

The Global Economy, Conflict Prevention, and Post-Conflict Recovery

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Abstract:

Conflict economies are highly open to the world economy. Ill-conceived trade policies in rich countries can be very detrimental to conflict economies, while turbulence in commodity markets and sudden swings in flows of development finance can undermine the most well-crafted of national policies. Success in developing and diversifying export sectors can do much to achieve the growth that provides better livelihoods and generates rising revenues for state-building. The key challenge is to change how conflict countries integrate themselves into the global economy, doing so in ways that strengthen the hands of peace-makers, nation-builders, and poor communities. In this way, a broad-based recovery that benefits the majority of people, and not just a narrow elite, may stand a chance. National efforts can do much, but these countries need reform of the world trading system and increased flows of development finance if they are to be set on the path of sustained recovery.

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‘... more than 3.6 million civilians died during internal conflicts in the 1990s and over 50 per cent of the battlefield casualties were children ... between 1980 and 2000 no less than a quarter of the total LDC population, that is about 130 million civilians, were affected by conflicts’ (UNCTAD, 2004: 163).

1. Introduction

The interaction of the developing world with the global economy is an intensely debated issue, with a different theme marking each successive phase of the discussion: the new international economic order in the 1970s, structural adjustment in the 1980s and, from the 1990s onwards, globalization. A new theme arises when an emerging trend is recognized (the information and communications revolution, for instance) or when the unexpected occurs—as with the September 11, 2001, terrorist attacks on the United States.

The events of 9/11 together with the subsequent responses have brought security to the forefront of the globalization debate. This has in any case been an emerging trend given that the 1990s—the decade of globalization—was also marked by ferocious wars in Africa, the former Yugoslavia, and central Asia. Whether globalization played a role in initiating or exacerbating these wars, and whether they are truly ‘new wars’, are large and complex issues, and not ones that I can address here (see instead Kaldor, 1999). But the rapid pace of economic change has almost certainly been a contributing factor. And the transition from communism, the difficulties of economic reform in Africa and the Middle-East, and the 1997-98 Asian financial crisis no doubt played some role. Certainly, the failure to achieve development in many parts of the world, especially in sub-Saharan Africa, must be significant in explaining why the poorest countries account for nearly all of the 58 different armed conflicts that have occurred since the end of the cold war (Eriksson *et al.*, 2003).

In summary, we are no longer just concerned with questions of whether global trade, finance, and technology contribute to growth and poverty reduction (OECD 2003,

Picciotto, 2004). Now we must address a new and fundamental question: does the global economy work for peace?

This is a truly enormous question, which raises all kinds of issues—economic, political, and ethical. Moreover, it is complicated by the fact that violent conflict takes many different forms, reflecting a variety of motives and circumstances. We should therefore be wary about generalizations, and no single paper can hope to address all of the questions adequately. Consequently, this paper focuses on only a few dimensions of the issue, namely the international trade flows – both ‘good’ and ‘bad’ – associated with conflict economies (section 2) and the global public goods that are needed to successfully reintegrate conflict economies into the world economy (section 3). Section 4 concludes that until domestic demand recovers, the export sectors are the crucial motors for recovery in a post-conflict economy but these are hindered by rich-country protectionism and lack of development finance.

2. World Trade and Security

Conflict countries are often seen as being in some way disconnected from the global economy: cut-off from the flows of trade, finance, technology and people that define our present era of globalization. Yet examination of any conflict economy demonstrates that they are often some of the world’s most ‘globalized’. Rather, the crux of the problem is that they are integrated into the world economy in ways that are seriously detrimental to their own chances of peace, the stability of their neighbours, and global security more generally. Their many points of contact to the global economy include the flow of illegally-produced and internationally traded minerals and narcotics, flows of finance involved in the looting of national assets and the subsequent transmission of the money offshore, the use of global information and communications technologies for organising war economies, and flows of people as fighters, refugees, and ‘human commodities’ (including the trafficking of women and children). The issue is not therefore one of integrating these countries into the global economy. Instead, it is finding ways to change the nature of their integration to support strategies of war-to-peace transition and post-

conflict recovery—in particular by switching exports to sectors that maximize growth and poverty reduction, and mobilizing external and internal finance in support.

Empirical evidence suggests a strong link between development-failure and conflict, with the linkages arising through many different channels: unequal access to assets that form the basis of livelihoods; unequal access to wage-employment; unequal access to public services and over-taxation; unequal burden-sharing during crisis; and unequal distribution of the benefits from resource windfalls (Nafziger *et al.* 2000, Stewart 2001, World Bank 2003). These distributional effects are additional to the dangers that low growth itself poses to countries: Collier and Hoeffler (1998) identify a low per capita income and a low (or declining) growth rate as factors that significantly increase the risk of a country falling into civil war.

Growth is especially important to state-building: the revenue base increases along with growth thereby providing the resources, if mobilized through reformed tax institutions and customs services, to build (or rebuild) effective states—a task of paramount importance in post-conflict countries (Addison *et al.*, 2004). And growth increases the chances of successful democratization, since democracy tends to follow prosperity.¹ Given that participation in international trade is one of the most powerful mechanisms for generating growth in small economies, it follows that trade-led growth is potentially a strong instrument for reducing the risk of civil war, building effective states, and securing democratization.²

However, realizing this potential is another matter. Success depends on overcoming three obstacles. First, the exports of nearly all conflict-affected countries are dominated by primary commodities which pose particularly difficult, although not insuperable, problems for economic management. Second, the exports of conflict countries consist of

¹ Democracies with a per capita income of less than US\$ 1,000 do not last more than 8 years on average (Przeworski and Limongi, 1997: 165).

² Civil wars of the type that concern us here have nearly all occurred in small low-income countries. Export-demand is the main driver of growth in small countries, at least until their per capita income rises to middle-income levels, thereby creating a larger domestic market and greater possibilities for import-

‘conflict commodities’ such as ‘blood diamonds’, timber, and drugs, and these can provide warlords with more resources than the state itself. Third, rich-country protectionism acts against trade-led growth in poor countries, including the conflict-affected. I take each of these points in turn.

Commodity Dependence and the Weak Link to Development

With the exception of the semi-industrialized economies of the former Yugoslavia, conflict-affected countries are overwhelmingly dependent on commodity exports. This is not surprising since most are low-per capita income countries which are a commodity-dependent group as a whole. Consequently they face all the problems of economic management that are typical of this group, including large fluctuations in world commodity prices and, possibly, the longer-term deterioration in the prices of commodities relative to manufactures (UNCTAD 2004).

For the present, strong growth in China and India as well as economic recovery in Japan and the US have driven up the world prices of energy and minerals. Oil economies, which have an above-average vulnerability to conflict, are benefiting from an oil price which is at its highest level (US\$ 50) in 13 years (although the price of oil in real terms is still below its early 1980s peak).³ The big question is whether they will use this boom for development or whether it will be squandered. Take the African oil producers for example. Africa’s oil producers have always been large suppliers to Europe but they are increasingly important to the United States and Asia. However, with the exception of Gabon the region’s oil producers are politically fragile; Angola and the Republic of the Congo went through civil wars (lasting over 25 years in Angola’s case), while Equatorial Guinea has a highly authoritarian government, and Sao Tome and Principe has a history of political instability. And on the other side of the continent, Sudan is now a major oil

substitution (for this reason, import-protection is a policy that works better in the early development-stages of large countries).

³ Although oil economies are more vulnerable to conflict, its character and severity shows considerable variation: localized violence in Nigeria’s Delta region, the attempted secessions of Indonesia’s oil-rich provinces, increasing domestic terrorism in Saudi Arabia, short and long civil wars in Africa (Republic of the Congo and Angola, respectively), and the present conflict in Iraq.

producer as well, with the distribution of oil revenues being a key item in the peace agreement between Khartoum and the southern secessionists.

Mismanagement and theft of oil and gas revenues have been common. In Angola, US\$ 4.3 billion of revenues from oil went missing between 1997 and 2002 and nearly one-third of government spending occurs outside the official budgetary framework (Shaxson and White 2004). Given the depth of Angola's poverty, these resources are a major loss to post-war recovery (Adauta de Sousa *et al.* 2003). Moreover, some international companies, with the connivance of their governments, have engaged in large-scale corruption, as the 1990s Elf-Aquitaine scandal in France demonstrated. The US Securities and Exchange Commission is presently investigating whether some US companies have paid up to US\$ 180 million to win contracts in Nigeria's natural gas industry (McNulty 2004). The current oil boom may therefore turn out to be of little benefit to the majority of people in the producing countries, a depressing but all too realistic prospect (Gary and Karl, 2003). Some of the blame can be laid at the door of national elites, but international actors in both business and government must take their share as well.

What can be done? One promising step forward is the Extractive Industries Transparency Initiative (EITI) which aims to increase the transparency of oil revenues through full corporate and government disclosure of resource revenues and accountability in their use (see Collier and Hoeffler, 2004 for an estimate of the benefits). This will help civil society and the media to press for these resources to be spent on development. The Republic of the Congo (Congo-Brazzaville), a post-conflict oil economy, has now agreed to publish previously secret data on its oil revenues (also a condition of IMF assistance to the country). EITI and other such initiatives would be greatly assisted if rich nations took seriously the need to crack down on corruption overseas by their nationals. For example, the UK signed the OECD's anti-bribery convention seven years ago, and in 2002 a new law came into effect which makes it easier to prosecute bribery and corruption by UK nationals and companies overseas. Yet not a single case has been heard by a UK court.⁴

⁴ Source: 'Claims of UK Bribery Abroad Higher than Published Data', *Financial Times*, 23 March 2004.

Europe's financial authorities have dallied for years in tracking down the US\$ 3 billion stolen by the late General Sani Abacha from Nigeria's treasury (although Switzerland has recently made some progress after years of delay).

Overall, commodity-dependent countries would be well-advised to use the present windfall to diversify their economies. However, their strategies need to be more successful than past (and largely failed) efforts. In the 'post-conflict' countries, much of the strategy is that of the Washington Consensus, in particular market-liberalization and privatization. For the most part this happens by default as a consequence of the collapse of government market controls and state-owned enterprises (SOEs) during wartime, but otherwise it is induced by aid conditionality. Some of these market reforms are supportive of broad-based reconstruction—the removal of market controls that resulted in the excessive taxation of smallholder farmers for example—while others, such as bank privatization and the privatization of state-managed farms have been badly managed and costly to recovery and the poor (Castel-Branco *et al.*, 2003). However, the shift towards a more market-orientated approach to development does not remove the need for an overarching strategy to guide the economy's direction, particularly in identifying new comparative advantages in international trade (to facilitate private investment in those promising sectors). Economies in the early years of recovery from war are replete with the kinds of market failure that arise from imperfect information among private investors and co-ordination failures that deter a rapid investment response even when investment funds are available (see Rodrik, Forthcoming 2004, on the implications for development strategy). The historical experiences of post-war recovery demonstrate the state and its ability to define a coherent strategy are critical to long-term success in creating viable market economies that work to reduce poverty (notable examples include Finland after World War II, South Korea after the 1951 Korean war, and Taiwan-China after 1949).

The Resilience of Conflict Commodities

Conflict commodities include gem stones, timber and drugs, all of which are used to finance war—they have become a strong motive for perpetuating conflict (Collier 2003,

Malone and Nitzschke, 2004). Acting against the trade in conflict commodities can do much to reduce the money that is made from civil wars, thereby assisting diplomatic as well as military efforts to shorten their duration (action against UNITA's finances reduced the movement's effectiveness towards the end of the Angolan civil war). International concern was initially motivated by the finance provided to rebels in Angola, Liberia, and Sierra Leone. The 'end' of those conflicts shifted attention to the role of gem stones, particularly diamonds, in financing international terrorism; gem stones are highly suited to terrorist and criminal networks given their value and ease of concealment. Buyers for al-Qaeda are alleged to have colluded with the government of Liberia to purchase diamonds during Sierra Leone's civil war, and they are said to remain active in West Africa. The Chief Prosecutor for the UN Special Court for Sierra Leone, David Crane, recently stated: 'We have in the process of investigating Charles Taylor ... clearly uncovered that he harboured al-Qaida operatives in Monrovia as late as the summer of 2001 ... the central thread is blood diamonds' (Global Witness, 2004b).

The main international initiative to deal with the problem of blood diamonds is the Kimberley Process Certification Scheme (KPCS) which has been in operation since 1 January 2003, with a membership of 50 diamond producing, trading and polishing countries.⁵ Participating countries agree to import and export diamonds which have the KPCS certificate. In effect the KPCS aims to create a two-tier market in which illegitimate diamonds sell at a discount to legitimate (certified) diamonds, thereby cutting the value of conflict diamonds (Collier and Hoeffler, 2004).

There remain, however, significant problems at the production end of the diamond chain. Up to half of the gem stones mined in Sierra Leone are still smuggled out of the country (Diamonds and Human Security Project, 2004: 9). The Republic of the Congo, which went through its own civil war in 1998, became a test case for the Process in early 2004. Diamonds from Angola and the DRC are smuggled into the Congo and have then been exported with a KPCS certificate. Congo's own production is small (55,000 carats) but it

⁵ The Partnership Africa Canada web site (www.pacweb.org) is a useful source for news on the Kimberley Process.

exports 5.2 million carats a year (worth more than US\$ 200 million) (Innocenti 2004). These figures became public in the annual report which each member of the Process must submit, confirming what many had suspected for years (Dietrich, 2002). This led to the expulsion of the Congo from the Kimberley Process late in 2004 and the government is now trying to get the country reinstated, but of course the fundamental problem remains that a great deal of Africa's diamond economy is not in legitimate hands. This is an aspect of global justice, and the application of the rule of law, that we discuss in the next section.

There are also problems at the consumer end of the commodities chain. A recent report by Global Witness criticizes the coverage of the scheme, noting insufficient compliance among major jewellery retailers and concludes that: 'The self-regulation, which is supposed to cover the entire diamond-jewellery supply chain, from the mine to point of sale to the consumer, is amounting to not much more than a public relations manoeuvre with little credibility behind it' (Global Witness, 2004c). And although the Clinton administration strongly supported the Kimberley process, the '... Bush administration has been largely indifferent to it, having been slow to sign up to its monitoring provisions' (Lyman and Morrison, 2004: 84). In summary, although the Kimberley process is certainly a step in the right direction, it has had limited impact to date.

The global market in drugs also fuels conflict, notably in Afghanistan (which produces 75 per cent of the world's supply of opium) and Colombia (the major producer of cocaine). Indeed, Afghanistan under the care of the international community now produces and exports more opium than it did under the Taliban regime (which in its last years banned all drugs and savagely punished offenders). The IMF puts the value of the opium trade at US\$ 2.6 billion a year (equivalent to 60 per cent of the country's GDP). This, together with the revenues provided by traditional smuggling provides the country's warlords with revenues to match those of the government (for comparison, the 2003-2004 development budget is US\$ 1.7 billion). Many of those same warlords hold ministerial posts in the government and are accumulating resources on such a scale that they constitute a major block to successful post-conflict recovery and democratization (Gannon 2004).

Clearly, the global economy in drugs is functioning very well. What can be done? One useful proposal is that of Collier and Hoeffler (2004) who argue for the creation of a two-tier market in drugs (with registered addicts in rich countries able to obtain legal government supplies, thereby driving down the price in the illegal market). This would reduce the world price of hard drugs and therefore the size of financial flows to producers. It is also important to provide livelihoods which offer an alternative to growing opium and other drug-producing plants; ultimately broad-based development is essential to undermining the grip of narcotics on poor countries. However, rich-country protectionism in agriculture hinders such development, and it is to this that we now turn.

The Security Implications of Rich-Country Protectionism

Agriculture is the main livelihood for many of the world's poor, it is often the main source of economic growth, and it remains one of the principal sources of foreign-exchange earnings for developing countries. For post-conflict countries such as Mozambique which do not have abundant mineral resources, agriculture is the mainstay of the economy and the chief motor for its revival. Indeed, given the difficulties discussed earlier in utilizing mineral revenues for broad-based development in resource-rich countries, agriculture is often their best prospect for pro-poor recovery as well. Although much more needs to be done to improve the benefits of agricultural growth for poor people (through land reform, credit, and pro-poor investments in infrastructure and research), it is indisputable that a well-functioning system of world agricultural trade is vital to the achievement of the Millennium Development Goals as well as post-conflict recovery. Unfortunately, world trade in agriculture is distorted by the policies of the rich countries, largely to the detriment of the poor world.

We can illustrate this point by returning to the case of Afghanistan. There are few alternative crops to opium in Afghanistan, but one is cotton, which was produced in significant amounts in the 1970s. However, like all developing-country cotton producers, Afghanistan faces an international price which is depressed by the large subsidies that the

EU and the US pay to their domestic farmers. In an average year, the EU pays out € 900 million (US\$1.07 billion) in cotton subsidies, while 25,000 American cotton farmers enjoy a subsidy that can be as high as US\$ 3.7 billion in a peak production year such as 2001-2002. These subsidies depress the world price, with the effect of the US subsidy being particularly strong since it is the single largest cotton-exporting nation (accounting for 40 per cent of world trade). Without the US subsidy, world cotton prices would have been at least 12.6 per cent higher between 1999 and 2002 (Alden, 2004).⁶ Hence, the US subsidy lowers farm income in the developing world, as does the EU subsidy.

Neither do other rich-country subsidies such as the EU and US sugar subsidies. The EU provides a subsidy of € 3.30 for every Euro of sugar that Europe exports (Oxfam, 2004). The total subsidy cost, the value of which varies depending on how you add up the indirect subsidies, is between € 1.3 billion and € 1.5 billion. Without the subsidy, the world price would be significantly higher and the cost to three African producers—Ethiopia and Mozambique (both post-conflict countries) and Malawi (at peace but very poor)—has amounted to US\$ 238 million since 2001 (Oxfam, 2004). Mozambique's losses are equivalent to about a third of its EU development aid. A portion of the savings from eliminating the subsidy could be allocated to transitional adjustment assistance to smaller European producers; the main losers would then be three large European sugar-refining companies (who lobby extensively for the subsidy's continuation).

A reduction in rich-country assistance to their domestic farmers would raise the overall rate of economic growth in the developing world (see Anderson, 2004, for estimates of trade liberalization's growth benefits). This would contribute to peace since a low per capita income and a low growth rate significantly increase the probability of conflict for a country (Collier and Hoeffler, 1998). For instance, in the West African states of Burkina Faso, Chad, and Mali, the elimination of rich-country cotton subsidies would raise growth, since cotton is one of the few crops in which the Sahel region has a comparative

⁶ The estimate of the price effect of the US cotton subsidy is in a paper prepared for the Government of Brazil by Dan Sumner of the University of California, Davis (<http://www.agecon.ucdavis.edu/facultypages/sumner/sumner.htm>). The paper is not publicly available at present, and therefore I have cited estimates that appear in the international financial press.

advantage. This would strengthen the region's political stability by lowering the frustration of the young unemployed—thereby also reducing the attractions of militant Islam which is actively recruiting among the Sahel's predominantly Muslim population. And it would contribute to reducing tensions in West Africa's coastal nations which have seen large immigrations from people in the Sahel who are desperate for a livelihood (notably to Côte d'Ivoire where demagogues successfully played on the immigration issue in the lead-up to the country's civil war).

In summary, the phasing out of rich-country protectionism in agriculture would greatly help the development and security of poor nations. This is not to imply that reform of the world cotton market offers some magical solution for reviving the Afghan economy or weaning its farmers away from growing opium, but rich-country cotton subsidies certainly do nothing to help Afghanistan or other poor nations. And we certainly do not wish to imply that agricultural trade liberalization is without cost for developing nations.⁷ The elimination of rich-country aid to their food producers will raise the world price of food, and this is a serious concern for food-importing nations—45 of the 49 least-developed countries import more food than they export (Panagariya, 2003: 22, Laird *et al.* 2004). The cost of food is a politically explosive issue, particularly for the urban poor (although substantial numbers of the poorest rural households are food-deficit as well). Accordingly, agricultural trade liberalization must be matched by mobilizing more international development finance for poverty reduction, as well as for agricultural research for small farmers, especially in environmentally-stressed areas which receive too little help at present. As is often pointed out, the US\$ 300 billion a year in assistance that rich countries give to their domestic farmers provides ample scope for raising the annual flow of official development assistance, which presently averages US\$ 50 billion.

There is a strong case for viewing rich-country protectionism through a security lens. But rich countries themselves are reluctant to take such a view, and a narrow 'business as usual' interpretation of their domestic and commercial interests seems set to prevail.

⁷ It would also be unwise to generalise from agricultural trade liberalization to liberalization in manufactured goods and services which raise another set of complex effects.

Thus, in the case of EU cotton, producer subsidies are seen as a transfer mechanism to the low-income regions of southern Europe—producer prices in Greece and Spain are between 144 and 184 per cent higher than the world price—and this, rather than the impact on West Africa and other poor regions, is likely to drive EU policy. Similarly, there is no sign yet that US policymakers have reflected at all on the wider security impact of agricultural subsidies.⁸ In April 2004 the WTO made a preliminary ruling that the US cotton subsidy was excessive, boosted US exports and depressed prices at the expense of Brazil and other producers, and therefore breached US obligations to the WTO. In June 2004, a WTO dispute panel upheld the preliminary ruling, which the US is now appealing against. A spokeswoman for the US trade representative responded with a statement that: ‘we have no intention of unilaterally disarming’—an unfortunate turn of phrase given the link between trade and security that this paper emphasizes.⁹

3. Global Public Goods and Development Finance

Having discussed trade we now turn to two other dimensions of the global economy that affect peace, namely global public goods and, related to that, development finance. Just as a national economy cannot operate effectively without the provision of public goods, so the global economy cannot be efficient (or fair) without global public goods (this theme is developed in Kaul, *et al.* 2003).¹⁰ Public goods are under-provided at the global level for much the same reason that they are under-provided at the national level. In 1776 Adam Smith noted that such goods ‘... though they may be in the highest degree advantageous to a great society are, however, of such a nature that the profits could never repay the expenses to any individual or small number of individuals ...’ (Smith 1994 [1776]: 779). Global public action is therefore necessary to fill the gap left by private action, just as national governments must fill the gap left by the market at home.

⁸ Large US cotton growers receive three-quarters of the total subsidy, and are active lobbyists in Washington DC.

⁹ Cited in Colitt and Alden (2004).

¹⁰ Global public goods include: peacekeeping; the prevention of contagious diseases; research into tropical medicines, vaccines, and agricultural crops; the prevention of chlorofluorocarbon emissions, the limitation of carbon emissions, and the preservation of biodiversity.

Global justice is one of the many global public goods which are chronically under-provided. A person's security largely depends on the lottery of where they were born (and their gender as well). But we have now passed into an era of transnational terrorism where even rich governments cannot provide the level of security that their citizens enjoyed in the decades after World War II. The picture is of course even bleaker in poor countries where states are often too weak to provide effective law and order or, in the very worst cases, are themselves predatory. The 10th anniversary of the Rwandan genocide reminds us of how vulnerable many of the citizens of the world's poorest countries are to violence.

In summary, we have reached a situation today which would have been recognizable to Edmund Burke two centuries ago when he remarked that '...when bad men combine, the good must associate; else they will fall one by one...' (Burke, (1999) [1770]). The last decade has seen some progress in building such an association of the good mainly through the exchange of information and the organization of co-operative initiatives by means of transnational networks of government agencies and civil society. For instance there is now more co-operation between national judiciaries and international and regional courts. Some have detected in these networks the start of the globalization of jurisprudence (Slaughter, 2004, makes this argument). Tribunals have been set up to deal with the aftermath of Yugoslavia, Bosnia, East Timor and Sierra Leone. Although highly desirable, these initiatives have been piecemeal. The creation of an International Criminal Court (ICC) is a major step forward in providing a coherent, over-arching, and permanent framework of global justice. But the US has not yet ratified the agreement.

Filling the gap in global justice is crucial for countries where there is a likelihood of war returning, particularly in the early years of peace when the parties to the conflict are still wary of each other and not yet fully demobilized. Just over one-third of the civil wars that occurred over 1945-1996 repeated themselves (Walter, 2004). While we can take comfort from the fact that two-thirds of countries did not go back to war, one-third is still a substantial proportion and represents a large amount of human suffering. Moreover, the countries that go through successive civil wars tend to have increasingly strong

destabilizing effects at the regional and global levels. Afghanistan is a prime example, but so too are Colombia and Liberia.

The Costs of Not Providing Global Public Goods

It is a basic principle of the new institutional economics that economic activity is inhibited by high transactions costs when the protection of personal safety and property rights is weak (North, 1997). This is borne out in the civil wars that typify developing countries and which reduce economic growth and increase poverty. In particular, high insecurity lowers private investment in agriculture and manufacturing since these are the sectors where rates of return are most affected by insecurity.¹¹ In this way conflict also raises poverty since it hits the sectors most likely to provide new and better livelihoods. Preventing and ending war can therefore be expected to have large economic benefits, aside from the immense humanitarian benefit. Collier and Hoeffler (2004: 6-11) estimate the cost of a civil war in a typical developing country to be about US\$ 64.2 billion, including the value of the lost output as well as the value of lost life and health. This exceeds the total amount of official development assistance (ODA) provided annually to all developing countries (about US\$ 52 billion), a significant part of which is now committed to post-conflict reconstruction. Hence, preventing and ending war would free up aid resources for use on other crucial tasks—in particular meeting the ambitious Millennium Development Goals.

Our discussion has emphasized global justice as a crucial public good. But before moving on, we should note the importance of two other vital global public goods. First, global environmental protection is still grossly under-funded. Global climate change can destabilize societies, not just in the developing world; a recent study for the US Department of Defense concludes that global warming, if not halted, will be a significant catalyst for future civil wars and inter-state wars (Schwartz and Randall, 2003). Second, the spread of HIV/AIDS and other communicable diseases (such as tuberculosis) are

causal factors in conflict; the decline in populations of working age (the group with the highest incidence of HIV/AIDS) undermines economies and the effectiveness of state institutions (Cincotta *et al.*, 2003). Economic decline and weak institutions in turn increase the probability of conflict. This effect becomes cumulative since a loss in overall state capacity is associated with a decline in the quality of public health institutions (Price-Smith, 2002).¹² And violent conflict itself spreads HIV/AIDS and other communicable diseases (World Bank, 2003). Thus Angola and Sierra Leone have emerged from war with very high levels of HIV/AIDS, and this is a further strain on their already meagre health sectors.

Mobilizing More Finance

Where will the resources be found to fund the greater provision of global public goods as well as the provision of more development and humanitarian aid? As we have mentioned, annual ODA is running at about US\$ 52 billion. But aid stagnated in the 1990s; ODA fell from 0.33 per cent of gross national income in the mid-1980s to 0.23 per cent in 2002, far below the UN target of 0.7 per cent (OECD-DAC 2004). Whilst the economies of the rich world have more than doubled in size over the past 30 years, they are presently spending a smaller proportion of their GNP on ODA than at any time since the 1960s. Assuming that the donor countries deliver on their promises at the 2002 UN Financing for Development Summit in Monterrey, the OECD-DAC estimates that ODA is expected to rise to US\$ 75 billion (at 2002 prices and exchange rates) by 2006 (OECD-DAC 2004). But even so, the ratio of ODA to GNP will still be lower than the early 1990s.

Donors need to raise their aid to ODA to at least the UN target of 0.7 per cent. Indeed, Tony Atkinson proposes a more ambitious target for the EU; the EU as a whole should seek to provide development assistance at a level of 1 per cent of GNP, that is 1 per cent of €10,000 billion (Atkinson 2002: 404). A total of €100 billion of aid from the EU

¹¹ Large immediate upfront investments have to be made in the expectation of future returns, and the present value of the latter falls as insecurity and therefore uncertainty rise. Hence investment in agriculture and manufacturing tends to be hit very hard by violent conflict (Addison, 2003).

would more than double the existing level of total development aid (and still only account for one third the value of the EU's present spending on agricultural subsidies). But in addition to raising ODA, new and innovative ways must be found to increase the resources needed for global public goods, development, and post-conflict reconstruction. A new UNU-WIDER/UN-DESA study undertaken for the UN General Assembly discusses ways to do this, including: global environmental taxes (a carbon-use tax); a tax on currency flows (the 'Tobin tax'); the creation of new Special Drawing Rights (SDRs); the UK proposal for an International Finance Facility; increased private donations for development; a global lottery and global premium bond; and increased remittances from emigrants (Atkinson, 2004). And taxes such as the carbon-use tax have a 'double dividend'; they not only work to prevent harmful climate change but they also raise resources for further development spending. Moreover, once global public goods are in place, yielding their benefits, the resulting growth will provide a flow of additional resources to sustain public goods provision. Therefore once the efficiency gain is taken into account, the net cost of global public goods provision is likely to be much lower than the gross cost.

Finally, the security of poor countries is linked to their debt problems. As a result of past aid loans, together with international commercial borrowing (mostly by the oil economies which used oil as collateral) conflict countries have accumulated substantial foreign debts. Of the 41 Heavily Indebted Poor Countries (HIPC) 11 are classified by the IMF and the World Bank as conflict-affected, and owe some US\$ 63 billion, a large proportion of it to the donors themselves (IMF and World Bank, 2001: 21).¹³ Much of this debt is odious, since it was taken on by past dictatorships with little consideration as to the impact of the eventual debt-servicing burden on the mass of the population (Addison and Rahman, 2004). Although the HIPC Initiative is a step in the right direction, it has pursued a slow and cumbersome process and one which is, in the case of the conflict-affected countries, largely disconnected from efforts by the African Union

¹² In econometric studies high infant mortality is a good predictor of state failure (King and Zeng 2001: 650).

¹³ Among the post-conflict countries, Eritrea is the only one not to have a substantial foreign debt. This reflects Eritrea's reluctance to take on aid loans in order to preserve its policy independence.

and the UN to achieve workable and lasting peace agreements (for a critique see Addison and Murshed, 2003).

Will the additional resources be used properly? The effectiveness of aid for developing countries as a whole has generated considerable debate (see McGillivray 2003 for an overview). There is now an equally lively debate on aid's effectiveness in post-conflict countries; Addison (2004) argues that aid has potentially strong benefits, Intriligator (2004) is very sceptical, while Collier and Hoeffler (2004) adopt a middle position between the two. What accounts for this range of views? Critics of aid's effectiveness tend to look back to the aid that was given during the cold war when aid allocations across countries were significantly influenced by the strategic objectives of the major donors, with development being secondary in many cases. Unfortunately these strategic objectives amounted to keeping in power such dictators as Mobutu of Zaire and Said Barre of Somalia, to the great cost of their countries. But this does not undermine the argument for *well-designed* aid, it only cautions donors to ensure that the mistakes of the past are not repeated. In particular, the post-conflict countries need considerable inflows of aid if they are to have any chance of meeting the MDGs.

4. Conclusions

The debate on post-conflict recovery too often ignores the global dimensions of the issue, which are of critical importance to what are highly open economies. Ill-conceived trade policies in rich countries can be very detrimental to conflict economies, while turbulence in commodity markets and sudden swings in flows of development finance can undermine the most well-crafted of national policies. In contrast, as this paper has argued, success in developing and diversifying export sectors can do much to achieve the growth that provides better livelihoods and generates rising revenues for state-building. As per capita incomes rise over time, domestic-demand growth—particularly from the poor as they rebuild their livelihoods—will become an increasingly strong motor for economic growth. But in the crucial early years of war-to-peace transition, and in the subsequent post-conflict recovery, external demand has to be the main driver since per capita income

will be depressed by conflict, and often the only strong motor of domestic demand is reconstruction spending by governments and donors.

In summary, the challenge is to change how conflict countries integrate themselves into the global economy, doing so in ways that strengthen the hands of peace-makers, nation-builders, and poor communities. In this way, a broad-based recovery that benefits the majority of people, and not just a narrow elite, may stand a chance. National efforts can do much, but these countries need reform of the world trading system and increased flows of development finance if they are to be set on the path of sustained recovery.

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