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Program on
Economic Agendas in Civil Wars (EACW)

**Beyond Greed and Grievance:
Policy Lessons from Studies
in the Political Economy
of Armed Conflict**

IPA Policy Report

Karen Ballentine and Heiko Nitzschke

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About the EACW Program

Economic Agendas in Civil Wars (EACW)

Senior Associate:	Karen Ballentine	ballentine@ipacademy.org
Senior Program Officer:	Heiko Nitzschke	nitzschke@ipacademy.org
Program Officer:	Kaysie Studdard	studdard@ipacademy.org
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Initiated in September 2000, the EACW program follows from a conference held in London in 1999, which produced the seminal volume, *Greed and Grievance: Economic Agendas in Civil Wars*, Mats Berdal and David M. Malone (eds.) (Lynne Rienner, 2000). The program addresses the critical issue of how the economic agendas of armed factions sustain violent conflict and inhibit durable peace, while also assessing the role of globalization in creating new opportunities for combatants to finance their military operations. This hitherto under-developed field of research holds particular promise of policy relevance for those international and national actors seeking more effective strategies for both conflict prevention and conflict termination.

Beginning with an overall commitment to durable conflict resolution, the broad aims of the program are:

- to improve understanding of the political economy of civil wars through a focused analysis of the economic behaviors of competing factions, their followers, and external economic actors in conflict zones;
- to examine how globalization shapes the economic interests of belligerents as well as creates new opportunities for competing factions to pursue their economic agendas through trade, investment and migration ties, both legal and illegal, to neighboring states and to more distant, industrialized economies; and
- to evaluate the effectiveness of existing and emerging policy responses used by external actors, including governments, international organizations, private sector actors, and NGOs, to shift the economic agendas of belligerents from war towards peace and to promote greater economic accountability in conflict zones.

Policy research and development proceed along two tracks: four expert working groups (Advisory Group, Working Group on Economic Behavior of Actors in Conflict Zones, Private Sector Working Group, and Policies and Practices Working Group) and commissioned research. EACW publications (all at Lynne Rienner Publishers) include: *The Political Economy of Armed Conflict: Beyond Greed and Grievance*, K. Ballentine and J. Sherman (eds.) 2003; *War Economies in a Regional Context: The Challenge of Transformation*, M. Pugh and N. Cooper with J. Goodhand, *forthcoming*; and *The Economic Dimensions of Conflict and Conflict Resolution in the Democratic Republic of Congo*, K. Ballentine and M. Nest (eds.) *forthcoming*. A volume of analytic studies assessing policy responses to the economic dimensions of armed conflict will be published in Spring 2004. Other products include periodic meeting reports, policy briefs and background papers, which are available electronically on our website.

Policy development also involves on-going consultations with international experts and practitioners, academic conferences, and workshops and briefings that bring together relevant UN actors, governments, private sector actors, and NGOs. As part of a continuous outreach effort, the program has engaged in several partnerships, including with the Fafo Institute of Applied Social Science (Oslo); the Institute for Security Studies (Pretoria); the Woodrow Wilson International Center for Scholars (Washington, DC); the International Institute for Strategic Studies (London) and the World Bank's Development Research Group (Washington, DC). We have also built a virtual network of experts and policy practitioners through sponsorship of an electronic list-serve, war_economies@yahoogroups.com.

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More information on program events and all of the program reports are available on the program website at <http://www.ipacademy.org>.

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Executive Summary

This policy report provides a synopsis of the key findings from case studies on the political economy of armed intra-state conflicts, commissioned by the International Peace Academy's program on Economic Agendas in Civil Wars (EACW).¹ These findings offer lessons for improved policies for conflict prevention and resolution.

- Combatants' incentives for self-enrichment and/or opportunities for insurgent mobilization created by access to natural and financial resources were neither the primary nor sole cause of the separatist and non-separatist conflicts analyzed. Nevertheless, extensive combatant self-financing complicated and prolonged hostilities, in some cases creating serious impediments to their resolution. In all cases, however, these factors interacted to varying degrees with long-standing socio-economic and political grievances, inter-ethnic disputes, and security dilemmas brought about by weak and unaccountable systems of governance.
- Conflict analysis should avoid "resource reductionist" models in favor of comprehensive approaches that not only account for the complex interrelationship between economic and political dynamics, but also incorporate the political economy of both rebellion and state failure. Improved understanding is required of the role that combatant access to resources can play in shaping a permissive opportunity structure for separatist and non-separatist conflicts relative to other socio-political factors.
- Different resource endowments affect different sorts of conflicts and benefit combatant parties in distinct ways, depending, *inter alia*, on the mode of exploitation and how proceeds are managed by the state. "Lootable" resources, such as alluvial diamonds and illegal narcotics are more likely to be implicated in non-separatist insurgencies. They prolong conflict by benefiting rebels and conflict-dependent civilians, compromising battle discipline, and by multiplying the number of peace spoilers. "Unlootable" resources, such as oil, gas, and deep-shaft mineral deposits tend to be associated with separatist conflicts, which are often caused by ethno-political grievances over inequitable resource revenue-sharing and exclusionary government policies.
- Given the importance of lootable natural resources and easily captured diaspora remittances in sustaining many of today's armed conflicts, improved international regulatory efforts to curtail these resource flows are both warranted and necessary. Commodity control regimes need to be strengthened and also complemented by more comprehensive efforts that address the financial flows connected with those resources.
- However, even the most robust resource control regimes are unlikely to have a decisive or even fully positive impact. Where conflicts are motivated by a mix of political, security, ethnic, and economic factors, curtailing resource flows to combatants may weaken their military capacity but not their resolve to continue fighting. In addition, regulatory regimes may have adverse humanitarian effects by increasing civilian predation by rebels or by stifling civilian incomes. When designing and implementing regulatory regimes, policy-makers need to distinguish between those who exploit armed conflict for profit and power and those who participate in war economies to sustain their civilian livelihoods.
- The offer of "economic peace dividends" may co-opt belligerents into ceasefires or more formal peace processes. Critically, however, economic inducements are unlikely to achieve these results in the absence of a credible military threat and may risk the creation of "negative peace," where justice and sustainability are deeply compromised and the threat of renewed conflict remains high. Policy-makers need to identify and adequately integrate economic incentives of combatants into a wider set of political and strategic inducements for conflict resolution and peacebuilding.

¹ Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner Publishers, 2003).

- Today's insurgents increasingly engage in illegal economic activities either directly or through links with international criminal networks. However, insurgency groups have not unequivocally transformed into mere criminal organizations as they retain—albeit to varying degrees—military and political goals. While improved interdiction and law enforcement are important policy tools, casting rebellion as a criminal rather than a political phenomenon may risk mischaracterizing legitimate grievances, thereby foreclosing opportunities for negotiated resolution, and may lend *de facto* legitimacy to state actors, regardless of their behavior and role in the conflict.
- Poor economic governance and state weakness are the critical mediating factors between resource abundance and vulnerability to armed conflict; the first engenders popular grievances, the second makes separatist and non-separatist insurgencies politically and militarily feasible. Policy responses need to focus on structural conflict prevention efforts by, *inter alia*, designing and supporting tools and strategies for more effective, equitable, and accountable systems of resource management, complemented by longer-term strategies of economic diversification and poverty reduction.
- Contemporary intra-state conflicts have strong regional and even global linkages. By increasing the number of potential war profiteers and peace-spoilers and multiplying the points of conflict, these broader dimensions not only affect the character and duration of hostilities, but also complicate the prospects for conflict resolution and post-conflict stability. Both conflict analysis

and policymaking need to address these regional dimensions by strengthening the economic management capacities of formal regional organizations and *ad hoc* alliances, complementing—and thus strengthening—national and global conflict management strategies.

I. Introduction: Beyond Greed and Grievance

Academic and policy research has produced important findings on the political economy of contemporary intra-state conflicts, most importantly in drawing attention to the rise in combatant “self-financing” through access to regional and global networks of licit and illicit trade and finance and diaspora remittances.² Much of the academic debate on the economic causes of contemporary armed conflict has become polarized around the *greed* versus *grievance* dichotomy, juxtaposing “loot-seeking” with “justice-seeking” rebellions, and, more generally, the significance of economic versus socio-political drivers of civil war.³ There is growing recognition, however, of the analytical limits that this dichotomy imposes on what are in reality highly complex systems of social interaction. While there is overall agreement that economic factors matter to conflict dynamics, there is little consensus as to *how* they matter and *how much* they matter relative to other political and socio-cultural factors.⁴ The answers to these questions are not merely academic. Improved understanding of the causes, character, and dynamics of intra-state conflict can lead to more effective policies for conflict prevention and resolution; conversely, inadequate analysis may result in inappropriate policy responses and ill-conceived solutions.

² Mats Berdal and David Keen, “Violence and Economic Agendas in Civil Wars: Some Policy Implications,” *Millennium: Journal of International Studies* 26(3), 1997; David Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper no. 320, Oxford: IISS/Oxford University Press 1998; Paul Collier and Anke Hoeffler, “On the Economic Causes of Civil War,” *Oxford Economic Papers* 50 (4), 1998, 563-573.

³ Paul Collier and Anke Hoeffler, *Greed and Grievance in Civil War*. Policy Research Working Paper no. 2355, Washington, DC: The World Bank, 2001; Mats Berdal and David M. Malone, eds., *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder: Lynne Rienner Publishers, 2000).

⁴ See João Gomes Porto, “Contemporary Conflict Analysis in Perspective,” in Jeremy Lind and Kathryn Sturman, eds., *Scarcity and Surfeit: The Ecology of African Conflicts* (Institute of Security Studies, 2002) 1-49; Jeffrey Herbst, “Economic Incentives, Natural Resources, and Conflict in Africa,” *Journal of African Economies* 9(3), 2000: 270-294; C. Cramer, “*Homo Economicus* Goes to War: Methodological Individualism, Rational Choice and the Political Economy of War.” *World Development* 30(11), 2002: 1845-1864.

Against this background, the International Peace Academy's program on Economic Agendas in Civil Wars (EACW) commissioned a series of analytical and country-based case studies on the political economy of contemporary intra-state conflicts, seeking to provide a clearer understanding of what role economic motives, opportunities, and grievances play in shaping the incidence, duration, and character of specific armed conflicts.⁵ To allow for more geographical representation in an area of research thus far concerned predominantly with African conflicts, the country case studies in this volume also cover conflicts in South America (Colombia), Europe (Kosovo), South and East Asia (Nepal, Sri Lanka, and Burma), and the Pacific (Papua New Guinea). The studies also include an examination of the economic dimensions of separatist conflicts, typically analyzed under paradigms in which identity politics, group dynamics, and state behavior, rather than economic factors, are the predominant explanatory variable. This report will draw out key findings from the cases and highlight the implications they have for international policy efforts for preventing and resolving armed conflicts.

II. Economics and Conflict: Exploring the Relationship

The Political Economy of Key African Conflicts⁶

The so-called "resource wars" in Angola, Sierra Leone, and the Democratic Republic of the Congo (DRC) have significantly shaped current scholarly and policy perspectives on the role that economic factors, particularly rebel exploitation of natural resources, play in contemporary armed conflict.⁷ Charles Cater suggests, however, that these conflicts were both caused and

sustained by a complex and shifting interplay between political and economic factors. He strongly cautions against reductionist causal models of conflict and strategies of conflict management directed solely at putative economic factors. Cater also examines a range of contemporary theoretical approaches to the causes of armed conflict, which provide different explanatory models according to their subject of analysis—*rebellion* or *state failure*—and respective focus on economic or political factors. While each approach has some analytic utility, he argues that an accurate understanding of the broad political economy of conflict requires a synthetic approach.

"Rebel-centric" approaches seek to explain why, how, and when people rebel. The dominant role that violent contests over natural resources have played in the conflicts in Angola, Sierra Leone and the DRC lends some support to the econometric "greed model" of rebellion, according to which the statistical correlation between resource abundance and the risk of armed conflict is explained by rebel aspirations for self-enrichment and/or by the opportunity for rebellion that easy access to natural resources provides to would-be insurgents.⁸ Yet while access to diamonds and other valuable natural resources did contribute to the feasibility of rebellion in both Sierra Leone and the DRC, Cater suggests that these insurgencies were not undertaken simply to capture lucrative economic assets for self-enrichment. Rather, resource exploitation was also a means to finance insurgencies driven by socio-economic and political grievances. Here, theories of conflict that explain group mobilization for rebellion in terms of inter-group or "horizontal" socio-economic or political inequalities also have significant explanatory power.⁹ Angola's decades-long civil war, for example, started as an anti-colonial struggle long

⁵ Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner Publishers, 2003).

⁶ *Chapter 2*: Charles Cater, "The Political Economy of Conflict and UN Intervention: Rethinking the Critical Cases of Africa" pp. 19-45.

⁷ See Jakkie Cilliers and Christian Dietrich, eds., *Angola's War Economy: The Role of Oil and Diamonds* (Institute for Security Studies, 2000); Michael Renner, *The Anatomy of Resource Wars*, WorldWatch Paper 162, 2002.

⁸ Paul Collier, "Economic Causes of Civil Conflict and Their Implications for Policy," in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall, eds. *Turbulent Peace: The Challenges of Managing International Conflict* (US Institute of Peace Press, 2001), pp. 143-162. Earlier versions of the "greed theory" focused on the economic motivation of combatants, while later versions place increased emphasis on the opportunity (economic feasibility) for organized violence.

⁹ See Frances Stewart, "Horizontal Inequalities as a Source of Conflict," in Fen Osler Hampson and David M. Malone, eds., *From Reaction to Conflict Prevention: Opportunities for the UN System* (Boulder: Lynne Rienner Publishers, 2002), pp. 105-136.

before natural resource exploitation became the dominant source of belligerent funding for both the UNITA rebels and the government. In Sierra Leone, horizontal inequalities obtained in the form of pervasive unemployment and lack of access to education among the youth; and in the DRC in the form of regionally and ethnically defined identity, poverty, and insecurity.

“State-centric” theoretical approaches focus on the role that the weakness or failure of the state plays in providing a favorable opportunity structure for armed conflict. Political approaches see conflict as a result of state weakness, which is characterized by the lack of ability to monopolize force, maintain order within its territory, and generate resources to provide public goods, which can lead to the erosion of legitimate authority and capacity for effective governance.¹⁰ According to those focusing on the economic factors in state failure, the systematic diversion of public rents through corrupt patronage networks fosters the growth of “shadow states,” which in turn become the prey of armed warlords as governments are no longer able to maintain control over these channels of wealth accumulation and distribution.¹¹ This was the case in Sierra Leone and the DRC, where the outbreak of conflict was preceded by decades of political misrule and corruption by a parasitical state elite that exacerbated socio-economic deterioration and institutional decay in both countries, ultimately resulting in violent state collapse.

The way in which a given conflict is characterized can strongly influence the selection of policy choices for conflict management by the international community. UN policymaking with regard to Angola, Sierra Leone, and the DRC appears to have been largely guided by

assumptions based on the greed paradigm. Consequently, strategies for intervention have focused on a limited range of measures intended to curtail the flow of natural resources and influence the decision-making calculus of elites, rather than on more comprehensive approaches that address the structural factors that generate and sustain intrastate wars. As Cater suggests, policies for conflict management should instead be based on a modified “political economy” approach that integrates both the interrelationship between economic and political factors and the complementary *rebel-centric* and *state-centric* models of conflict analysis. Only a holistic analytical approach can serve as a reliable basis for conflict prevention and resolution efforts advanced by the UN and others that more accurately reflect the complex realities of contemporary conflicts in Africa and beyond.

Different Resources – Different Conflicts?¹²

Recent quantitative research indicates a strong correlation between natural resource abundance in a given country (measured as the ratio of primary commodity exports to gross domestic product) and the risk of armed conflict.¹³ However, based on empirical evidence from fifteen recent conflicts, Michael Ross suggests that different natural resources can have varied impacts on key conflict dynamics and figure differently in separatist and non-separatist conflicts.¹⁴

Different resources tend to have different beneficiaries, depending on the mode of exploitation and the way proceeds are managed by the state. *Lootable* resources such as alluvial diamonds and narcotics can be extracted and transported by individuals or small groups of unskilled workers. Not only do such resources provide direct rents for combatants, they also

¹⁰ Mohammed Ayoob, “State Making, State Breaking, and State Failure”, in Chester Crocker, Fen Osler Hampson, and Pamela Aall, eds., *Turbulent Peace: The Challenges of Managing International Conflict* (US Institute of Peace Press, 2001), pp. 37-51; William Zartman, ed., *Collapsed States: The Disintegration and Restoration of Legitimate Authority* (Boulder: Lynne Rienner Publishers, 1995).

¹¹ See William Reno, *Warlord Politics and African States* (Boulder: Lynne Rienner Publishers, 1998); William Reno, “Shadow States and the Political Economy of Civil Wars,” in Mats Berdal and David M. Malone, eds., *Greed and Grievance: Economic Agendas in Civil Wars* (Boulder: Lynne Rienner Publishers, 2000), pp. 43-68.

¹² Chapter 3: Michael L. Ross, “Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil Wars,” pp. 47-70.

¹³ Paul Collier and Anke Hoeffler, *Greed and Grievance*, 2001. op. cit.

¹⁴ See also Philippe Le Billon, “The Political Ecology of War: Natural Resources and Armed Conflicts.” *Political Geography* 10(5), 2001: 561-584.

tend to generate incomes for local communities. Empirical data indicates that lootable resources tend to be associated with non-separatist conflicts. By contrast, oil, deep-shaft minerals, and other *unlootable* resources extracted in ethnically distinct areas are more likely to be associated with separatist conflicts. Benefits accrue primarily to extractive firms and central governments that provide the required skilled workers, security, and capital. Inequitable sharing of these revenues by corrupt or oppressive governments, as well as negative environmental and social impacts of extractive operations, may cause popular grievances in resource-rich areas. Not only may these grievances exacerbate existing ethno-political tensions, separatists can also view natural resource endowment as a potential economic base for an independent state.

The way in which natural resources provide rents to combatants is also relevant to the duration of conflict. Access to *lootable* resources appears to prolong non-separatist conflicts by disproportionately benefiting insurgents—typically the weaker side of the conflict—and thereby averting their military defeat. Lootable resources can also create internal discipline problems within armed groups, making it harder for commanding officers to impose terms of a settlement on their own forces. Finally, these resources can render wartime exploitation so profitable that combatants prefer protracted war to peace. Whether *unlootable* resources prolong separatist or non-separatist conflicts seems to depend largely on the strength of the government. On the one hand, unlootable resources provide important revenues for the government that can help to bring about a quicker military victory. On the other hand, they can provide a lifeline for a weak government—hence averting its defeat at the hand of rebels. Resources that require pipelines or ground transport are vulnerable to sabotage, holdups, and extortion by rebels, thereby providing finances to insurgents and weakening the state's coercive power, and thus increasing the duration of conflicts. At the same time, government efforts to protect the extractive infrastructure by force might aggravate existing local grievances, further intensifying and prolonging conflict.

III. The Political Economy of War and Peace: Lessons from Cases

Colombia¹⁵

The Colombian conflict began in the early 1960s as a profoundly politico-ideological contest over state power and socio-economic governance between left-wing guerrilla groups and the central government. Combatant access to lucrative natural resources played no significant role in its onset. However, access to both illegal and legal natural resources (coca, poppy, and oil) significantly prolonged and intensified the conflict, which, after decades of relatively contained confrontations, saw a drastic escalation of violence in the late 1990s. With successful anti-drug policies in neighboring countries and a domestic agricultural crisis making coca and poppy cultivation an attractive source of income for Colombia farmers, both the guerrillas and the emerging right-wing paramilitary groups increasingly exploited the revenue-generating opportunities from the taxation, production, and trafficking of narcotics. The rise in profits allowed for the rapid recruitment of combatants and the procurement of sophisticated weaponry. Colombia's growing oil industry provided a source of income for the government in the form of royalties and taxes. The guerrilla groups benefited indirectly from the oil industry by kidnapping oil and engineering company employees and threatening to sabotage oil installations. In addition, they gained *de facto* control over local administration—and with it spending decisions—in the oil-producing regions, which had benefited from increased intra-governmental revenue transfers and administrative decentralization.

The growing economic—and hence military—strength of the guerrillas and paramilitary groups provided them with powerful incentives to defect from peace negotiations, which were held frequently during the earlier phases of the conflict. According to Alexandra Guáqueta, however, the government's counter-narcotics and counter-insurgency operations, financially and militarily supported by the US, have

¹⁵ Chapter 4 – Alexandra Guáqueta, "The Colombian Conflict: Political and Economic Dimensions," pp. 73-106.

had little success so far in reducing drug production or trafficking, and appear to have further complicated the prospects of a negotiated settlement. Not only did these policies add economic value to the already profitable coca and poppy cultivation, they also raised the incentives for guerrillas and paramilitaries to strengthen military and territorial power to increase their potential bargaining power vis-à-vis the government. The recent classification of both guerrillas and paramilitary groups as terrorist organizations has further changed the political economy of peace-making in Colombia by favoring a military counter-insurgency strategy over diplomatic efforts that could lure guerrillas into demobilization by addressing their grievances and political goals.

Lessons from Colombia:

- Drug cultivation provides large parts of the rural population in Colombia with important livelihoods. Interdiction and eradication efforts aimed at curtailing the income for guerrillas and paramilitaries, complemented by poorly implemented alternative development programs, not only raise the profitability of, and thus the incentives for, increased narcotics cultivation, they also disproportionately hurt the poor, causing further grievances and increasing local support to guerrilla movements.
- Intra-governmental revenue-sharing schemes, such as those implemented in Colombia to redistribute oil rents according to regional economic development plans, can help prevent or mitigate conflict by addressing popular grievances over the inequitable distribution of wealth generated from natural resource exploitation. However, in the absence of effective central government control over resource-rich areas, rebels can capture local administrations, thereby prolonging conflict.
- Even though the conflict has been primarily politically and ideologically driven, access to lootable resources and obstruction of unlootable resources

may have shifted the interests of guerrillas and paramilitaries from ideological to more pecuniary goals, affecting their military strategies, choices of territorial expansion, and their proclivity to use criminal methods to generate revenues and procure weaponry.

- Policy-makers' view of the legitimacy and motives of armed groups has profound implications for conflict resolution in determining the choice of policy responses. For example, the depiction of the guerrillas and paramilitaries as mere criminals and, more recently, terrorists by the Colombian government and the U.S. calls for a military defeat rather than diplomatic negotiation.

Nepal¹⁶

The conflict in Nepal stands well outside the “resource war” model, as the poor natural resource endowment of this impoverished, aid-dependent country precluded self-enrichment motives and economic opportunities as a cause of the Maoist insurgency that started in 1996. Instead, as John Bray, Leiv Lunde, and Mansoob Murshed argue, the most prominent economic factors shaping the objectives of the insurgencies appear to be accumulated socio-economic grievances emanating from chronic poverty, extreme levels of landlessness, and the burdens of the bonded labor system on the lower castes. These frustrations were further exacerbated by systemic government corruption, as well as the as yet unrealized promises of democratic reform of the feudal system. Drawing on a long history of radical left-wing activism and the Chinese Maoist model of a “protracted people’s war,” the insurgency’s primary objectives have been the redistribution of land, planned national industrialization, and the abolition of the monarchy.

Despite the insurgency movement’s strong support among the rural population and their initial ability to recruit supporters, the government was slow to react. By the time the army was mobilized, the insurgency was already well-entrenched and economically sustained by contributions of local supporters, extortion

¹⁶ Chapter 5 – John Bray, Leiv Lunde, and S. Mansoob Murshed, “Nepal: Economic Drivers of the Maoist Insurgency,” pp. 107-132.

of businesses in urban areas, and substantial revenues from diaspora remittances. However, facing increasing military pressure and a resulting reduction of its revenues, the insurgency has begun to show some sign of diminishing ideological and social appeal, as individual factions have begun to rely on civilian predation and the forced conscription of children to generate the necessary military means and personnel. However, the Maoist insurgency has not—or not yet—degenerated into wider predatory violence as seen in other contemporary conflicts. So far, the rebels' command structure remains largely intact and centralized, as demonstrated by the movement's adherence to the cease-fire of January 2003. As neither the government nor the rebels have realistic prospects of outright military victory in the foreseeable future, the recent agreement to hold peace talks was made possible, in part, by the rebels' softening of their initial demands for the abolition of the monarchy, and the government's willingness to de-criminalize the Maoist guerrillas, earlier depicted as a terrorist movement. Whether these talks will resolve the seven-year insurgency, however, will largely depend on the government's dedication to political and economic reform.

Lessons from Nepal:

- As the Nepal conflict demonstrates, group grievances over systematic socio-economic exclusion and widespread poverty can provide an important impetus for armed rebellion when fused with political and ideological agendas aimed at a violent campaign for state power.
- Military operations by the government are, at best, only part of the solution to the conflict in Nepal. Not only does an outright military victory for either side remain unlikely, the counter-insurgency operations show an increased incidence of human rights abuses by the Nepalese armed forces, which threatens to undermine local public support for the government's stance.
- Given Nepal's strong dependence on foreign development aid, international assistance can play

a major role in long-term conflict resolution efforts by reducing general poverty and tackling inequalities through technical assistance in such areas as land reform, administrative devolution, and social-sector expenditure.

- A major challenge for the future of the peace process is the rebel leadership's ability to ensure discipline among the rank-and-file rebels. While the Maoist rebels' campaign of a people's war is, by their own definition, expected to be "protracted," the first signs of fragmentation among the rebels and recourse to predatory violence by some factions may yet complicate negotiations and conflict resolution.

Bougainville (Papua New Guinea)¹⁷

Despite the centrality of the Panguna copper mine to Bougainville's violent ethno-separatist conflict (1988 to 1997), economic, political and socio-cultural agendas were closely interwoven in the onset and duration of the conflict. Long-standing popular resentments over the mining operation's negative impact on traditional systems of landholding and the environment fused with and amplified ethno-nationalist aspirations rooted in a history of Bougainvillan resistance against outside rule. Economic grievances related to the inequitable sharing of mining revenues were an important source of ongoing contention, with violent protest—or the threat thereof—proving to be a successful strategy to wring economic concessions from the otherwise reluctant central authorities. With socio-economic conditions for Bougainvillans dramatically eroding during the 1980s, more favorable redistribution of mining wealth appeared to be the main motive of the forceful disruption of the mining operations by marginalized landowners and mine workers in 1988—the prelude to the wider conflict. As Anthony Regan notes, however, even those within the nationalist movement supporting secession were divided over what role, if any, mining should have in the future of an independent state: while some aimed at the capture of the mine as the economic foundation for a future independent Bougainville, other, more

¹⁷ Chapter 6 – Anthony J. Regan, "The Bougainville Conflict: Political and Economic Agendas," pp. 133-166.

traditionalist elements sought the permanent closure of the mine, consistent with their rejection of industrialization and its perceived corrosive impact upon traditional social order.

The central government's reaction to the crisis proved to be inept. The deployment of the brutal riot police in an effort to restore mining operations led to an escalation of the crisis and served as the catalyst for popular mobilization behind a wider ethno-nationalist rebellion, strengthening support for the emerging Bougainville Revolutionary Army (BRA) and its militant secessionist agenda. As the mine was forcibly closed shortly after the outbreak of the rebellion, its revenues did not contribute to the persistence of the conflict nor did it make the rebellion more economically feasible. With few economic and financial resources to draw upon, the BRA instead capitalized on military resources and other assets made available by the popular support it enjoyed in key regions of the island to sustain its guerrilla campaign. Even a naval blockade imposed by the PNG government in the mid-1990s, while remarkably effective in preventing arms and resources from reaching the insurgents, had little effect in weakening the BRA. The negotiated peace accord of 2001 was the product of a combination of factors, including accumulated war-weariness on all sides, the ability of the BRA to negotiate from a position of strength, and a mounting economic crisis that confronted the PNG government after 1994. Perhaps most critical was the gradual recognition by the PNG government that the legitimate economic and political grievances of Bougainvillians could no longer go unattended.

Lessons from Bougainville:

- Socio-economic grievances related to the Panguna mine rather than the opportunities it created for rebel self-enrichment were the predominant factor in triggering Bougainville's violent separatist conflict. The successful attempt by some of the separatists to permanently close the mine further contradicts the "greed model," suggesting that in some cases, insurgents might willingly forego

potential economic benefits from rebellion if the negative socio-cultural and environmental impact related to resource extraction is perceived to outweigh its potential pecuniary benefits.

- Access to natural resources for combatant self-financing need not play a major role in the duration of separatist conflicts, particularly where they have a strong ethnic dimension. Curtailing combatant access to resources might thus do little or nothing to end these conflicts. The BRA, for example, managed to sustain an effective guerrilla campaign for nearly a decade, despite the absence of lootable or obstructable resources and the presence of an effective naval blockade imposed by the PNG government.
- The capacity of the state is critical in terms of its ability to develop coherent policies to prevent conflicts from occurring and to resolve them should they arise. In the Bougainville case, the central government failed to adequately address growing popular grievances, while its disproportionately brutal response increased rather than reduced militant support for secession.
- Rebel discourse of ethno-cultural grievances may, as some have claimed, serve to mask self-serving economic motives of rebel leaders. However, the reverse may be equally true. For some of the BRA, protests against inequitable distribution of mining revenues appear to have been a conscious effort to enhance the legitimacy of ethno-separatist claims, which predated the mining operations begun in the 1960s.

Kosovo¹⁸

The Kosovo conflict, which escalated from a protracted political conflict between the majority Kosovo Albanians and the ruling minority Serbs in the early 1990s to a violent secessionist conflict by 1998-99, can only be understood in the context of its historical roots and regional setting. Driven by long-standing nationalism and the ever multiplying political and socio-

¹⁸ Chapter 7 – Alexandros Yannis, "Kosovo: The Political Economy of Conflict and Peacebuilding," pp. 167-195.

economic grievances of Kosovo Albanians, the crisis was sparked by destabilizing processes resulting from the disintegration of the Socialist Federal Republic of Yugoslavia. Socioeconomic underdevelopment, massive unemployment, and widening inter-ethnic inequalities brought about by the policies of systematic discrimination and exclusion carried out by the Milosevic regime led to the establishment of the shadow “Kosovo Republic,” a parallel government under the leadership of Ibrahim Rugova. Advocating peaceful resistance to the regime in Belgrade and economically sustained by a widespread informal economy and significant diaspora remittances, this parallel governance structure provided a considerable measure of order and restraint until the mid-1990s.

According to Alexandros Yannis, two key contingent events shifted the political economy of the Kosovo conflict towards the militant separatism of the Kosovo Liberation Army (KLA), enhancing its determination and its capacity to mobilize against the Serbian state. First, the signing of the Dayton Accord in 1995, which rewarded those who forcibly had redrawn the ethnic and political map of neighboring Bosnia-Herzegovina, encouraged Kosovo Albanian militancy and increased popular support for the KLA. Dayton’s impact also changed the role that diaspora remittances played in the conflict. As long as remittances were controlled by Rugova’s Kosovo Republic, they appear to have played a conflict-averting role in underwriting badly needed social welfare services, thereby enhancing the attraction of Rugova’s non-violent approach to independence. Once captured by the KLA, however, remittance flows helped finance armed struggle. The second event was state collapse in neighboring Albania in 1997, which provided the KLA with ready access to large stores of weapons. This not only strengthened the KLA’s military power but also allowed it to control the widespread shadow economy and cross-border smuggling networks, which had sustained Kosovo society in the wake of Belgrade’s economic withdrawal. The resulting criminalization of the informal economy also posed a problematic legacy for post-conflict Kosovo, as the internationally managed transitional administration, installed after the NATO intervention in 1999, was slow to address widespread economic criminality and the illicit networks that continued to

provide Albanian militants with money and arms. Benefiting from the lack of a functioning judicial and law enforcement system, these networks became firmly entrenched in Kosovo’s post-conflict politics and society, posing serious challenges to international peacebuilding efforts. Despite their adoption of criminal methods, however, the former KLA fighters did not abandon their ethno-nationalist campaign, as their involvement in the subsequent unrest in neighboring Macedonia and southern Serbia indicates.

Lessons from Kosovo:

- Regional political and economic dynamics can play a major role in the onset and transformation of violent conflict. In Kosovo, the conflicts in neighboring states and the spill-over effects they generated significantly altered the political economy of the crisis from one of peaceful resistance to violent conflict.
- Ethnic and other forms of communal discrimination, exclusion, and insecurity can provide a potent basis for armed rebellion even in the absence of economic incentives and opportunities. In the case of the Kosovo conflict, for example, Albanian nationalist protest against Belgrade’s oppression was sufficiently compelling to attract volunteers from the relative comfort of émigré communities in Western Europe and North America to the ranks of the KLA.
- Diaspora remittances appear to have an ambivalent impact on conflict. By mitigating economic hardships for excluded groups otherwise susceptible to insurgent recruitment or support, they can be conflict-averting. However, when captured by armed groups to procure arms and recruit personnel, remittances can both promote and prolong armed conflict.
- The prior existence of a widespread informal economy significantly facilitates rebellion and economic criminality. In Kosovo’s war economy, regional trading and smuggling networks established before the outbreak of the conflict were easily captured and transformed by the KLA to

generate income and procure weapons necessary to launch and sustain its fight.

- In the absence of effective law enforcement and judicial systems in post-conflict settings, criminalized networks can become entrenched in the socio-political system, strengthen peace-spoilers, and thus pose severe impediments to sustainable peacebuilding and post-conflict stability.

Sri Lanka¹⁹

The separatist conflict in Sri Lanka between the Liberation Tigers of Tamil Eelam (LTTE) and the government in Colombo is rooted in historical inter-ethnic imbalances between the island's majority Sinhalese and minority Tamil population. The post-independence Sinhalese government's attempt to rectify the disproportionate favoring of the minority Tamils by the former colonialists through increasingly 'Sinhala only' cultural policies fueled the Tamils' initially non-violent political struggle for an independent, monoethnic Tamil state. In the 1970s, this struggle gave way to an increasingly violent secessionist campaign led by the LTTE. Lacking access to lucrative natural resources, the LTTE turned to Tamil diaspora organizations and immigrant communities in the West as a critical source of political and economic support for its militant, ethno-separatist agenda. Over the years, the LTTE established a sophisticated and integrated international support network built on diaspora organizations, legal and illegal business ventures, and voluntary and coerced contributions from Tamil émigrés, which complemented the systematic taxation and extortion of civilians and businesses in Tamil-held areas of Sri Lanka. As Rohan Gunaratna details, with this increased integration into national and international markets, the border between licit and illicit resources generated by the LTTE organization and its supporters has become blurred. Money generated through coercion or illegal trade is increasingly laundered through investments in a broad range of legitimate enterprises.

The support that Tamil communities in the West lent to the LTTE's campaign depended largely upon the

conditions in Sri Lanka under which each wave of emigration was triggered. While earlier, economically motivated waves of emigrants manifested little solidarity or active support for the LTTE's violent brand of nationalism, the most militant supporters of Tamil separatism have come from more recent waves of emigrants and refugees—those who personally experienced persecution and conflict. However, through the systematic permeation and cooptation of Tamil diaspora organizations, the LTTE gained influence in many Tamil communities abroad, generating substantial revenues to purchase sophisticated weaponry and materiel for its violent campaign at home. The LTTE's ability to expand its support network was also facilitated by host government support for immigrant organizations and by their policies of benign neglect of radical Tamil groups, provided that these groups did not adversely affect domestic security or foreign policy interests.

With the conflict in Sri Lanka having already reached a "hurting stalemate," two factors appear to have influenced both sides of the conflict in their decision to participate in peace negotiations in 2001. First, in the wake of the Asian economic crisis of the late 1990's, the Sri Lankan economy outside the LTTE-held areas shrunk for the first time since the war began. This led the influential Sri Lankan business sector to exert pressure on the government to find a diplomatic solution, as business leaders feared further losses as a result of the conflict. Second, in 2000 the UK joined with the US in designating the LTTE as a terrorist group. Within the wider context of the post-9/11 US-led "war on terror," two other countries with significant Tamil diasporas—Canada and Australia—followed suit. Faced with a possible curtailment of their financial resource flows and the prospect of greater international sympathy and backing for Colombo, the LTTE leadership may have calculated that, from the LTTE's present position of strength, it stood to obtain greater political gains at the bargaining table.

Lessons from Sri Lanka:

- The ability of the LTTE to sustain its fight against the well-equipped and highly disciplined Sri

¹⁹ Chapter 8 – Rohan Gunaratna, "Sri Lanka: Feeding the Tamil Tigers," pp. 197-223.

Lankan military depended primarily on its systematic use of coercion, propaganda, and extortion at home and, especially, abroad to capture significant amounts of remittances from the Tamil diaspora.

- The disposition of diaspora communities towards homeland conflicts is highly variable and thus needs to be adequately understood by policy-makers seeking to regulate diaspora remittances. The case of the Tamil diaspora suggests that the direction and intensity of homeland attachments are shaped not only by the relative size of the diaspora and members' geographic concentration but also by the circumstances under which individuals emigrated, their socio-economic status, and the prevailing conditions in which they find themselves in their host countries.
- Importantly, the ability of politicized diaspora groups to extend moral and material support to homeland struggles is also shaped by the policies of host states regarding citizenship and minority rights. The LTTE proved adept at manipulating host country political and economic support for immigrant cultural and other self-help organizations.
- Host government efforts to curtail financial flows that support rebels face severe legal and political problems, as it is difficult to discern which funds genuinely support humanitarian goals at home and which support militant campaigns, particularly if—as was the case with the LTTE—migrant communities and their organizations are systematically penetrated by rebel sympathizers.

Burma/Myanmar²⁰

Since its independence in 1948, Burma has experienced armed rebellion by no fewer than thirty armed ethnic-minority groups. Faced with systematic political and socio-economic exclusion, growing military repression, and human rights abuses by successive Burman majority governments and the military, the various groups' armed struggles were aimed at self-

determination and ethnic rights in the form of political power-sharing or local autonomy arrangements. Benefiting from the central government's lack of authority and administrative reach in the country's peripheral hill tract regions, insurgent groups progressively controlled the local economies and systematically engaged in regional black-market trade in opium, the exploitation of natural resources and other valuable commodities, and the taxation of informal cross-border trade to finance their respective military pursuits. While combatant access to economic resources has thus played a dominant role in sustaining the insurgencies, according to Jake Sherman, it has in some cases also allowed for conflict reduction in the form of cease-fire agreements between the government and some twenty insurgent groups since 1989.

Following its takeover in 1988, the military regime supplemented its counter-insurgency strategy with political and economic incentives aimed at co-opting insurgent groups' leaderships to accept military truces. By granting insurgent leaders lucrative business deals, such as timber concessions, and by tolerating their drug trade, often in collusion with the military, these cease-fire agreements proved a useful means for the government to consolidate its power in previously contested border regions. Not only have overt military challenges to Rangoon's authority from ethnic insurgents eased considerably; the government's 'divide and rule' strategy appears to have paid off by provoking the defection of several rebel factions to the government, sparking inter-group rivalries, and undermining rebel groups' internal coherence. While the majority of Burma's armed insurgency groups have continued to subordinate economic activity to the goal of securing greater political and cultural autonomy, a number of groups, particularly those engaged in the illegal drug trade, have become more of an armed business venture than a political movement. Such organizational transformation is also visible in parts of the armed forces, which, authorized by the government to conduct all types of licit and illicit business ventures, have become self-financing entities. Despite short-term security for those rebel groups accepting

²⁰ Chapter 9 – Jake Sherman, "Burma: Lessons from the Cease-Fires," pp. 225-255.

the cease-fires, long-term benefits in the form of promised political dialogue and economic development have not been forthcoming. Rather, the absence of a comprehensive and durable settlement in the form of power-sharing arrangements or legally guaranteed concessions of autonomy has yielded “negative peace” at best, characterized by the absence of hostilities. As long as the underlying political and ethnic grievances are not addressed, Burma will remain vulnerable to renewed cycles of armed conflict.

Lessons from Burma:

- Informal cross-border trade in the peripheral hill areas of Burma, which emerged largely as a result of both the central government’s weak authority and economic neglect, proved highly susceptible to capture by various insurgent groups by affording them a ready avenue for transforming looted natural resources and contraband into military strength.
- Combatants’ prospects of financial benefits from continued access to natural resources and other business opportunities may in special circumstances be conducive to conflict reduction. The cease-fire arrangements in Burma have been driven and maintained both by the economic self-interest of rebel leaders eager to guard and possibly expand their accumulated assets and by the credible threat of a robust counter-insurgency policy.
- Such arrangements, however, involve risks and trade-offs which may run counter to sustainable peace: they de facto condone illicit economic activity; they may create incentives for groups left out of the negotiating process to continue or resume fighting in the hope of securing similarly lucrative arrangements; they may spark violent intra- or inter-group contests over spoils; and they may consolidate the position of armed groups whose power may be antithetical to the state.
- The economic deals underlying the cease-fires in Burma tend to disproportionately benefit

autocratic rebel leaders, while excluding their rank-and-file and local supporters. Not only does this seem to undermine the groups’ social capital and internal coherence by creating intra-group tensions, it also highlights the need for policy-makers to avoid treating rebel groups as unitary actors and to integrate internal group dynamics into policy analysis and responses.

IV. Conclusion: Lessons and Implications for Policy²¹

The findings of these studies indicate that economic factors can shape the cause, duration, and character of armed intra-state conflict in consequential ways, although not necessarily in the ways that some theories would predict.

Causes of Conflict

Most important, combatant motives of self-enrichment (“loot-seeking”) and economic opportunities for insurgent mobilization created by access to natural and financial resources were not the sole or even primary cause of the separatist and non-separatist conflicts analyzed. Even where rebel capture of lucrative resources or diaspora remittances obtained in the course of these conflicts, these were less a motive for rebellion in themselves than a means to finance military campaigns initiated for other, non-pecuniary reasons. Particularly in separatist conflicts, and to a lesser extent in non-separatist insurgencies, the outbreak of conflict was triggered by the interaction of economic motives and opportunities with long-standing grievances over poor economic governance (particularly the inequitable distribution of resource wealth), exclusionary and repressive political systems, inter-ethnic disputes, and security dilemmas further exacerbated by unaccountable, weak states. This finding cautions against reducing the causes of armed conflict to economic calculations alone. Likewise, while access to lucrative economic resources and trading routes does contribute to the feasibility of armed insurgency, the opportunity structure for civil

²¹ *Conclusion* – Karen Ballentine, “Beyond Greed and Grievance: Reconsidering the Economic Dynamics of Armed Conflict”, pp. 259-283.

strife is also shaped by numerous other variables, including the presence of mobilizeable social and kinship bonds and the relative military, economic, and political weakness of the state being challenged.

Duration of Conflicts

Just as clearly, however, these studies also show that combatant access to lucrative economic resources has had important impacts on the duration of civil conflict. As Michael Ross observes, there is no strong relationship between easy access to lucrative resources and separatist conflicts—even though these types of conflicts, on the whole, last longer than insurgencies. In the case of non-separatist insurgencies, however, access to lootable resources does appear to contribute to protracted warfare for a number of reasons. Lootable resources may provide the means for continued warfare or incentives for elite enrichment. Further, where lootable resources can be accessed directly by rank and file soldiers rather than through the chain of command, they may prolong conflict by creating discipline problems that impede the capacity of leaders to impose settlements on followers. Combatant predation of these resources may provoke second-order grievances among civilians that multiply the points of conflict, thereby adding to the duration of hostilities. Finally, rebel control of lootable resources may serve to strengthen peace spoilers and their capacity to sabotage hard-won peace agreements, such as in Angola and Sierra Leone. It may also provide a major disincentive to good faith negotiations for a comprehensive peace settlement, as occurred in Colombia.

Character of Conflicts

A key question that has dominated the *greed* versus *grievance* debate is whether conflicts that have begun with political aims have, as a result of resource capture by combatants, mutated into conflicts in which securing short-term economic benefits is paramount. Here, the findings are less conclusive. In large part, this is due to the inherent methodological difficulties that outside observers encounter in ascertaining the precise balance of combatant groups' economic and political priorities at any given time or their changing balance

over time. Elsewhere, Paul Collier has noted the methodological problems associated with basing these judgments on combatants' "self-described purposes"; rebel discourses, he notes, cannot be trusted because combatants will always seek to justify their actions using "a narrative of grievance."²² However, the alternative approach of imputing motive from behavior has its own shortcomings. The mere fact that combatants engage in predatory economic activities is seldom a reliable guide to their central dispositions. Such activities may indeed be evidence of pure "loot-seeking," but they may also be undertaken as a means for financing wars being fought for other reasons or to redistribute wealth among those who combatants claim to represent. Efforts to distinguish economic from political behavior are further complicated by the fact that, where the state has already been extensively penetrated and privatized by particular patron-client relations, state capture can be both a political and an economic goal. In these cases, political and economic agendas of combatants appear to be mutually reinforcing rather than mutually exclusive.

Regardless of whether economic interests are primary or secondary, when non-separatist insurgents have access to lootable resources, the character of conflict is affected in consequential ways. Not only do these conflicts last longer, they are also messier and more difficult to resolve through diplomatic means. Combatant groups that depend on lootable resources to finance their campaigns appear to be more prone to internal fragmentation, while the wars they fight are less centralized and less territorially contained. In these cases, combatants may display their own variant of rent-seeking long associated with resource-rich governments: the greater their windfalls from available lucrative resources and clandestine trade networks, the weaker are their incentives to generate and maintain social capital among putative supporters and the fewer are their restraints against indiscriminate predation of civilians. Easy access to income-generating opportunities also may weaken their acquired social capital, both by enabling quicker rates of recruitment that may strain the groups' ability to socialize new recruits to their ideological cause and by attracting recruits for whom financial gain is more important than ideolog-

²² Paul Collier: "Doing Well Out of War" in Mats Berdal and David Malone (eds.): *Greed and Grievance*, op. cit., p. 92.

ical or political conviction. In either case, the result is the emergence of principal-agent problems that erode internal discipline and coherence among combatant groups.

Curtailing Resource Flows to Combatants

Some analysts have argued that conflicts that come to be driven by contests over economic resources should be relatively more amenable to resolution than other ethnic, religious, or ideological conflicts. This is because economic goods are, in principle, divisible, while identity issues are not. Rather than by long and arduous efforts to negotiate a political compromise, or even by direct intervention, peace can thus be achieved through technical measures that in the short to medium term will reduce both the accessibility and profitability of lucrative economic resources to combatant groups. Such an understanding also informs current international efforts to curtail resource flows to combatants through “supply-side” regulatory mechanisms such as targeted sanctions, commodity certification regimes, and interdiction strategies aimed at transnational organized crime, money laundering, and drug trafficking.

As these studies show, untrammelled resource flows to and from combatant groups can prolong conflict and complicate efforts at resolution. All too often, the amount of wealth available to combatant groups dwarfs both the amount of humanitarian aid and the resources of notoriously under-funded UN peacekeeping missions, thereby diminishing their potential to induce peace and deter violence.²³ Moreover, combatant access to lootable resources complicates the brokering of peace-processes and implementation of peace agreements by strengthening peace-spoilers both inside and outside the country with vested interest in conflict perpetuation.²⁴ For these

reasons, improved international efforts to curtail or control the flow of conflict goods and finances are both warranted and necessary.²⁵

- International regulatory efforts to curtail the trade in conflict goods by combatants can be a useful tool of conflict management and one that needs strengthening. These efforts require improved international cooperation on the enforcement of targeted commodity sanctions (such as embargoes against the export of rough diamonds and timber); more robust systems of monitoring and tracking of high-risk conflict goods, of which the Kimberley Process for diamonds is an important beginning; and measures to ensure increased corporate transparency in financial dealings with corrupt and repressive governments, such as the Extractive Industries Transparency Initiative and the Publish What You Pay Campaign.
- The very lootability of many conflict goods makes controlling their physical movement highly resistant to effective regulation, particularly where technical and regulatory capacities are weak or non-existent. Therefore, existing regulatory and interdiction efforts aimed at affecting the financial networks underpinning war economies need to be strengthened and adapted as complementary measures. This will require more sustained engagement and coordination between the UN, the OECD, international financial institutions and law enforcement agencies in the areas of money laundering, terrorist finance, and anti-corruption.²⁶

Resource Control Regimes: Limits and Potential Unintended Humanitarian Impacts

Based on the findings of these studies, however, even the most robust policies of curtailing resource flows to

²³ See also Charles Cater, “The Political Economy of War and Peace.” IPA Policy Report, 2002. Available at www.ipacademy.org.

²⁴ George Downs and Stephen J. Stedman, “Evaluation Issues in Peace Implementation,” in Stephen J. Stedman, Donald Rothchild, and Elizabeth M. Cousens, eds., *Ending Civil Wars: The Implementation of Peace Agreements* (Boulder: Lynne Rienner Publishers, 2003) 43-69.

²⁵ See also Jake Sherman, “Policies and Practices for Regulating Resource Flows to Armed Conflict,” IPA Conference Report, 2002; and Philippe Le Billon, Jake Sherman and Marcia Hartwell, “Controlling Resource Flows to Civil Wars: A Review and Analysis of Current Policies and Legal Instruments,” IPA Background Paper. Both are available at www.ipacademy.org.

²⁶ See Jonathan Winer, “Illicit Finance and Global Conflict,” Fafo Report 380, Oslo, 2002.

insurgent groups are unlikely to have a decisive impact. Likewise, their impact on outcomes may not be wholly positive. In fact, the self-financing nature of both separatist and non-separatist conflicts may for various reasons create more complex and thus intractable conflicts, which not only limit the effectiveness of such global regulatory regimes as mechanisms for conflict resolution and peacebuilding, but also require special care to anticipate and mitigate potential unintended, negative impacts that regulation can entail.

First, where conflicts are motivated by a mix of political, security, ethnic, and economic factors, curtailing resource flows to combatants may weaken their capacity but not their resolve to continue fighting. For example, the impact of the UN diamond and oil embargoes against UNITA and the RUF on the subsequent end of conflict in both of these countries is far from definitive. While the sanctions did lead to significant reductions in financial flows to these insurgents, they did not directly induce a more rapid peaceful settlement, as some had envisioned. Their impact on outcomes has been indirect, at best, by raising the marginal costs of prosecuting war by the targeted groups, weakening their fighting capacity, and increasing intra-group fractionalization by intensifying rivalries over spoils. Most importantly, in both cases, economic sanctions were accompanied by military support to the beleaguered governments and helped to break military stalemates by shifting the military balance in favor of government forces. Ultimately, war only ended with the death or capture of rebel leaders Jonah Savimbi and Foday Sankoh. This shows that sanctions should not be viewed as a peaceful, technocratic alternative to military intervention and support, but rather as a complementary instrument.

Second, conflicts in which lootable resources figure prominently appear to be associated with increased predation of civilians by armed groups in the form of forced labor, extortion, pillaging, and looting, as control over lootable natural resources relieves combatants of the need to generate and maintain social capital among putative supporters. Where lootable resources do not exist, extortion of local and interna-

tional enterprises and the capture of relief aid and diaspora remittances may instead provide the necessary resources for combatants, as was the case in Nepal, Sri Lanka, and Kosovo. Policies aimed at denying rebels access to these resources may, however, shift their behavior and strategies towards increased predation of civilians to compensate for lost revenues necessary to sustain their war effort—with significant humanitarian consequences.

Third, lootable resources such as coca and poppy in Colombia, coltan in the DRC, and alluvial diamonds in Sierra Leone and Angola, as well as diaspora remittances in Sri Lanka, Kosovo, and Nepal have not only generated substantive economic benefits for rebel groups who use them for their armed struggle; frequently, they have also become critical sources of survival for the civilian population. While often under the predatory control of rebel forces, civilian incomes from these activities can sustain livelihoods and hence compensate for the state's failure or incapacity to provide basic services. Efforts to curtail such resource flows may, thus, not only face strong local opposition and increase civilian support for rebel movements, but also exacerbate civilian hardships, thereby multiplying the points of conflict.

Fourth, in almost all cases presented here the opportunity to generate income through the exploitation of or trade in lootable resources and/or combatant remuneration in the form of licenses to loot and pillage has led to increased fragmentation and fractionalization of both state and rebel combatant groups. Regulatory policies might further increase fractionalization by causing violent intra-group competition over the “shrinking pie,” making it difficult for rebel leaders to impose a potential peace settlement on their followers and multiplying the number of potential peace-spoilers.

- Targeted commodity sanctions and arms embargoes against rebel groups may help break military stalemates by shifting the military balance in favor of government forces. In the short-term, however, this may lead to increased violence. In the case of Angola, while sanctions weakened UNITA's military capacity, they also transformed

UNITA from a potent conventional army into a guerrilla force with increasingly predatory behavior towards the civilian population. In considering sanctions as a conflict resolution tool, then, policy-makers should understand that, far from being neutral and non-violent, sanctions can be a highly coercive and partisan policy instrument.

- When designing and implementing regulatory policy approaches aimed at curtailing resource flows to zones of conflict, policy-makers need to distinguish between those actors and groups who engage in armed conflict for profit and power (*conflict exploiters*), and civilians who participate in war economies to sustain their livelihoods (*conflict dependents*) and who may suffer as much from indiscriminate rebel predation as from ill-conceived efforts to end it. It is also important to adequately identify those who are fighting wars for other reasons than pure self-enrichment and who thus might be more impervious to economic sanctions and inducements.
- The ambivalent role that diaspora remittances play in conflict highlights the need to create regulatory and monitoring mechanisms to deny such funds to combatant groups, while still allowing them to support legitimate, humanitarian ends. Rather than engaging in blanket freezes, this may require governments to be more proactive in creating mechanisms for identifying, supporting, and engaging pacific and transparent diaspora organizations, while also showing greater determination to sanction those proven to fund insurgents or terrorist groups.

Economic Inducements and Peacemaking

Economic agendas of belligerents need not be viewed as exclusively conflict promoting. In some instances, the promise of continued access to lucrative resources might provide putative adversaries with a compelling incentive for collusion rather than forceful competition. This can lead to temporary, localized, and informal cease-fire arrangements between rank-and-file combatants, such as occurred in the diamond fields

of Sierra Leone and Angola. Extending this logic, some have argued that commitment to more robust peace accords may be bought, provided that the economic compensations to warring parties are sufficiently attractive. This strategy failed, however, in the case of rebel leaders Foday Sankoh and Jonah Savimbi.

The case of Burma, however, provides an instructive contrast. Here, the informal business ventures granted by the military regime to ethnic insurgents as economic compensation for the cessation of hostilities resulted in a set of informal but remarkably robust ceasefires, despite the continued absence of a formal or comprehensive peace accord. Importantly, however, these inducements operated alongside the government's continued and credible threat of resumed counter-insurgency, a factor that was missing from similar efforts in Sierra Leone and Angola. Yet, even where successful in the short term, securing ceasefires through a combination of economic inducement and military threat does not guarantee a sustainable or just peace, particularly where, as in Burma, the entrepreneurs of violence and corruption are rewarded at the expense of civilian well-being and where the root causes of conflict remain unaddressed.

- Policy-makers need to identify and adequately integrate economic incentives of combatants within a wider set of political and strategic inducements for conflict resolution and peacebuilding. Whether such "economic peace dividends" can co-opt potential peace spoilers into sustainable peace depends on other factors, such as a credible threat of punishment in the case of resumed hostilities, the reintegration of former combatants, and – in specific circumstances – the a posteriori 'legitimization' of illegal activities in war times.

Criminalization of Conflict

With fewer alternatives to self-financing, contemporary insurgency groups have increasingly engaged in illegal economic activities either directly or through links with international criminal networks engaged in the smuggling of valuable resources, trafficking of arms and drugs, and money laundering. The capture of

pre-existing shadow economies and informal cross-border trade networks, such as occurred in Burma, Sierra Leone, Kosovo and the DRC, and their integration into the global criminal economy allows insurgents to transform illegally exploited natural resources, drugs or contraband, as well as diaspora remittances into military capacity.

For some observers, contemporary insurgencies have thereby transformed into mere criminal organizations and should be treated as such. Policy-makers, however, should treat this conclusion with caution. What distinguishes combatant groups from criminal organizations is not the economic activities pursued nor even the methods employed. Rather, it is the purposes for which these activities are undertaken.²⁷ Whereas criminal organizations employ violence in the sole pursuit of profit, combatant groups in the conflicts analyzed have – albeit to varying degrees – engaged in illicit trade and economic predation to pursue military and political goals.

- Policy-makers should seek to criminalize activities rather than actors. Casting rebellion as a criminal rather than a political phenomenon may mischaracterize legitimate grievances and foreclose opportunities for negotiated resolution to the conflict by calling for criminal prosecution or military defeat rather than diplomatic mediation and inclusionary peace processes. It also lends *de facto* legitimacy to state actors, regardless of their behavior and role in the conflict.
- Interdiction policies can in fact increase criminality by raising the value of the commodity targeted by international interdiction efforts or sanction regimes, and hence the profitability of sanctions-busting and trade in conflict commodities for less-scrupulous war profiteers specialized in the circumvention of rules and regulations. Improved interdiction requires more comprehensive yet flexible policy responses that take into account both the demand and supply-side of criminal activities. In the case of illicit drug cultivation, provision of alternative livelihoods

rather than criminalization alone may enhance the prospects of peace by releasing civilians of their dependence on combatant-controlled war economies.

“Bringing the State Back In”

Importantly, the cases in this volume demonstrate that the high risk of conflict attributed to natural resource abundance in a given country is not a direct relationship, but rather one that is mediated by critical governance failures by the state. Systemic corruption and economic mismanagement, patrimonial rule, and political and socio-economic exclusion of ethnic or other minority groups may create conditions conducive to the onset of both separatist and non-separatist conflicts. They may also fuel political and economic grievances by undermining the state’s legitimacy and weakening its capacity to perform core functions, such as the provision of security, the management of public resources, and the equitable and efficient provision of basic goods and services.

Poor governance, particularly the state’s failure to manage natural resource exploitation effectively and equitably, also affects the relative strength of the state being challenged and thus strongly influences the opportunity for and feasibility of rebellion. The weaker the state’s legitimacy and coercive capacity, the lower the opportunity costs borne by potential challengers. The more widespread the informal economy, the less resources accrue to the state and the easier it is for rebels to capture resources and networks that give them access to the finances and weapons necessary to challenge the state. In Kosovo, the DRC, and Sierra Leone, for example, the outbreak of rebellion occurred at a time when both the legitimacy and military capacity of the governments were severely diminished, and access to resources and weapons in cross-border informal war economies made armed rebellion militarily feasible.

- Research and policy need to go beyond a narrow “rebel-centric” approach to more adequately analyze and address the role of the state both as an

²⁷ See Phil Williams and John Picarelli, *Organized Crime, Conflict and Terrorism: Combating the Relationships*. Paper prepared for the IPA Conference on Policies and Practices for Controlling Resource Flows in Armed Conflict, Bellagio, Italy, 21-23 May 2002.

institution and as a central actor in the political economy of armed conflict. Outside interventions should focus on structural conflict prevention by addressing the underlying problems of weak economic governance and state failure in conflict-prone regions that make armed insurgency politically and economically feasible. Importantly, this includes designing and supporting tools and strategies for more effective, equitable, and accountable systems of natural resource management, complemented with longer-term strategies of economic diversification and poverty reduction.

- Post-conflict state-building efforts should be focused on redressing popular grievances by expanding political and economic opportunities to marginalized groups through more inclusive and accountable politics. Yet, efforts should also be directed at strengthening the technical and regulatory capacities of the state to provide the necessary security, reestablishing control over natural resources to generate income from taxation, licensing, and export, and effectively addressing criminalized shadow economies as the sources of finance and military materiel for potential peace-spoilers.

The Regional Dimension of Armed Conflict

The terms “civil war” or “intra-state conflict” are inadequate descriptors for most contemporary conflicts, as key actors and dynamics driving such conflicts are generally not confined to national boundaries. In particular, the war economies sustaining these conflicts tend to have strong regional and even global dimensions, including the predatory military involvement of neighboring states, international criminal networks trading in licit and illicit commodities and arms, private security firms and mercenaries, diaspora communities, and internationally operating private companies. These linkages not only significantly influence the character and duration of hostilities; they also complicate the prospects for

conflict resolution and post-conflict stability by increasing the number of potential war profiteers and peace-spoilers.

- Contemporary armed conflicts need to be analyzed and addressed within their regional political economy, incorporating a wider range of stakeholders than typically considered relevant to understanding and resolving conflict. Regional approaches to conflict management, including UN Security Council sanctions enforcement, need to be developed to complement and thus strengthen national and global strategies to control regional flows of arms and resources.
- Regional organizations need to receive greater technical and financial support to improve cooperation on customs controls and border policing necessary to curtail cross-border trafficking of arms, drugs and commodities. Such regulatory efforts need to be complemented with regional cooperation on key economic and trade policies (tax and pricing differentials, customs duties, etc.) as a means to make informal cross-border trade less profitable, to generate income for the governments, as well as to avoid diverting shadow trade to neighboring countries.

Taken together, these studies suggest that global regulatory and interdiction regimes for managing resource flows from and to conflict zones are important mechanisms for improved conflict prevention and resolution. However, they require substantial strengthening and adaptation to be more effective, and more responsive to potential unintended consequences. The analysis of these conflicts shows that “supply-side” measures of regulation are necessary yet insufficient solutions to the problem. As long as the structural, “demand-side” factors of underdevelopment and state weakness remain unaddressed, international efforts will continue to treat the symptoms rather than the complex range of causes of contemporary armed conflicts.

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Contributors

Karen Ballentine is Senior Associate for the International Peace Academy's Program on Economic Agendas in Civil Wars (EACW).

John Bray is Director of Analysis at the Control Risks Group, an international business risk consultancy.

Charles Cater is a doctoral candidate in International Relations at St. Antony's College, University of Oxford.

Alexandra Guáqueta is Analyst in the Department of Government Affairs for Occidental Petroleum in Colombia.

Rohan Gunaratna is Associate Professor at the Institute of Defence and Strategic Studies, Nanyang Technological University in Singapore.

Leiv Lunde is Senior Policy Analyst at the ECON Centre for Economic Analysis in Oslo, Norway.

S. Mansoob Murshed is Associate Professor of International Economics and Conflict Studies at the Institute of Social Studies (ISS) in The Hague, Netherlands.

Anthony Regan is a constitutional lawyer who advised the Bougainvillian parties in the negotiations with the Papua New Guinea government.

Michael L. Ross is Assistant Professor of Political Science at the University of California, Los Angeles.

Jake Sherman, is Political Affairs Officer in the Office of the Special Representative of the UN Secretary-General, UN Assistance Mission to Afghanistan (UNAMA).

Alexandros Yannis is a Research Fellow in the Programme for Strategic and International Security Studies in Geneva and in the Hellenic Foundation for European and Foreign Policy in Athens.

International Peace Academy

777 United Nations Plaza
New York, NY 10017-3521
Tel: (212) 687-4300
Fax: (212) 983-8246
www.ipacademy.org