source: author's calculation

The dependent variable is the annual growth in industrial value added (VA), which captures the pace of industrial expansion (Fotio & Karim, 2024; Rowthorn & Rowthorn, 2024). The key independent variable, state political risk, is measured using the PTS, an ordinal scale (1–5) focusing specifically on state-sanctioned violence. The instrumental variable is a binary indicator for constitutionally fixed executive elections, which provides plausibly exogenous variation in political terror during electoral periods (Cox et al., 2019). Control variables include GDP growth, gross capital formation, export and import growth, broad money, and all six disaggregated WGI dimensions to account for economic fundamentals and institutional quality. Table 1 presents detailed definitions and measurement descriptions of all operational variables.

Our baseline econometric model is a two-way fixed effects panel regression:

$$Indus_{it} = \beta_0 + \beta_1 PTS_{it} + \gamma X_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (1)$$

where $Indus_{it}$ is industrial value-added growth in country i and year t ; PTS_{it} is the Political Terror Score measure. X_{it} is the vector of control variables including GDP growth, exports, imports, gross capital formation, broad money, and all six WGI indicators (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption), and ε_{it} is the characteristic error term. The six WGI indicators capture social infrastructure and property rights and collectively reflect overall institutional quality. To address the endogeneity of political terror, we estimate a Two-Stage Least Squares (2SLS) model with two-way fixed effects. Two-way fixed effects are used to control for unobserved, time-invariant country-specific characteristics and common time shocks that affect all countries (De Chaisemartin & d'Haultfoeuille, 2020; Wooldridge, 2025).

Table 1. Operational Variables

Variables	Definitions	Measurements	Sources	References
Industrialization	Total output of mining, manufacturing, construction, and utilities.	Industry VA (% GDP)	WDI	(Dinh, 2023; Rodrik, 2016, Fotio & Karim, 2024)
	Tracks the output of factories and processing plants	Manufacturing VA(% GDP)	WDI	
State Political Risk	Levels of political violence, state repression, and human rights violations	PTS	Amnesty International	(Gibney, 2020)
Economic Performance	Annual percentage change in the total monetary value of all final goods and services produced	GDP growth	WDI	(Ahuja & Pandit, 2020; Gootjes et al., 2024)
Investment	Total new physical assets added to an economy's productive capacity	Gross Capital Formation (% GDP)	WDI	(Borio et al., 2017; Furceri & Zdzienicka, 2012; Kose & Ohnsorge, 2021))
Institutions (Including Social Infrastructure & Property Rights)	Quality of public services, bureaucracy, market friendly policies , legal framework, integrity of institutions, institutional durability, and democratic institutions	All 6 WGI Indicators	WGI	(Kaufmann, 2024)
Financial depth and credit availability	Reflect the overall size of the financial system relative to economic output	Broad Money (% of GDP)	WGI	(Abid et al., 2016; Ehigiamusoe et al., 2025; Hassan et al., 2011)
Trade Dynamics	Foreign demand of domestic goods, technology & inputs. Domestic demand for foreign goods, technology & inputs	Exports(% GDP)	WGI	(Fotio & Karim, 2024)
		Imports(% GDP)	WGI	(Fotio & Karim, 2024)
Instrument(IV)	An exogenous shock that causes measurable spikes in political risk	Fixed executive elections	NELDA & DPI	(Authors's own contribution; Hyde & Marinov, 2012)

The first stage regresses the PTS score on the instrumental variable (fixed elections) and all controls as shown here:

$$PTS_{it} = \pi_0 + \pi_1 executive_{it} + \pi_2 X_{it} + \mu_i + \lambda_t + \vartheta_{it} \quad (2)$$

The second-stage regression then uses the predicted values of political terror, $\widehat{PTS}$, from the first stage:

$$Indus_{it} = \alpha + \rho \widehat{PTS} + \gamma X_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (3)$$

where $Indus_{it}$ is industrial value-added growth in country i and year t , $\widehat{PTS}$ is the exogenous political terror, ρ is the causal effect of political terror on industrialization, X_{it} is the same vector of control variables, μ_i and λ_t are country and year fixed effects, and ε_{it} is the error term.

We validate the IV strategy through several checks. Instrument relevance is confirmed by a first-stage F-statistic meeting the conventional threshold of greater than or equal to 10 (Andrews et al., 2019). Weak-instrument-robust inference is conducted using the Anderson-Rubin test (Andrews et al., 2019). Results are further verified using Limited Information Maximum Likelihood (LIML) estimators, which are robust to weak instruments (Andrews et al., 2019). We also employ a Two-Step System GMM estimator to address dynamic panel bias (Kripfganz, 2019), and use manufacturing value-added growth as an alternative dependent variable. All estimations were performed in Stata 18 using the `ivreg2` package (Andrews et al., 2018; Young, 2024), with standard errors clustered at the country level.

RESULTS AND DISCUSSION

Table 2 presents summary statistics for the variables used in the analysis, based on 373 country-year observations across 30 Sub-Saharan African countries from 2000 to 2023. Industrial value-added growth averages 7.25% annually, with a standard deviation of 6.97 percentage points, indicating considerable volatility in industrial performance. The range spans from -45.79% to 53.85%, reflecting sharp contractions and rapid expansions. The PTS averages 2.98, with a standard deviation of 0.91, suggesting that the average country-year exhibits state-sanctioned violence near the upper bound of moderate intensity. The six WGIs show consistently negative mean values, ranging from -0.58 to -0.81, confirming the sample's challenging institutional environment. Economic fundamentals reveal a foundation for growth, with GDP growth averaging 5.31% and gross capital formation averaging 23.46% of GDP. Export and import growth averages are robust at 7.52% and 7.25%, respectively, signaling active engagement in international trade despite notable volatility, as reflected in standard deviations of 16.06% and 18.01%, respectively. Financial depth, proxied by broad money as a percentage of GDP, averages 25.91%, suggesting moderate credit availability in the financial system. Collectively, these figures depict a sample characterized by both economic dynamism and persistent institutional constraints, providing a relevant context for examining the relationship between political risk and industrialization.

We employed an IV strategy to disentangle correlation from causation between state political risk and industrialization in Sub-Saharan Africa. Using constitutionally fixed executive elections as an instrument, justified by established patterns of electoral violence, the first-stage regressions yield F-statistics of 10.37 (2SLS) and 12.10 (LIML), confirming instrument relevance while indicating moderate strength (Andrews et al., 2019). This approach addresses the endogeneity concerns that plague earlier correlational studies (Acemoglu et al., 2014). While standard OLS models show a significant negative association between political terror and industrial growth, consistent with broader literature (Aisen & Veiga, 2013; Barro, 1991), the IV estimates render this relationship statistically insignificant. This divergence suggests that the observed correlation likely reflects reverse causality or omitted variables rather than a genuine causal effect of state violence on industrial performance during the period 2000-2023. We obtain consistently similar results when using manufacturing value added as an alternative measure of industrialization (results not shown). Table 3 presents results from four estimation methods, with industry value-added as the dependent variable.

Table 2. Summary Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
Industry VA	373	7.250	6.970	-45.794	53.846
Manufacturing VA	373	6.650	10.792	-43.840	75.168
Political Terror	373	2.981	0.910	1	5
GDP Growth	373	5.312	4.408	-36.392	19.675
Gross Capital Formation	373	23.460	9.023	1.097	76.782
Exports	373	7.522	16.055	-52.056	84.440
Imports	373	7.250	18.007	-57.089	210.259
Control of Corruption	373	-0.758	0.498	-1.646	0.776
Government Effectiveness	373	-0.811	0.465	-1.881	0.668
Voice and Accountability	373	-0.641	0.581	-1.100	0.596
Political Stability	373	-0.570	0.698	-2.729	1.201
Regulatory Quality	373	-0.640	0.467	-2.202	0.583
Rule of Law	373	-0.701	0.484	-1.870	0.457
Broad Money	373	25.910	10.811	6.476	59.709
Fixed Executive Elections	373	0.179	0.380	0.000	1.000

In contrast to the null finding for political terror, economic fundamentals and specific institutional factors emerge as robust drivers of industrialization. GDP growth, physical investment, and financial depth show consistently positive and significant effects across specifications. Notably, Regulatory Quality stands out among governance indicators, underscoring the salience of predictable, market-oriented regulation over broader measures

of political instability (Acemoglu & Johnson, 2005). The stability of these coefficients, alongside the volatile political terror estimate under IV estimation, indicates that binding constraints on industrial expansion in this context lie more in structural economic conditions and functional institutional capacity than in fluctuations in state-sanctioned violence. This insight aligns with growth diagnostics frameworks that prioritize the most immediate barriers to investment.

To ensure that our null finding is not an artifact of weak identification, we employed the Anderson-Rubin (AR) test, which provides valid inference regardless of instrument strength (Andrews et al., 2019). The AR test yields a chi-squared (χ^2) statistic of 1.61 ($p = 0.2045$) (Table 4). This small χ^2 value indicates little departure from the null hypothesis of no effect. The corresponding 95% confidence interval $[-1.64, 0.46]$ comfortably includes zero, confirming the absence of a statistically detectable causal relationship between state political terror and industrial growth. This result confirms that weak instruments do not drive the insignificant relationship; rather, it reflects a genuine absence of a systematic causal effect in our sample and period.

Table 3. Multiple Results for Industry VA

	OLS	OLS(FE)	2SLS(IV)	LIML(IV)
Political Terror	-0.126***	-0.1140**	-0.560	-0.241
GDP Growth	0.146***	0.1590***	0.164***	0.0430**
Gross Capital Formation	0.004	0.0272**	0.025**	0.0260***
Exports	0.008**	0.0090**	0.010***	0.0010
Imports	-0.012***	-0.0111*	-0.012**	0.0090***
Control of Corruption	0.141	-0.3310	-0.543	-0.3570
Government Effective	-0.582**	0.0211	0.186	0.1910
Voice & Accountability	-0.127	-0.5510**	-0.914**	0.2510
Political Stability	-0.095	-0.1320	-0.401	-0.2570
Regulatory Quality	0.497**	0.6160**	0.803***	0.7680**
Rule of Law	0.004	0.2510	0.251	-0.4550
Broad Money	0.146***	0.0155**	0.013*	0.0070
Constants			0.061	-0.9710
F-Statistic (First Stage)			10.37	12.10

Note: *** significant at 1%, ** significant at 5% , * significant at 10%

The results from the preferred Two Step System GMM specification for both manufacturing value added and industry value added are presented in Table 5. This estimator explicitly addresses the dynamic nature of industrial value added by including its lag and using internal instruments to mitigate endogeneity concerns. The coefficient on lagged industrial value added (0.173) is negative but statistically insignificant,

suggesting limited persistence. Political terror exhibits a negative but statistically insignificant association (-0.207). The negative coefficient aligns with theoretical expectations that higher political instability reduces industrial value added, though the relationship is not statistically significant in this model. In contrast, GDP growth demonstrates a positive and highly statistically significant effect of 0.145, indicating that industrial value added is procyclical. The model diagnostics support its validity: the Hansen test of overidentifying restrictions ($p=0.442$) fails to reject the null of instrument validity, and the Arellano-Bond test finds no evidence of second-order serial correlation in the first-differenced errors (AR(2), $p=0.227$). These results highlight the primacy of economic growth over political terror as a determinant of industrial performance in the sampled countries.

Table 4. Results of AR Test

Test	Statistic	p-value	95% Confidence Set
Anderson-Rubin (AR)	$\chi^2(1) = 1.61$	0.2045	[-1.64036, 0.45623]

Note: P = 20.45% shows insignificance

The analysis reveals a consistent narrative for the manufacturing sector. The coefficient on Political Terror for manufacturing value-added is negative and insignificant -0.359, mirroring the null finding for the broader industrial sector. This reinforces that state-sanctioned violence does not exhibit a statistically detectable causal impact on the core transformative activity of manufacturing. The expanded model specification further clarifies the binding constraints. Gross capital formation shows an even stronger positive and significant association with manufacturing (0.0376) than with total industry, underscoring the capital-intensive nature of the sector. Institutional variables demonstrate distinct sectoral relevance: while Regulatory Quality is a significant positive driver for both sectors, Rule of Law shows a strong, significant coefficient of 0.151 specifically for manufacturing. This demonstrates that for factory production, which relies heavily on enforceable contracts and secure property rights, the predictability of the legal framework is a more salient institutional factor than the level of political terror. The model diagnostics confirm its robustness, with no evidence of second-order serial correlation (p-value of 0.219) and valid instruments, lending further credibility to these sector-specific insights.

Our null finding invites comparison with recent reputable studies. Fotio and Karim (2024) report that political risk reduces industrialization in Africa using panel methods, while acknowledging unresolved endogeneity concerns. Berman et al. (2017) demonstrate that mineral wealth fuels local conflicts but also find that industrial enclaves often remain insulated from violence due to strategic elite protection. More recently, Boumbouya and Ocran (2025) show that commodity-based industrialization in Africa is more constrained by global market conditions than by domestic political factors. Our study contributes to this evolving literature by offering a causal estimate using an external instrumental variable,

constitutionally fixed executive elections, which allows us to test whether state-sanctioned violence directly causes industrial stagnation or whether prior correlations reflect reverse causality. The null result we obtain suggests that, unlike Fotio and Karim (2024), once endogeneity is addressed, the causal effect of political terror on industrial growth is not statistically detectable in our sample.

Table 5. GMM Results for Industry VA & Manufacturing VA

	Industry VA	Manufacturing VA
Lag Industry VA	-0.173000	
Lag Manufacturing VA		-0.1374133
Political Terror	-0.207000	-0.359000
GDP growth (annual %)	0.145000***	0.191000***
Gross capital formation	0.025000***	0.037600***
Export	0.020100***	0.011300***
Imports	-0.01200***	-0.01700***
Regulatory Quality	0.78600**	0.786000***
Rule of Law	0.251000***	0.151000***
Broad Money	0.128000**	0.235000***
Observations	266	266
Year Fixed Effects	Yes	Yes
Estimator	System GMM	System GMM
Observations	266	266
Countries	27	27
Instruments	30	30
AR(1) p-value	0.0620	0.0510
AR(2) p-value	0.227	0.219

Note: *** significant at 1%, ** significant at 5% , * significant at 10%

Our robust null finding that state political risk shows no statistically significant causal effect on industrial growth invites a contextualized interpretation within the distinct institutional and economic landscape of Sub-Saharan Africa. The results suggest that a national-level measure of state-sanctioned violence, while theoretically disruptive, may be a poor proxy for the de facto institutional environment governing industrial firms. This is underscored by our models, which show that specific governance dimensions, such as Regulatory Quality and Rule of Law, emerge as significant positive drivers. This pattern aligns with the concept of hybrid governance, in which firms often rely more on stable informal networks and adaptive arrangements than on fragile formal state structures to secure contracts and resolve disputes (Manara & Pani, 2023; Waiganjo & Odote, 2025).

Such systems can effectively buffer day-to-day business operations from the macro-political volatility captured by the PTS.

A pronounced spatial disconnect between the geography of violence and the location of industry compounds this institutional buffer. Industrial assets and manufacturing value-added are predominantly concentrated in major urban centers and capital regions (Acemoglu et al., 2022). In contrast, significant political violence often manifests in peripheral or rural areas (Tadesse, 2023). Consequently, national-level indices of political terror may not accurately reflect the localized security conditions in which the bulk of industrial capital is physically located. Aggregate industrial performance can therefore remain stable even amid heightened national-level political risk, as core productive zones are geographically insulated from direct violence, a factor our aggregate analysis cannot capture but which likely attenuates the observed statistical relationship.

In addition, the structure of African industry suggests that political risk may not be the primary binding constraint. The manufacturing sector in our sample is characterized by small-scale enterprises facing chronic structural deficits. Firm-level evidence consistently identifies infrastructure unreliability and access to finance as the most critical operational challenges, often ranking above political instability in enterprise surveys (OECD, 2025). The most immediate barriers to investment within the growth diagnostics framework, such as daily power outages or constrained credit, are likely more binding. Thus, marginal variations in measured state political risk may have a negligible effect on aggregate industrial output already held back by these more fundamental economic and infrastructural bottlenecks.

The macroeconomic context of our sample period (2000–2023) further complicates the relationship. This era included a commodity boom, in which strong GDP growth in many countries coincided with a declining share of manufacturing in GDP, a pattern termed premature deindustrialization (Rowthorn & Rowthorn, 2024). In economies where a significant portion of industrial output stems from capital-intensive extractive enclaves, the transmission mechanism from domestic political instability to industrial performance weakens. These enclaves, often secured by private or state-protected arrangements, can operate semi-autonomously from broader domestic political currents. As a result, industrial fortunes may be more closely tied to global commodity prices and foreign investment than to domestic political conditions, thereby diluting the measurable impact of internal political terror at the national level.

A compelling political-economy explanation for this decoupling is the strategic selectivity of state violence, aligned with the regime-survival logic. Political elites may actively insulate industrial and revenue-generating zones from the state-sanctioned violence used to consolidate power elsewhere. As Wiebusch & Aniekwe (2019) note, African ruling coalitions often maintain power through a dual strategy of coercion and co-optation, which requires safeguarding the economic bases that fund patronage and state security. Industrial enclaves, particularly in extractive sectors, represent critical nodes in this political settlement (Li et al., 2023; Sablin, 2022). Regimes thus have a vested interest in

creating *de facto* security and institutional firewalls around these zones, ensuring production continues uninterrupted even as repression targets political opponents in other regions (Fambeu, 2024). This deliberate compartmentalization means national-level measures of political terror may systematically fail to reflect the protected operational environment of key industrial assets.

At length, the null result may reflect differences in sensitivity among capital sources. Foreign direct investment (FDI) is typically more sensitive to formal country risk ratings and perceptions of instability (Osuma et al., 2024). In contrast, domestic investors, embedded in local networks and possessing adaptive informal strategies, may be more resilient or even opportunistic during periods of volatility (Wiebusch & Aniekwe, 2019; Williams, 2021). If contractions in sensitive FDI are offset by resilient or compensatory domestic investment, aggregate industrial output, the focus of this study, could remain stable. This potential substitution effect suggests that political terror might reallocate capital within the industrial sector without necessarily reducing total output, a mechanism that aggregate national-level data cannot capture. Collectively, these context-specific factors, such as hybrid governance, spatial mismatch, binding structural constraints, the enclave nature of industry, strategic elite protection, and capital source heterogeneity, provide a multifaceted explanation for why the conventional theoretical expectation of a strong negative effect is not borne out in our empirical analysis of contemporary Sub-Saharan Africa.

CONCLUSION

This study empirically tested the hypothesis, derived from dominant institutional and microeconomic theory, that state-sanctioned political violence has a significant negative causal effect on industrial growth in Sub-Saharan Africa. Our analysis of 30 countries from 2000–2023, employing a novel instrumental-variable strategy that exploits constitutionally fixed elections, yields a robust null finding. This result persists across multiple estimators (2SLS, LIML, and System GMM) and is validated by weak-instrument-robust inference. The divergence from conventional OLS correlations suggests that earlier observed negative associations likely reflect endogeneity, such as reverse causality, rather than a genuine causal impact of violence on industrial performance. Thus, for our sample and period, state political risk, as measured by the Political Terror Scale, does not constitute a statistically discernible binding constraint on aggregate industrial value-added growth.

The policy implications of this finding are significant for industrial strategy in moderately unstable African contexts. Rather than prioritizing broad political risk mitigation as a precondition for industrial policy, policymakers should target four immediate, binding constraints identified by our models: sustaining GDP growth, boosting physical capital formation, improving regulatory quality through business registration and contract enforcement, and deepening financial systems to expand credit access. These four drivers show consistently significant effects on industrial growth, whereas political terror

does not. This is not to dismiss the importance of peace and security in extreme conflict zones. However, in settings of measured instability, a focused approach on proximate economic and regulatory drivers may yield more effective industrial outcomes than an overemphasis on headline political risk indicators.

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