

## **The Economics of Conflicts (Civil War, Terrorism and Separatism): Selected Issues, Findings and Preliminary Lessons<sup>1</sup>**

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### **Introduction**

There were 225 armed conflicts from 1946-2001, 34 of which were active in 2001. This indicates that the termination of the so-called "cold war" did not end fighting and the slaughtering of people. More than 90 percent of conflicts take place within countries; they are civil wars.<sup>4</sup>

The causes of armed conflicts have been studied by academia and international organisations. The factors explaining conflicts are manifold. They include political ambitions and frustrations, domestic and foreign economic interests, institutional and social conditions, geo-political factors and ideology.

Analytical and empirical work on the economic roots of conflicts is growing. For instance, the World Bank research programme, "The Economics of Civil War, Crime and Violence" is far from being purely academic, and indicates "implications for policy". Some studies concentrate on the conditions for ending conflict, the consolidation of post-conflict peace and prevention. Sets of early warning indicators are proposed. Terrorism is also perceived as a conflict, with the "privatisation of war", and the economics of separatism becoming research topics.

Armed conflicts require weapons. Their avoidance necessitates disarming and fighting the trafficking of weapons, which has economic dimensions with the imposition of strict controls on exports and imports, the conversion of defence-related industries, the reduction in size of armed forces and the re-insertion in civil life of former combatants.

Despite the accumulation of important analytical works, empirical evidence and recommendations for action, it seems that the academic and research community has little

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<sup>4</sup> Nils Petter Gleditsch and al., "Armed Conflict 1946-2001: A New Data Set", *Journal of Peace Research*, Vol. 39, Issue 05, 1 September 2002.

impact on rulers, politicians and decision-makers.<sup>5</sup> We hope that this article may contribute to the bridging of analysis, policies and international co-operation.

## 1. The economic analysis of conflicts

### 1.1. Methodological remarks

*Defining conflict.* According to Steven L. McShane, a conflict is "a process in which one party perceives that its interests are being opposed or negatively affected by another party".<sup>6</sup> Another perspective sees conflict in the broad spectrum between peace and war; it ranges between random or planned, from unexpressed hostility to physical violence, with identified enemies or not, and different level of stress for the population.<sup>7</sup> Such definitions may help for pre-selecting events. Tensions between groups or states, civil wars, terrorism and separatism can be seen as conflicts. For empirical research, these definitions have to be complemented by precise criteria that allow for measurement.

*Proposed criteria and measures.* An armed conflict requires the use of armed forces between (at least) two parties resulting in the death of people. The Correlate of War (COW) data set on civil wars, developed by the University of Michigan, is based on four criteria: (1) the involvement of military action, (2) the number of deaths during the conflict (the threshold is 1000 deaths from hostilities), (3) the active involvement of the government, (4) the effective resistance of both sides. Experts from Uppsala University propose an alternative to COW data. They draw a line between "minor conflicts" with 25 to 1,000 battle-related deaths and (true) wars with a minimum of 1,000 death *per annum*, etc.<sup>8</sup>

*Evaluating data.* According to Paul Collier and Anke Hoeffler, definitions are essential, especially for measuring the duration of conflicts. Defining human costs can be difficult because violent and lasting conflicts interrupt the functioning of institutions, resulting in the destruction of basic infrastructures and the disruption of basic and regular economic activities, causing hunger, facilitating the spread of diseases and, in some instances, raising

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<sup>5</sup> A. Mack, "Civil War: Academic Research and the Policy Community", *Journal of Peace Research*, Vol. 39, Issue 05, 1 September 2002.

<sup>6</sup> Web-document (1/10/01).

<sup>7</sup> See Stephen R. Marsh, "Mediation Services" Web-site.

<sup>8</sup> For an critical overview, see P. Collier and A. Hoeffler, "Data Issues in the Study of Conflict", Paper prepared for the Conference on "Data Collection on Armed Conflict", supported by the European Commission, Uppsala 8-9 June 2001.

the death toll to phenomenal levels. Thus, a distinction should be made between direct and indirect deaths. There is also a lack of reliable data on military expenditures.<sup>9</sup>

### *1.2. Basic figures and tendencies*

The Uppsala University data contains a total of 204 armed conflicts over the years 1946-1999: 145 are intra-state conflicts (they can be called civil wars), 18 had external involvement of foreign states. 104 conflicts could be seen as wars. 87 conflicts were minor conflicts. The evidence provided in the annex (see figure 1) shows that the termination of the "cold war" had some immediate impact on the number of conflicts. In 1999, the situation was comparable to what was observed at the end of the 1970s.

### *1.3. The analysis of civil wars*

*Causes of civil wars.* Most often, it is believed that rebellion is a protest because of grievance. Such views partly reflect the discourse produced by rebels and the media. The evidence indicates that "greed" is often mixed with "grievance". Rebel leaders may compromise when being offered a "share of the pie", most often receipts from the extraction and exports of raw material and minerals. Thus, countries that have a high share of GDP and exports coming from primary commodities are more conflict-prone than others, which have a diversified economic base. Other important factors are low average incomes, slow growth, and large diasporas (in rich countries). The success or failure of insurgent forces depends on their capacity to raise funds, which is often linked to illicit activities such as the trafficking of drugs and, subsequently, money laundering, which underlines the importance of financial factors. Pure grievance indicators, i.e. inequality, political repression and the lack of democracy, and ethnic and religious divisions, do not matter much for explaining civil wars.<sup>10</sup>

*The scale of civil wars.* The scale of a conflict has various dimensions; one is its duration. Other dimensions are geographical coverage, the number of deaths and refugees, and so-called "internally displaced persons". Duration is essential because, from a policy perspective, what matters is how to (contain and) end a conflict. Traditional models assume that the benefits of civil war accrue only upon victory. In fact, the conflict itself can be a source of benefits. The evidence indicates that the duration of a conflict partly depends on the

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<sup>9</sup> P. Collier and P. Hoeffler, op. cit.

<sup>10</sup> P. Collier, "Economic Causes of Civil Conflict and their Implication for Policy", World Bank, June 15, 2000.

relative importance of ethnic groups (that can have access to specific sources of incomes during the conflict) and has little to do with the causes of the conflict *per se*. In other words, the conflict has its own inner logic that has to be understood and addressed for terminating it.<sup>11</sup>

#### *1.4. Funding and cost aspects of civil wars*

A first source of funding insurgency is obtained from the control of primary resources and trafficking. "A second potential source of rebel finance is from diasporas living in developed countries... There are several reasons to expect that diasporas would increase the provision of finance for rebellion, [including the fact that they] are usually much richer than the population in their country of origin... A third potential source of rebel finance is from hostile governments... A further potential influence on rebel costs is the presence of accumulated physical, human and organisational capital. If a country has previously had a rebellion [e.g. against Soviet occupation in Afghanistan] there will be a stock of guns, former rebels who know how to use them and probably a persistent, if quiescent, rebel organisation."<sup>12</sup>

## **2. The analysis of terrorism**

### *2.1. Terrorism as conflict*

Already in the 1970s, experts predicted that "the dispute about a detailed, comprehensive definition of terrorism will continue for a long time, (it) will not result in the consensus and (it) will make no notable contribution towards the understanding of terrorism".<sup>13</sup> More recently, an official report on world terrorism underlined that "no one definition of terrorism has gained universal acceptance".<sup>14</sup> Nevertheless, considering the definitions of conflict provided in section 1, we can assume that terrorism is a conflict. Moreover, the absence of a common definition of terrorism did not prevent organisations and researchers from collecting

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<sup>11</sup> P. Collier, A. Hoeffler and M. Soderbom, "On the Duration of Civil War", World Bank, May 2001.

<sup>12</sup> P. Collier and A. Hoeffler, "Greed and Grievance in Civil War", January 4, 2001.

<sup>13</sup> Omar Malik, *Enough of the Definition of Terrorism*, Royal Institute of International Affairs, 2001.

<sup>14</sup> abc News.Com, Oct. 11, 2001.

data and information about the phenomenon. Given its magnitude and historical significance, we shall refer to "September 11" (or "9/11").

## 2.2. *The Analysis of terrorism*

*The changing nature of terror.* From the 1960s until the late 1980s the main motives for terrorism were nationalism, separatism, Marxism, etc. The 1990s saw the emergence of religious factors. When counting terrorist groups, the proportion of religious groups is increasing overtime. This change corresponds to new behaviours and outcomes.<sup>15</sup>

*Enders-Sandler's analysis of terrorism.* "A terrorist group must first decide its allocation of resources between terrorist and non-terrorist activities. Next the group must allocate its terrorism-designed resources among various modes of attack. ... A risk-loving group will attempt more risky operations, whose expected payoffs in terms of their impact on the targeted audience are greater and whose prices are also higher to the perpetrators than those executed by a risk-averse group. ... The increased proportion of fundamentalist religious groups and fanatical groups that are not averse to risks among the active terrorist groups in the post-cold war period is expected to increase the proportion of risky and logistically complex incidents undertaken... [The statistical analysis of time series indicates that] although the number of incidents has dropped dramatically during the post-cold war period, transnational terrorism still presents a significant threat... In recent years, [incidents are] more likely to result in death or injuries".<sup>16</sup> "9/11" does support that perspective. Incidents also tend to display cyclical patterns. Basically, when considering the number of deaths, there are two very long cycles: a primary cycle of 58.18 quarters (or about 15 years) and a secondary cycle of 23.98 quarters (6 years).<sup>17</sup>

*Specificity of suicide-terrorism.* Confined until recently to a few countries, suicide-terrorism may represent a specific category that requires more analysis and research for understanding and elaborating preventive and reactive counter-measures.<sup>18</sup>

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<sup>15</sup> W. Enders and T. Sandler, "Is Transnational Terrorism Becoming More Threatening", *Journal of Conflict Resolution*, Vol. 44, No. 3, June 2000.

<sup>16</sup> W. Enders and T. Sandler, op. cit.

<sup>17</sup> For reference data, see figure 2 in annex.

<sup>18</sup> See R. Gunaratna, "The Employment of Suicide in Terrorism and Guerrilla Warfare", in *"Vers une privatisation des conflits?"*, Fondation pour la Recherche Stratégique, Recherches & Documents no. 22, Avril 2001.

*Root causes of terrorism.* Poverty in the Third World and US foreign policy were mentioned as explanations for "9/11". Considering the evidence, the 19 suicidal terrorists and Bin Laden himself were not poor and uneducated. In their cases at least, fanaticism and hate were major motives.<sup>19</sup> Nevertheless, in some regions of the world poor economic conditions and social despair may lead to extreme behaviours.

### 2.3. *The financing of terrorism*

*The Importance of Fund Raising.* As indicated by World Bank studies, the capacity to raise funds is essential for supporting organised violence. Considering "9/11", formal and informal banking were used to channel illicit funds.

*Informal Finance.* According to *Washington Post* journalists, we should not expect too much from investigations and the control of formal financial flows and banking operations.<sup>20</sup> In the "9/11" case, what the Bin Laden's group did most often was providing seed money to terrorist cells and asking them to rely progressively on their own resources. Raising money was done through petty crime acts such as theft and credit card fraud. Such crimes do not normally attract much attention. Besides activities aiming at self-reliance, crime-related money transfers do not often use formal transaction channels, informal banking could even be the rule.<sup>21</sup>

*Formal Finance.* Despite some pessimism, within a few months after "9/11", more than \$100 millions had been seized in terrorist-related assets and bank accounts. The FBI reviewed at least 200,000 documents and 10,000 accounts. Most countries of the world supported US investigations and actions. Some financial operations and bank accounts can be associated with money laundering.

### 2.4. *The Economic costs of terrorism*

Terrorism causes death and devastation. As illustrated by "9/11", a line can be drawn between micro and macro-costs. Global and long-term costs should also be taken into consideration.

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<sup>19</sup> H. Dalle, "Poverty and Terrorism", *The Washington Times*, 2/20/2002.

<sup>20</sup> R. O'Harrow Jr., D. Hilzenrath and K. De Young, "Bin Laden's Money Takes Hidden Paths to Agents of Terror", *The Washington Post*, Friday, September 21, 2001, Page A13.

<sup>21</sup> The Arabic word *Hawala* "refers to money transfers, regardless of how it is made", it is based on mutual trust and personal relationship, and might even be faster, cheaper and more reliable than formal banking.

*Micro-costs.* According to the Swiss Reinsurance Company, "9/11" costs an estimated \$90 billion, of which \$19 billion was insured.<sup>22</sup>

*Macro-costs.* IMF experts also estimated the economic cost of "9/11". The conditions of the world economy by mid-2001 were taken into account and a multiplicity of channels through which the attacks should affect the world economy was considered. The direct costs for the US are estimated at about \$21.4 billions. As many of the policies were insured abroad, there should be a net inflow to the US of \$11 billion. Nevertheless, "It is impossible at this stage to provide firm evidence on all of the channels by which the September 11 could affect long term potential". Only rough estimates can be provided. "The loss of output from all sources could be as much as ¾ percent of GDP".<sup>23</sup>

*Global costs.* The costs of "9/11" are certainly not limited to the US. Millions of people around the world may also endure its consequences on trade and growth.

*Long-term costs.* Following "9/11", border controls have to be strengthened and streamlined. That implies investing in equipment and personnel, and also delaying the crossing of borders for goods and people, which may impede global trade and create additional costs for public bodies and business.

### **3. The case of separatism**

Civil wars generally aim at toppling down ruling authorities and replacing them by new ones, with no change of international borders. They may also correspond to separatism and lead to independence for territories that can secede. Both the separation process and, when separatism is "successful", separated regions and supportive interest groups have economic dimensions that are worth analysing for peace and security reasons, during and even after open conflicts.

#### *3.1. The quest for separation*

The causes of separatism are manifold. They can be ethnic, cultural, ideological and political. There are also socio-economic factors. Social inequities, including horizontal economic inequalities among ethnical and national groups within a country, are often mentioned as a

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<sup>22</sup> National Center for Policy Analysis, "Global Disaster Losses Reach \$115 Billion in 2001", *Daily Policy Digest*, Friday, December 21, 2001.

<sup>23</sup> IMF, *World Economic Outlook – The Global Economy After September 11*, December 2001.

factor that feed separatism.<sup>24</sup> Moreover, when a region disposes of large mineral, oil or gas deposits, one may assume that there is a strong material incentive for separatism, particularly among the elite. External private or public interests may exacerbate tensions by supporting separatist movements and weaken the central authorities. Separatists may resort to criminal activities such as the trafficking of drugs, weapons and people for funding their political and armed actions. Diaspora workers might also be subjected to pressures to surrender part of their incomes to separatist organisations. Some diaspora entrepreneurs are also willing to support separatism or are sometime the victims of racketing. More research is needed to strengthen conclusions about the mechanisms and the institutional framework of separatism. Nevertheless, there is plenty of factual evidence showing that the recourse to criminal activities does not easily end, even if separatism is successful. That implies that some structures will take time to disappear -- there is a conversion challenge!

### *3.2. The economy of separatist regions*

When separatism is successful, separatist regions may be fully recognised by the international community and particularly by former rulers. In that case, one may assume that there will be a progressive normalisation of economic activities. However, very often, separated regions do not gain international recognition and economic and social conditions remain harsh, which stimulates illicit activities that may eventually become serious threats for the international community.

*Blockade.* The experience of Abkhazia shows that when separated regions are confronted with an official blockade imposed by the legally recognised political centre and the international community, it may worsen economic conditions and strengthen authoritarian tendencies. Living standards can fall to very low levels, far below what it could be without separatism. Most of the local and regional meagre budget is used for military purpose.<sup>25</sup> Despite official blockade, one may assume there is smuggling and trafficking taking place between the separatist region and the rest of the world. Moreover, the separatist region may become a permanent or provisory heaven for criminals and eventually terrorists.

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<sup>24</sup> For more details, see Dean E. McHenry, Jr., "Accounting for the Absence of General Explanation of Separatist Movements in Federal System: An Argument based on Four Indian New State Movements", Paper prepared for the 1999 Annual Meeting of the American Political Science Association, Atlanta, September 2-5.

<sup>25</sup> R. Gotsiridze, "The Economic Situation in Blockaded Abkhazia", *Central Asia and The Caucasus*, Centre for Social and Political Studies (Sweden), No. 6 (18), 2002.

*Partial isolation.* Contrary to Abkhazia, Nagorny Karabkh has been capable to maintain linkages with foreign countries, including Armenia. That region also benefited from US aid for a short period of time at least; US support went principally into the social sphere. NGOs were also involved. The authoritarian regime fell in 1999, and despite the state of emergency, priority is now given to the development of civil society, democratisation and liberalisation.<sup>26</sup>

*No single model.* The two examples of separatism indicate that there is no single model of the economy in separated regions. However, isolation does not necessarily help reducing tensions and resolving political problems. On the contrary, a blockade seems to impede the development of civil society and democracy, and allow for military-type regimes that do not favour constructive dialog between belligerents. Maintaining links with the outside world may possibly create opportunities for democratisation and represent a positive base for future negotiations aiming at reconciliation and durable peace.

#### **4. Conflict prevention and resolution**

##### *4.1. Early warning indicators*

Conflict prevention requires the monitoring of critical regions and countries. For that purpose, sets of indicators have already been proposed. For instance, the European Commission has elaborated an extensive "Check-list for Root Causes of Conflict" that includes: legitimacy of the State, rule of law, respect for fundamental rights, civil society and media, relations between communities and dispute-solving mechanisms, the geopolitical situation and socio-economic indicators. The latter comprise an evaluation of the robustness of the economy, macroeconomic stability, sustainability of the environmental policy, social and welfare policy, regional policy within a country, etc.<sup>27</sup>

##### *4.2. Political dimensions*

Addressing the economic root-causes of conflict cannot only rely on pure economic measures. The successful implementation of sound economic policies needs political support for being legitimated and, as a result, help make the overall environment more stable and predictable for both citizens and the business community.

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<sup>26</sup> N. Airumian, "Postwar Economy of Nagorny Karabakh", *Central Asia and The Caucasus*, Centre for Social and Political Studies (Sweden), N0. 6 (18), 2002.

<sup>27</sup> European Commission, External Relations website.

*Sharing of power.* As already mentioned, ending conflict often requires new power structures and allows for the participation of all stakeholders in the ruling of a country. Political and administrative reforms could be envisaged to institutionalise the changes and fully integrate major actors into power structures. In this context, democracy is essential.

*Democratisation.* Many conflicts take place in countries characterised by a lack of democracy and extremely poor records in terms of observing and respecting human rights. The adoption of democratic rules that allow for a full representation of the people should contribute to stability. There would be what is called "democratic peace". It is worth observing that when being confronted with hostile environments and armed conflicts, democracies appear as extremely resilient, which is not the case of autocratic regimes, fundamentally unstable.<sup>28</sup>

*Federalism.* There might also be a need for new political and institutional schemes allowing for a redistribution of political power within conflicting countries -- that relates to de-concentration, decentralisation and devolution. In some cases, replacing centralised States by federations or confederations may represent reasonable options for ending conflicts and appeasing tensions. Such political arrangements must be accompanied by adequate budgetary and fiscal structures that allow for income redistribution, from the richest to the poorest regions. That expresses solidarity and builds up confidence among people.

#### 4.3. Long-term sustainable growth

Alleviating poverty, increasing incomes and reducing inequalities require economic growth. For that reason, growth-conducive strategies must be adopted and corresponding measures and policies should be implemented. Above all, the quality of public and private governance must be enhanced.

*The meaning of good governance.* Good governance corresponds to mechanisms, processes and institutions through which civil society, citizens and the business community can articulate their views and needs, mediate their differences and exercise their rights and duties.

*The importance of good governance.* Widespread corruption in the political spheres and in the administration may trigger tensions and even armed opposition and, therefore, should be addressed accordingly.<sup>29</sup> Good governance necessitates improving the management of public

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<sup>28</sup> M. Mousseau and Y. Shi, "A Test for Reverse Causality in the Democratic Peace Relationship", *Journal of Peace Research*, Vol. 36, No. 6, 1999.

<sup>29</sup> "Political corruption" is relatively hard to reduce because, in some cases, the heads of states directly benefit from it.

resources, rationalising the budgetary process and adopting new administration techniques in governmental bodies.

*Macro-economic stability.* Economic stability is a precondition for stimulating investment, economic growth, employment creation, higher incomes and better living conditions for all. Successful macro-economic policies require the adoption of modern national accounting methodology, the disposition of adequate statistical databases and indicators, and the implementation of sound budgetary and fiscal policies. Overall, Macro-economic stability corresponds to limited budget deficits and sustainable levels of public and private (internal and external) debts, low inflation rates, balanced external accounts and stable exchange rates, while guaranteeing the convertibility of the domestic currency, for current account transactions at least.<sup>30</sup>

*Private sector development.* The creation of small and medium enterprises should be seen as a priority. SMEs are often the main source of job creation, employment and earning for most of the working population. In many countries, the number of legal documents, licences and authorisations, required for starting new businesses should be limited and corresponding procedures should be simplified. Efficient banking and financial markets are needed to mobilise domestic savings and allocate them.

*Sustainable development.* Long-term growth and development requires the adoption of measures and policies that favour social justice and takes into consideration environmental and natural resources constraints. The wellbeing of future generations should be taken into account.

*Private governance.* The business sector must be associated to stabilisation and long-term development efforts. The fight against corruption must reflect the wish and the co-operation of business people, in countries that have been wrecked by war and elsewhere. The involvement of private business in conflicts should be severely reprimanded in all countries. Multinationals could eventually be associated to the prevention of conflict and post-conflict reconstruction.<sup>31</sup>

#### 4.4. *The foreign trade issue*

As indicated by World Bank studies, countries that have a high concentration of economic activities and exports on a few primary products are more conflict-prone than other countries

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<sup>30</sup> Which is in line with the obligations of Article VIII of the IMF Articles of Agreement.

<sup>31</sup> There are initiatives for involving large companies in conflict prevention activities.

that have more diversified export structures. The logical implication should be advocating and fostering development strategies and policies that may broaden the range of economic activities and exports. Many developing and conflict-prone countries are members of the World Trade Organisation. For those countries, economic diversification policies, relying on direct and indirect subsidies, might conflict with WTO rules. Moreover, from an historical perspective, when developing countries promoted import substitution strategies, it often led to external imbalances and sometimes unbearable external indebtedness, namely so-called "debt trap" situations where new borrowings are needed to repay old ones. Export promotion policies might look more appealing. But, in that case also, one should ensure that it does not lead to countering measures (with the use of safeguard, anti-dumping or countervailing instruments) and negative actions within the WTO framework. In other words, the room for manoeuvre is limited and should rely on market forces and transparency. For that reason, as already mentioned, priority must be given to enhancing the business and investment climate by imposing the rule of law and enhancing the quality of governance, possibly with foreign technical assistance.

#### 4.5. Combating terrorism

*The dilemma of policy response.* "The rise of religious terrorism in which massive civilian casualties are the goal poses a potential dilemma ... for policy. If a government responds by tightening security at official sites ... its civilian targets will become *relatively* less secure. Destroying even a large portion of a group may not ameliorate the dangers for long, because the remaining fanatical members may attack with even greater resolve and vengeance."<sup>32</sup> In the US case at least, taking into account the termination of the cold war and given the size of the defence budget (above USD 400 billion in 2003), one may wonder if such a dilemma does exist. In less affluent countries, the dilemma might be real.

*Comprehensive Perspective.* The fight against terrorism must be global, directly or indirectly, and comprehensively involving all countries. That means using several instruments, including diplomacy, the legal and criminal system, freezing and seizing financial assets, countering money laundering, police and military force, and intelligence. Social and economic roots should be also addressed with adequate instruments and policies.

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<sup>32</sup> W. Enders and T. Sandler, op. cit.

*Short-Term versus Long-Run.* Following a terror act, the immediate priority is reaction to arrest and neutralise those who share responsibility. The epidemic nature of criminal behaviours must be also recognised and addressed accordingly. In the long run, prevention becomes essential. Terrorism can be a managed problem, under control and containment.

*Addressing suicide terrorism.* Suicide terrorism requires specific policy responses, with a focus on economic and social roots, but also to identify those who recruit, indoctrinate, and provide material and financial support. In that respect, the economics of crime based on the seminal article of Nobel Prize Winner G. Becker, which assumes that individuals are rational and before starting criminal activities they calculate, might help.<sup>33</sup> Considering suicide-terrorism, a few variables are certainly important for sponsors, namely: the size of the reward (in the case of terrorism, the satisfaction provided by the killing of people and the destruction of assets), the probability of being killed, or caught and convicted, the severity of punishment, and the wellbeing provided by competing legal activities.

*Money Laundering.* Terrorist organisations rely on money laundering. Money laundering can be facilitated by many factors, including inappropriate banking and financial legislation, the globalisation of financial markets and the special status of some territories. Subsequently, much effort is needed to improve and tighten controls on financial systems. The complex task of controlling illicit funds is already supported by the private sector itself with the introduction of specific computer programmes to detect suspicious operations and the use of “black lists” on “risky clients”. The recommendations of the Financial Action Task Force (FATF) on money laundering and the financing of terrorism are generally recognised as appropriate standards. In that respect, the IMF is already taking measures for integrating FATF recommendations into its current work.

#### 4.6. *Coping with separatism*

*The role of diasporas.* Very often, diasporas harbour myths and romantic emotions about their regions of origin. When they become richer, they can finance armed groups and support open conflicts. "Above all, they do not have to suffer any of the awful consequences of renewed conflict".<sup>34</sup> For that reason, it is essential to work actively with diasporas for stopping conflicts and building peace agreements.

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<sup>33</sup> G. Becker, “Crime and Punishment: An Economic Approach”, *Journal of Political Economy*, Vol. 76, No. 2, March-April 1968.

<sup>34</sup> P. Collier, *op. cit.*, p. 14.

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*"Softening blockade?"* Considering the two examples of separatism provided in this text, the impression is that an improvement of economic conditions in a separatist region should have a positive impact on social conditions, which could eventually soften the attitude of the people regarding a peace process. In other words, blockades should be selective and not comprehensive.

*Cutting supply lines.* The funding of separatism has to be addressed, particularly for extremist groups that categorically refuse any dialog and political processes. The active role of foreign supporters and suppliers cannot be ignored too.

#### *4.7. Disarming*

There cannot be armed conflicts without weapons. There are significant positive relationships between arms sales and trafficking, and conflicts. According to the International Action Network on Small Arms (IANSA), "more than 500 million small arms and light weapons are in circulation around the world and are considered the weapons of choice in 90% of conflicts". Disarmament and decommissioning are complex and difficult tasks that can also be very costly.<sup>35</sup> International co-operation is therefore needed. Moreover, the trafficking of arms must be combated firmly by the international community. The legal commerce of arms should also be a focus of action. Unfortunately, there are formidable vested interests in both the production and exports of all sorts of weapons and munitions. In post-conflict zones, it is essential to reintegrate fighters into a normal civil life. That may require well-targeted training and education programmes. Mercenaries should also be discouraged to offer their services to private armies and eventually be punished for doing so.

#### *4.8. Foreign intervention*

The use of force by the international community is a radical option for ending a civil war. Nevertheless, diplomacy should first prevail. The overall human and economic costs of a military action should be put in perspective, in comparison with possible peaceful solutions that may allow for true reconciliation.

#### *4.9. International co-operation and foreign aid*

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<sup>35</sup> See the website of the United Nations Institute for Disarmament Research (UNIDIR) for relevant information about weapons, their trafficking and disarmament.

*Promoting contacts and dialogs.* "On the international level, there must be concerted efforts to expand favourable contacts between people from different groups and nations".<sup>36</sup> Dialogs are pre-conditions to understand and respect others, and build bridges between nations, cultures and civilisations.

*Education.* "In the twenty-first century it will be necessary in child raising to put deliberate, explicit emphasis on developing pro-social orientations and a sense of worth based not on depreciation of others but on the constructive attributes of oneself and others".<sup>37</sup>

*Economic and technical assistance.* There is evidence about the positive link between foreign aid and post-conflict peace.<sup>38</sup> Massive aid will help populations to secure minimum standards of living and restore key-infrastructures. Technical assistance is needed for institutional development, adopt new legislation, enhance the quality of governance, and support civil society and democracy. Private sector promotion should be a priority, especially small and medium businesses, i.e. the backbone of a genuine middle-class.

### **Final remarks**

The analysis of conflicts has already produced a remarkable number of documents. Civil wars are the focus of research in several international organisations, particularly the World Bank and the UN. These studies show that economic factors may trigger armed conflicts. "Greed" is as important as "grievance". Trade concentration on a few primary commodities is also a risk factor, which should be reduced by improving the business climate and attracting foreign investors.

Considering terrorism, analytical studies already underlined growing threats for which there must be adequate responses to address root-causes. In the short and medium term, affluent societies will have to continue to fight against fanatic ideologists, facilitators and sponsors. Much importance must also be given to the financial aspects of terrorism.

Separatism is one of the most controversial and sensitive issues in the international political and diplomatic arena. Nevertheless, the social, economic and political costs of separatism can be tremendous and should be documented and weighted against the potential benefits of reconciliation and stable peace. The research agenda on conflicts should include

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<sup>36</sup> David A. Hamburg, "Preventing Contemporary Inter-group Violence", paper presented at the USAID January 2001 Conference on "The Role of Foreign Assistance in Conflict Prevention".

<sup>37</sup> David A. Hamburg, op. cit.

<sup>38</sup> See, for instance, World Bank publications.

new items such as the analysis of the full economic and social costs of separatism and the best conditions for terminating related conflicts and bringing together parties.<sup>39</sup>

Conflict prevention is as important as post-war peace. Conditions for both must be strengthened. Beyond economic issues, educating young generations is certainly a key-factor contributing to peace and should include elements of shared values such as democracy and human rights. Self-respect must be associated with an understanding and appreciation of others' culture, including religion and language.

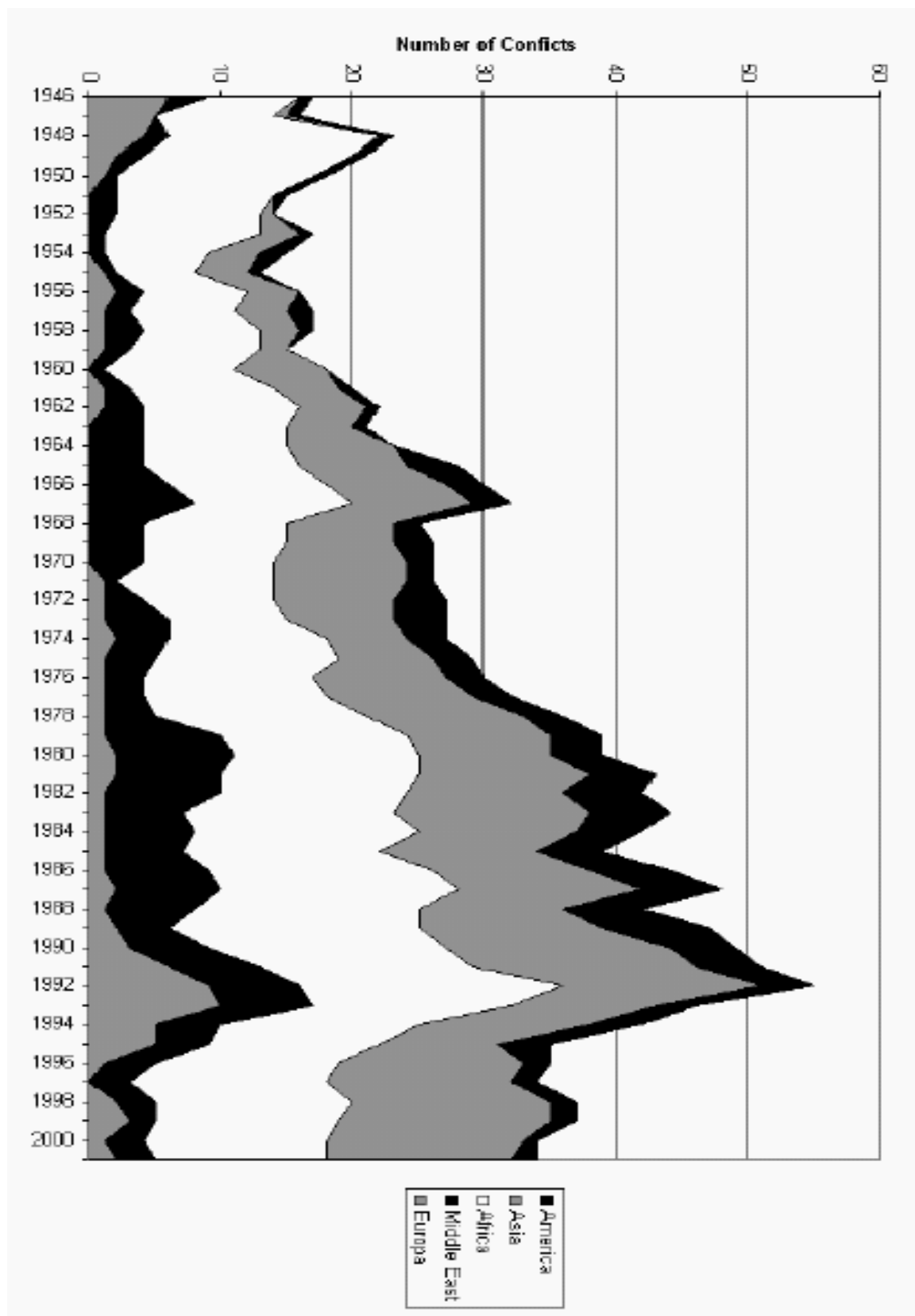
In conclusion, naïve optimism should be avoided and pragmatism should prevail. The political, social and economic root-causes of conflicts can be very resilient and determination, time and resources are needed to eradicate them -- assuming it can be done! Priority must be given to financial aid and technical assistance to conflict prone regions, with a focus on minorities, vulnerable groups such as the unemployed youth and stateless nations.

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<sup>39</sup> See D. Fischer and J. Brauer, "Twenty Questions for Peace Economics: A Research Agenda", paper prepared for a special issue of *Defence and Peace Economics*, April 2002.

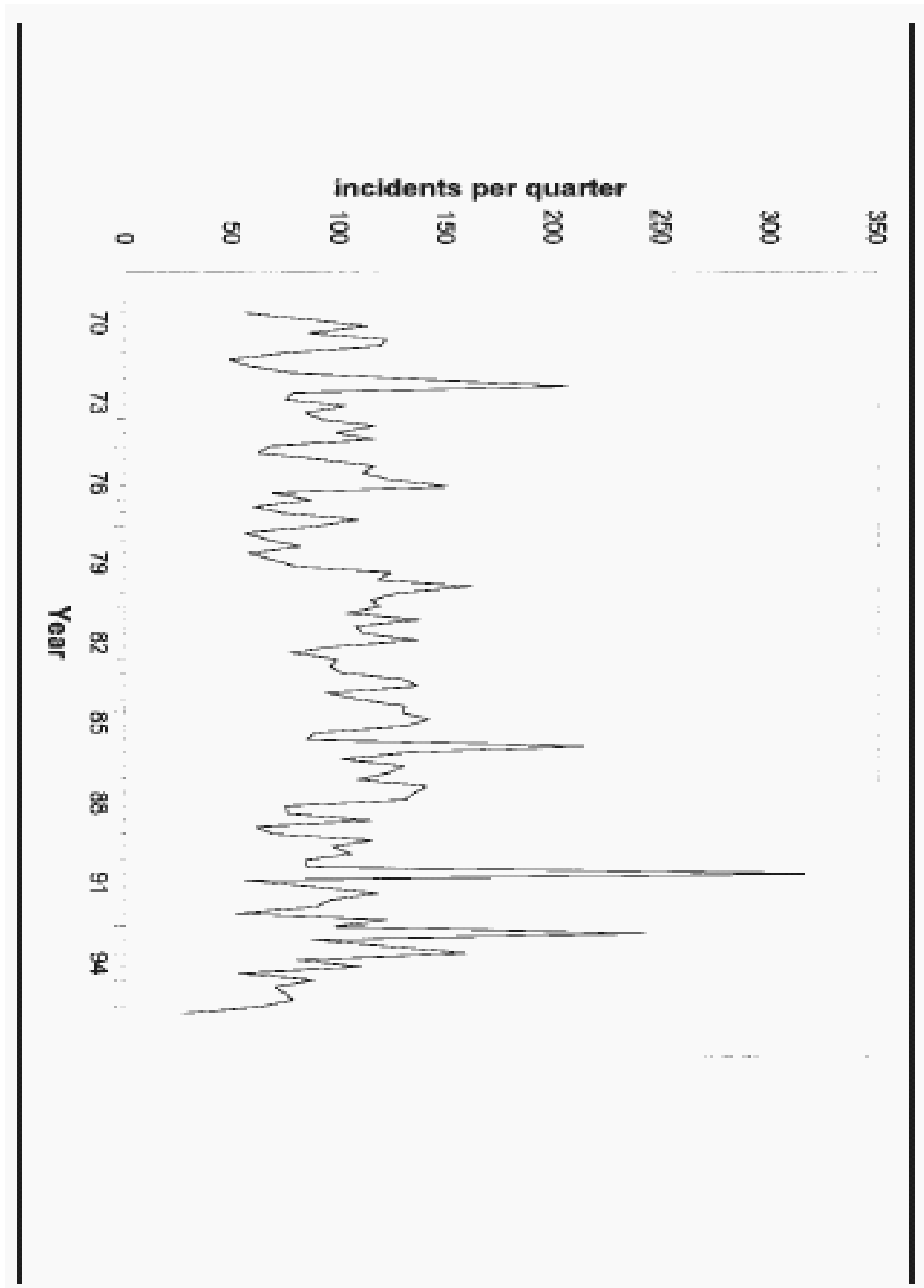
26-May-04

**Figure 1: Number of Armed Conflicts by Region, 1946-2001**



\*Source: Nils Petter Gleditsch et al, "Armed Conflict Dataset Codebook". International Peace Research Institute, Oslo (PRIO) Ver. 1.0, September 1, 2002.

**Figure 2: Total Number of Terrorist Incidents per Quarter, 1970-1994**



\*Source: W. Enders and T. Sandler, "Is Transnational Terrorism Becoming More Threatening? A Time-series Investigation", *Journal of Conflict Resolution*, Vol. 44 No. 3, June 2000, 317.