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**Working Paper**

## Post-conflict recovery: Does the global economy work for peace?

WIDER Discussion Paper, No. 2005/05

**Provided in Cooperation with:**

United Nations University (UNU), World Institute for Development Economics Research (WIDER)

*Suggested Citation:* Addison, Tony (2005) : Post-conflict recovery: Does the global economy work for peace?, WIDER Discussion Paper, No. 2005/05, ISBN 9291906778, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

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United Nations  
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**WIDER**

World Institute for Development Economics Research

Discussion Paper No. 2005/05

## **Post-Conflict Recovery**

Does the Global Economy Work for Peace?

Tony Addison\*

February 2005

### **Abstract**

Countries as diverse as Afghanistan, Angola, and Sierra Leone are now attempting to recover from major wars, often amidst continuing insecurity. The challenge is to achieve a broad-based recovery that benefits the majority of people. The economic and social recovery of conflict-affected countries cannot be separated from their interaction with the rest of the world through flows of finance, goods, and people. Unfortunately, the global economy is not working well for peace. Trade reform, in particular, must take account of the need to create better, and non-violent, livelihoods for the world's poor: rich-country protectionism in agriculture hinders broad-based recovery and thereby harms the new international security agenda. Post-conflict economies also need more external finance to support early institutional development and reform, thereby increasing the effectiveness of longer-term aid inflows.

Keywords: conflict, terrorism, international trade, global public goods

JEL classification: F02, F34, F35

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This study has been prepared within the UNU-WIDER project on Reconstruction in Conflict and Post-Conflict Societies, directed by Tony Addison.

UNU-WIDER gratefully acknowledges the financial contributions to its research programme by the governments of Denmark (Royal Ministry of Foreign Affairs), Finland (Ministry for Foreign Affairs), Norway (Royal Ministry of Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida) and the United Kingdom (Department for International Development).

## Acknowledgement

A first draft of this paper was presented at the workshop on 'The Globalization of Political Violence' held in Prato (Italy), 28-30 June 2004, organized by the School of Political and Social Inquiry, Monash University, and the Centre for the Study of Globalisation and Regionalisation, University of Warwick. I am grateful to participants for their incisive and helpful comments, and in particular to Richard Devetak and Chris Hughes the organizers of the research project.

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UNU World Institute for Development Economics Research (UNU-WIDER)  
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Camera-ready typescript prepared by Liisa Roponen at UNU-WIDER  
Printed at UNU-WIDER, Helsinki

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

ISSN 1609-5774  
ISBN 92-9190-677-8 (printed publication)  
ISBN 92-9190-678-6 (internet publication)

## 1 Introduction

Each phase in the debate around development and the global economy is marked by a different theme: dependency in the 1960s and early 1970s, the new international economic order in the late 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 11 September 2001 terrorist attacks on the United States.

The events of 11 September, together with the subsequent US response, have pushed ‘conflict’ and ‘security’—terms which are subject to a plethora of meanings and interpretations—right to the front of the controversy surrounding globalization, adding new dimensions to already vigorous debates on the concept of ‘New Wars’ (Kaldor 1999, Keen 1998) as well as the economic aspects of conflict more generally (Berdal and Malone 2000, Collier and Hoeffler 1998, Nafziger *et al.* 2000). In the 1990s, the intense social stresses generated by the unsteady transition from communism, the difficulties of economic reform in Africa and the Middle-East, and the Mexican and Asian Financial crises led many to link globalization—the theme of the 1990s—to the ferocious civil wars in Africa, the Balkans, and central Asia as well as to regional rebellions and secessions (Aceh, Chiapas, and East Timor). And globalization with its acceleration in flows of trade, finance, and people seemed to open up fresh opportunities for commercializing conflict, thereby internationalizing wars with national and local origins.

The literature around New Wars has raised awareness of the relationship between global economic change and conflict. Yet much of the subsequent debate has become stuck in a rut, too-often invoking globalization, together with its cousins the ‘Washington Consensus’ and the ‘neo-liberal order’, as causes of conflict—as if asserting a link between these very broad (and often ill-defined) categories is proof enough.<sup>1</sup> So to restart the debate in a meaningful way we need to unpack the broader issues, and look to the specifics of policies, actors, and countries. Hence, my focus is on only one of the many key issues, namely the interaction between countries emerging from civil war and the global economy. Does that interaction help or hinder their transition from war to peace? And in what ways could global economic policy be improved to facilitate their ‘post-conflict’ recovery?

This is a demanding and complex agenda which raises all kinds of issues—economic, political, and ethical. Moreover, it is complicated by the variety of forms that contemporary conflict takes, each conflict being to a degree distinct in its motives and circumstances. We should therefore be very wary about generalizations. Consequently, this paper mainly addresses the economic dimensions, concentrating on the importance of international trade to state-building (section 2) and the need for global public goods in a global market economy (section 3). And I mainly focus on the smaller countries emerging from civil war (particularly in Africa) rather than ‘international’ wars. For discussion of the Middle-East, as well as the consequences of the Iraq debacle, the reader must look elsewhere. Section 4 anticipates some of the reactions to my prescriptions, and concludes that the global economy does not work well for peace.

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<sup>1</sup> See Berdal (2003) and Newman (2004) for critiques of the concept of New Wars.

## 2 State-building and successful integration into the global economy

It is well-known that revenue mobilization underpins the construction of developmental states, but the role of international trade in generating revenues, and thereby trade's central role in state-building, have not received the recognition they deserve. Trade can be a powerful motor for economic growth, and growth creates a rising revenue base for states. The growth in incomes and market activity as well as imports and exports provide increasing amounts of income taxes, indirect taxes, and trade taxes (mostly import duties). These can be used to build core state functions and to expand the delivery of public services (Addison *et al.* 2004).<sup>2</sup> Creating the necessary institutions—tax administrations as well as customs and excise services—is therefore a necessary but not sufficient condition for revenues to grow: economic growth is crucial. How societies integrate themselves into the global economy, and whether that integration is growth-promoting, are therefore critical to the chances of successful state-building (and indeed to their chances of democratization since democracy tends to follow prosperity). Of course, the state may be built for many different purposes, including dictatorship or for making wars on other states, so that state-building does not automatically give rise to peace. Still, without state-building the chances for a more hopeful trajectory post-conflict will come to nothing: an effective state is essential to *broad-based* (poverty reducing) recovery and growth (Addison 2003a).

It is true that domestic-demand growth can drive economic growth in large-population countries, even if per capita income is initially low (for example, Brazil, China, and India). But 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-substitution.<sup>3</sup> And civil wars of the type that concern us here have nearly all occurred in small low-income countries. Moreover, contemporary conflicts typically reduce per capita income and domestic purchasing power; exports will remain important for growth in the early years of post-conflict recovery until household income recovers—thereby generating new opportunities for producers serving domestic markets (including community-based livelihood projects).<sup>4</sup>

Conflict countries have many points of contact to the global economy including: flows 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; flows of information as new communications technologies are used to organize war economies and international terrorism; and flows of people as fighters, refugees, and 'human commodities' (including the trafficking of women and children).

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<sup>2</sup> For contrasting views on state-building in post-conflict societies, see Chesterman (2004), Fukuyama (2004) and Rotberg (2004).

<sup>3</sup> Whether, and at what stage of their development, countries should use import-protection (by means of tariffs, quotas, or government subsidies) is not an issue I address here, except to note that using tariffs and quotas effectively to achieve structural economic change very much depends upon state capacities—which are in short supply in contemporary post-conflict economies—while lack of revenues precludes large government subsidies in most post-conflict economies.

<sup>4</sup> One of the other sources of growth in the immediate post-war years is the activities of donors and NGOs. If the export-sector is very damaged by war then aid-donor activity can be one of the few dynamic elements of the post-war economy and while aid is crucial to post-conflict recovery it can have some distorting effects (for instance absorbing scarce skills at the cost of domestic private investment as well as state institution-building).

The issue therefore is not one of reconnecting economies that are disconnected from the global economy; rather it is changing the nature of their interaction in ways that secure both war-to-peace transition and *broad-based* recovery and growth.

Meeting this over-arching goal, however, faces at least three major difficulties. First, a narrow range of primary commodities dominate the exports of conflict countries, making economic management especially difficult, and recovery can easily be derailed. Second, the exports of conflict countries include ‘conflict commodities’ such as ‘blood diamonds’, illegally-cut timber, and hard drugs, and these can provide warlords with more resources than the state itself—so that trade may be *warlord-building* rather than state-building. Third, rich-country protectionism impedes trade-led agricultural growth in poor countries, including the conflict-affected, and agriculture is a vital sector for post-conflict recovery and for the creation of peaceful livelihoods in general. If these obstacles are not overcome then post-conflict reconstruction will be, at best, an exercise in rebuilding economies and societies as they were before war, often resurrecting and exacerbating deep inequalities, and leaving countries weaker in their ability to achieve broad-based development. I now take each of the three difficulties in turn.

## **2.1 Commodity dependence and the weak link to development**

Low-income conflict countries are overwhelmingly dependent on commodity exports. Consequently their economic management faces all the problems inherent in commodity dependence, including the volatility of world prices that often generates a boom-bust cycle for producers (UNCTAD 2004). Producers of energy, minerals, and some soft commodities are presently benefiting from stronger growth in China and India as well as Japan’s economic recovery, all of which have driven up prices after years of stagnation. Oil economies, which have a high incidence of conflict, are benefiting from an oil price which is at a 13-year peak.<sup>5</sup> Will they use this windfall for development or will it be squandered? Take, for example, the African oil producers, politically a very fragile group. Angola and the Republic of Congo (Congo-Brazzaville) went through civil wars (lasting over 25 years in Angola’s case), while Chad, Equatorial Guinea and Sao Tome and Principe have histories of political instability. And the distribution of Sudan’s oil revenues is a key item in the peace agreement between Khartoum and the southern secessionists.

Mismanagement and theft of oil and gas revenues are common. In Angola, US\$4.3 billion of oil revenues 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). Some of the blame can be laid at the door of national elites, but bribery has been all too common as well. Companies acting as agents pay the bribes, thereby enabling oil companies to deny any involvement. Financial globalization facilitates such secret payments, but recent legislation to combat money laundering by organized crime and terrorists has scooped up suspicious transfers by agents with connections to some major oil companies. The French and US authorities

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<sup>5</sup> Although oil economies are more vulnerable to conflict, its character and severity show 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 Congo and Angola, respectively) and inter-state war followed by civil war in Iraq.

are presently investigating allegations that companies paid up to US\$180 million to win contracts in Nigeria's natural gas industry (McNulty 2004). The current oil boom may therefore have little benefit for the majority of people in the producing countries—a depressing but all too realistic prospect (Gary and Karl 2003; Global Witness 2004a).

What can be done? Transparency in resource use is crucial. The Republic of Congo has now agreed to publish previously secret revenue data, a condition of further IMF assistance to the country. And one promising step forward is the Extractive Industries Transparency Initiative (EITI) which aims to increase revenue accountability through full corporate and government disclosure. EITI will help civil societies challenge governments to spend these revenues on development. But the resources of local campaigning groups are generally modest and they, together with any independent media that may exist, are often harassed—sometimes at the cost of their lives. Hence, EITI and other such initiatives must be supported by determined action on corruption's supply-side; in particular, rich countries should prosecute overseas bribery more vigorously. The United States was almost the only country with such legislation—and overseas bribes were tax-deductible in France and Germany—before the agreement by OECD countries to impose criminal penalties on nationals guilty of bribery took effect in 1999. However, deterrence depends on prosecutions and not a single case has yet been heard in a UK court. 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. And in the US, the country with the oldest legislation, only 39 criminal prosecutions have been brought in 27 years.

Overall, mineral-dependent countries would be well-advised to use the present windfall to diversify their economies, a task that remains critical for commodity-dependent economies as a whole. But to achieve this effectively, countries need to take back control of the resources and revenues that are being lost in the illegal mining and production of conflict commodities. These can then be used to finance economic diversification, especially in ways that benefit the poor. It is to this task that we now turn.

## **2.2 The resilience of conflict commodities**

Conflict commodities are now a focus of international action; gem stones, timber and drugs have all funded war (Collier 2003; Malone and Nitzschke 2004). The associated financial flows are also a promising opportunity for action; disrupting UNITA's finances reduced the movement's effectiveness towards the end of Angola's civil war, for example. Attention has now shifted to the role of gem stones, particularly diamonds, in financing international terrorism. During Sierra Leone's civil war, diamond buyers for al-Qaeda are alleged to have colluded with Liberia's then government, 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-Qaeda 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. 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 relative to legitimate (certified) diamonds, thereby cutting the value of conflict diamonds to sellers (Collier and Hoeffler 2004).

There remain, however, significant problems at the production end of the diamond chain. Up to half of Sierra Leone's gem stones are still smuggled out of the country (Diamonds and Human Security Project 2004: 9). The Republic of Congo became a test case for the KPCS in early 2004. The Republic of Congo produces only 55,000 carats but exports 5.2 million carats a year (worth more than US\$200 million) much of which consists of re-exports of diamonds smuggled in from Angola and the Democratic Republic of Congo (DRC) (Innocenti 2004). These figures became public in the annual report which each member of the KPCS must now submit, confirming what many had suspected for years (Dietrich 2002). In late 2004 the Republic of Congo was expelled from the Kimberley Process and is now campaigning for reinstatement.

The consumer end of the commodities chain also has serious problems. A recent report by Global Witness finds only weak 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, the KPCS has added some teeth to international concern, but the fundamental problem remains that a great deal of Africa's gem stone economy is not in legitimate hands. This is an aspect of global justice—the application of the rule of law—that we discuss in the next section.

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 values the opium trade at US\$2.6 billion a year (equivalent to 60 per cent of the country's GDP). Opium together with the revenues generated by the traditional activity of 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). Afghanistan's warlords are accumulating resources on a scale that makes it relatively easy for them to bend post-conflict recovery to their own purposes, both politically and economically (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). The world price of hard drugs would then fall, reducing financial flows to producers. Providing livelihoods that offer an alternative to growing opium and other drug-producing plants is also crucial; 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.

### 2.3 The security implications of rich-country protectionism

Agriculture is a livelihood for the world's poor, a source of economic growth, and a major foreign-exchange earner. Agriculture is the economic mainstay of post-conflict countries like Mozambique, especially for their poor. Indeed, given the difficulties in using mineral revenues for development, agriculture is often the best prospect for pro-poor recovery in resource-rich countries like Angola as well. Land reform, micro-finance, and pro-poor investments in infrastructure and research can raise the benefits of agricultural growth for poor people, but it is also vital for the world market in agriculture to function well. That market, however, is grossly distorted by the policies of the rich countries, largely to the disadvantage of the poor world. Rich-country subsidies depress farm incomes across the developing world, including post-conflict countries where rural poverty is exceptionally high.

Afghanistan illustrates this point. There are few alternative crops to opium in Afghanistan, but one is cotton, which was produced in significant amounts in the 1970s. But by 2003, war had cut output to 8 per cent of its 1983 level (Nells and Usman 2003). Substantial private and public investment is needed to restart production in cotton and other agricultural livelihoods but rich-country protectionism reduces the return to investment. The EU spends €900 million (US\$1.07 billion) annually on subsidizing its domestic cotton farmers, while 25,000 American cotton farmers enjoy an annual subsidy of US\$3.7 billion (Gillson *et al.* 2004). The US is the largest cotton-exporting nation (accounting for 40 per cent of world trade) and US and EU subsidies depress world prices; cotton prices would have been 12.6 per cent higher between 1999 and 2002 without the US subsidy (Alden 2004).

The EU and US sugar subsidies are similarly harmful. Every Euro of sugar that Europe exports carries a subsidy of €3.30 at a total cost of €1.5 billion (Oxfam 2004). The lower world price has cost three African producers US\$238 million since 2001—Ethiopia and Mozambique (both post-conflict countries) and Malawi (at peace but very poor) (Oxfam 2004). Although some countries, notably Swaziland and Mauritius, gain from the EU's present sugar policy (which provides them with preferential access to the protected EU market), the developing world as a whole loses, particularly the larger and more efficient producers.

If reducing rich-country protectionism does raise economic growth in the developing world—as policy simulations suggest (Anderson 2004)—then the incidence of civil war may fall, since cross-country empirical work finds that growth tends to reduce the *risk* of conflict occurring (Collier and Hoeffler 1998). Quite why this should be so is a matter of continuing debate and many would argue that other socio-economic factors, in particular inequality (and specifically inequality across social groups), can be as important or indeed more important (see Nafziger and Auvinen 2002; Stewart 2001). Still we can construct a number of plausible scenarios whereby trade-led growth could contribute to peace (and be supportive of political processes to make peace). Eliminating rich-country cotton subsidies would, for example, raise growth in Africa's Sahel (where cotton is one of the region's few comparative advantages) thereby

reducing the frustrations of the young unemployed and the attractions of militant Islam. And it would reduce migration from the Sahel to West Africa's coastal states where local demagogues have played on resentment against immigrants, notably in the lead up to Côte d'Ivoire's civil war.

In summary, phasing out agricultural protectionism by rich countries could help the development and security of poor nations. This is not to imply that reforming the world cotton market offers some instant solution for reviving Afghanistan's economy or weaning its farmers away from opium, but rich-country cotton subsidies certainly do nothing to help Afghanistan or other poor nations. Nor should we assume that further liberalization of world agriculture is without costs for the developing world, particularly the food-importing nations which will face higher world food prices if rich-countries cut their subsidies to food-producers (Laird *et al.* 2004). Whereas this will be to the benefit of surplus-producing farmers in developing countries, an increase in the consumer cost of food can cause real hardship for the poor and set off political discontent. The standard advice is to liberalize and simultaneously put in place social protection to offset the poverty-impact of higher food prices. But the track record in creating safety nets for the poor is very varied across countries, with the poorest countries generally experiencing the most difficulty.<sup>6</sup>

Although there is a strong case for viewing rich-country protectionism through a security lens, rich-country governments are reluctant to take such a view, and a narrow 'business as usual' interpretation of their domestic and commercial interests seems set to prevail. Thus in the case of EU cotton, producer subsidies are seen as an income-transfer mechanism (albeit a very inefficient one) to the lower-income regions of southern Europe—producer prices in Greece and Spain are between 144 and 184 per cent higher than the world price (Baffes 2003)—and this, rather than the impact on West Africa and other poor regions, is likely to govern EU policy. EU sugar-refining companies are also a strong lobby in Brussels for the continuation of domestic subsidies that benefit their industry. Similarly, there is no sign yet that US policymakers have reflected at all on the wider security impact of agricultural subsidies, and agribusiness remains highly influential; large growers receive three-quarters of the cotton subsidy and they are active lobbyists in Washington DC, for example. However, the larger developing countries, notably Brazil, are beginning to flex their muscles. 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.<sup>7</sup>

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<sup>6</sup> A somewhat different set of issues is raised by liberalization in manufacturing and services (see Guha-Khasnobis 2004).

<sup>7</sup> The quotation by the US trade representative is contained in Colitt and Alden (2004).

### 3 Global markets and global public goods

Just as a national economy cannot operate effectively without the provision of public goods, so the global market economy cannot be efficient (or fair) without global public goods (see Kaul *et al.* 2003).<sup>8</sup> The under-provision of public goods occurs at the global level for much the same reasons that it occurs within nations for, as Adam Smith noted in 1776, 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 gaps left by national markets. And the benefits of providing public goods obviously go beyond the purely economic—security, a healthier life, and environmental protection are important goals in their own right.

Global justice is one of the many global public goods that are chronically underprovided ('global justice' is used here as a shorthand term to cover law and order pertaining to the person, property, and contract i.e. the *instruments* of justice). Progress has certainly been made, notably through the creation of the International Criminal Court (ICC). And national judiciaries now co-operate more closely with international and regional courts; Slaughter (2004) detects in these networks the start of the globalization of justice. But there is a long way to go; the US has not ratified the ICC—and this is unlikely under the Bush administration—and the enforcement of international legal rulings is patchy at best, particularly those of the international war-crimes tribunals.

Greater provision of global justice, together with related public goods such as peace-keeping, would have large economic benefits aside from averting immense human suffering. The cost of a civil war in a typical developing country is at least US\$64.2 billion, including the value of the lost output as well as the value of the lost life and health (Collier and Hoeffler 2004: 135). 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. Second, the new institutional economics tells us that economic activity is inhibited by high transactions costs when the protection of the person and property is weak (North 1997). Private investment falls, and is distorted away from productive (and employment-generating) activities towards activity which affords a quick exit (trading in scarce goods, for example). These effects can persist for years when the end of the war is uncertain (presently the case in Liberia, with Charles Taylor still at liberty). Third, we have already referred in the previous section to the waste of resources in conflict-affected countries arising from corruption in the natural resource sector, particularly oil and gas, and the weakness of international law and enforcement in this area. Voluntary action through corporate social responsibility (CPR) under the scrutiny of civil society has been much emphasized of late. But CPR cannot substitute for a

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<sup>8</sup> Public goods are desirable goods and services which the market provides in too small a quantity or which are not provided at all. 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 (Kaul *et al.* 2003).

properly functioning global legal framework to regulate the international corporate sector, especially in conflict areas.

Our discussion has emphasized global justice as a crucial public good. But there are two other vital global public goods that we should note—albeit only too briefly—before moving on. First, global environmental protection remains chronically under-funded. Global climate change can destabilize societies and 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 weakening in overall state capacity is often associated with deterioration in the quality of public health institutions (Price-Smith 2002).<sup>9</sup> And violent conflict itself spreads HIV/AIDS and other communicable diseases (World Bank 2003). Thus Angola, Liberia and Sierra Leone have emerged from war with very high levels of HIV/AIDS; this strains their meagre health budgets even further and endangers the crucial task of reconstructing and reforming their state institutions.

### **3.1 Where will the resources be found to fund global public goods?**

We have already suggested that the provision of global public goods will be *resource-saving* by reducing the lost investment and output associated with war, as well as *resource-generating* by enhancing the efficiency of production and market-exchange. This applies not only to the conflict-countries themselves but to all countries, both rich and poor, whose economies (and budgets) increasingly bear the costs of conflict (for example, consider the resources now devoted to securing the global airline and shipping industries). In principle these benefits provide incentives for nations to make agreements to introduce international taxes to finance global public goods.<sup>10</sup> However, this argument assumes that: (i) countries recognize the benefits (ii) they are persuaded of the practicality of the taxes and the effectiveness of the resulting public goods and (iii) they do not instead adopt a strategy of free-riding on the efforts of others. These are all formidable problems.

What form could these international taxes take? This question is bound up with the larger issue of development finance—a debate reinvigorated by the 2002 UN Financing for Development Summit in Monterrey—and the even larger question of the UN’s role in international economic governance (Nayyar 2002). An analysis prepared for the UN General Assembly (Atkinson 2004) discusses the relative merits of global environmental taxes (a carbon-use tax), a tax on currency flows (the ‘Tobin tax’), and the principles of international taxation more generally. This study finds that quite modest rates of taxation will raise significant funds. Moreover, the carbon-use tax has a

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9 High infant mortality is a good predictor of state failure in cross-country empirical studies (King and Zeng 2001: 650).

10 In effect, once the supply of global public goods increases, the international community is taxing a portion of the resulting output to fund the on-going costs of public-goods provision.

‘double dividend’, not only reducing harmful climate change but also raising resources for further development spending. The ‘Action Against Hunger and Poverty Initiative’ of the Governments of Brazil, Chile, France and Spain also proposes international taxes together with voluntary measures by individuals and businesses to mobilize development finance (also discussed in the Atkinson 2004 study). However, the present US administration is firmly opposed to any form of international taxation as well as to any role for the UN in this area, while cautiously supporting some voluntary measures (such as private and corporate philanthropy).

Despite the present impasse on financing measures that require international collective agreement, considerable scope remains for individual nations or groups of nations to increase aid flows. 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 aid than at any time since the 1960s. Most of the aid-to-GNP ratios of the bilateral donors are below the UN’s target of 0.7 per cent; the average has fallen from 0.33 per cent of GNP in the mid-1980s to 0.23 per cent in 2002 (OECD-DAC 2004). After years of stagnation some progress is now being made; the UK proposal for an International Finance Facility (IFF) seeks to raise aid by ‘front-loading’ the increase and is supported by France and a number of G-20 group members (Mavrotas 2004). Given US equivocation over aid (its aid-to-GNP ratio is only 0.14 per cent) together with its reluctance to support multilateralism, many hope that the EU might exercise leadership on development finance and, more broadly, international economic governance. Atkinson (2002) proposes that the EU commit 1 per cent of its GNP to development assistance; that is 1 per cent of €10,000 billion—the resulting €100 billion would add substantially to the total level of aid (US\$52 billion) presently provided by OECD-DAC members. However, the EU’s over-restrictive fiscal rules (the ‘Stability and Growth pact’) reduces the chances of such a bold step in the near future.

Debt relief also has conflict and security dimensions. Conflict countries have accumulated substantial foreign debts as a result of past aid loans, together with international commercial borrowing (mostly by the oil economies which used oil as collateral). 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). Much of this debt is odious; accumulated by past dictatorships with little concern for the impact of the debt-servicing burden on the general population (Addison and Rahman 2004). In the case of Zaire (now the DRC) the United States, France and Belgium pressured the IMF and the World Bank to continue lending after it was apparent to all impartial observers that Mobutu was incapable of using the money for development purposes (Wrong 2000). 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 countries, largely disconnected from efforts by the African Union and UN to achieve workable and lasting peace agreements (Addison and Murshed 2003).

Will the additional resources from debt relief and increased aid be effectively used? The effectiveness of aid for developing countries as a whole has generated considerable debate, especially in the context of the Millennium Development Goals (MDGs) (see UNDP 2005, and McGillivray 2003 for an overview). There is now an equally lively debate on aid effectiveness in post-conflict countries: Addison (2004b) 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 tend to look back to the era of the cold war when aid allocations across countries were significantly influenced by the strategic objectives of the major donor countries, 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, at great cost to their countries. But this does not undermine the argument for *well-designed* aid; it only warns us what happens when aid policy becomes subsumed to the larger strategic goals of the donor country.

Still, the absorption problem remains and must be taken seriously. The ability of countries to absorb increased *external* resources can only be fundamentally improved as the capacities of recipient states improve, and as democratic governance is built (transparency in revenue and spending allocations with parliamentary oversight, being the most critical dimensions). This in turn requires growth in *domestic* revenues which, as we argued earlier, in large part depends on achieving trade-led growth—and therefore on reducing obstacles such as rich-country protectionism. Hence aid effectiveness, and therefore the decision on what should be its appropriate volume for each recipient, cannot be separated from the larger issues of how poor countries interact with the global economy.

#### 4 Conclusions

Some readers may well feel that the analysis and prescriptions offered in this paper do not go far enough, and that some more thorough overhaul of global capitalism is required—perhaps involving *less* engagement by developing countries with the global economy. Certainly, I have put forward what is largely a technocratic agenda, seeking to advance reform of the global economy as it now stands, and have argued the case for more global integration not less. But the paper also makes the argument for changing the nature of the way in which poor countries, particularly those in transition from conflict, interact with the global economy; with an emphasis on directing export-revenues in resource-rich countries to development tasks, tackling corruption’s ‘supply-side’, and reducing rich-country protectionism in agriculture. And the paper emphasizes the importance of providing global public goods to fill the serious gaps left by global markets, and the urgent need to mobilize finance for their provision as well as for development assistance more generally. Achievements in these areas would take us considerably further than we are at present—and in that sense the prescriptions in this paper offer a radical (albeit liberal) agenda for change.

One of the principal arguments of this paper is that economic growth is necessary for state-building—since growth delivers a rising revenue-base—and that trade, for small countries where most of the last decade’s civil wars have taken place, provides an important source of growth if carefully managed. This is of course a very broad statement. Historically, countries with effective trade-led growth strategies show considerable variation in the blend of state and market used. Outward-orientated development strategies can consist of low protection of the domestic market (to encourage exporting), direct subsidies to exporters, or import-protection combined with implicit export subsidies—profits from domestic sales being then reinvested in an export-drive (as South Korea did during its phase of fast industrialization, following reconstruction from the 1950-53 Korean war). Today WTO membership and rules imply considerably less scope for using import protection and subsidies as part of a

development strategy. Irrespective of this, translating lessons from East Asia's success stories into contemporary development strategies needs considerable care, not least when it comes to small countries with weak states.

Moreover, it is a broad statement to say that peace can be promoted by more economic growth in the developing world. Indeed, some may say it is a leap of faith. Certainly, I do not wish to deny the importance of good politics to steer grievances into peaceful channels for their expression and resolution. But reducing grievances depends on having a state that is effective enough to deliver on the political promises: better public services and infrastructure to reduce regional and ethnic income inequality, for example. And that depends on achieving revenue-growth which in turn requires economic growth to deliver a rising tax base. For sure, the whole structure of revenue collection and public expenditures usually requires comprehensive overhaul but again the effectiveness of that system to run the public finances is inherently part of state-building—and therefore the system itself needs revenues for its construction. Nor must growth be bought at any price: environmental destruction undermines livelihoods and therefore growth itself, and can be a major source of social conflict in its own right.

Finally, although broad-based (poverty reducing) recovery needs an effective state, state-building does not in itself create peace—either domestically or with neighbours. Thus countries with stronger states than those in Africa have experienced civil war or have regions attempting secession (Sri Lanka, and Kashmir in India, for example). Eritrea and Ethiopia built more effective development states over the 1990s and then went to war with each other in 1998-2000 and while the states of Rwanda and Uganda are now more developmental than in the past, their relations remain tense, not least over the DRC. Reflecting on European history, Tilly (1985) reminds us that 'war makes the state, and the state makes wars'. It would indeed be a paradox if state-building in poor countries became associated with greater inter-state conflict, and less civil war. For this reason at least, the world needs better frameworks and institutions to contain wars between states.

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