Facilitating Economic Activity in Conflict Zones

Çatışma Alanlarında Ekonomik Faaliyetleri Artırma

Dean C. ALEXANDER

Abstract

This article argues that there is a growing recognition that peace -largely, the absence of internal and external violence- enhances economic activity, while conflict has the opposite effects. Nations experiencing such disorder cannot abandon economic activity until violence subsides. Nevertheless, obstacles to conducting commerce exist in conflict zones more so than elsewhere. Even in countries where conflict is extensive, some positive economic activity is exhibited. As such, it is vital to discuss which policies, activities, and organizations tend to contribute to economic activity in conflict zones. Consequently, governments, industry, nongovernmental organizations, and the populace can emphasize these productive efforts in the economic arena, and, thereby, offer some helpful variables in conflict zones.

Keywords: Conflict zones, violence, commerce, business, economic development.

Öz

Bu makale, barışın, yani büyük ölçüde dâhilî ve harici şiddetin yokluğunun, ekonomik faaliyeti artırmırken çatışmanın ise tersi

* Associate Professor, Director of Homeland Security Research Program, Western Illinois University. E-mail: deancalexander2011@gmail.com.
Introduction

There is a growing recognition that peace -largely, the absence of internal and external violence- enhances economic activity, while conflict has the opposite effects. Countries suffering conflict cannot abandon economic activity until violence subsides. Still, impediments to doing business exist in conflict zones more so than elsewhere. Even in countries where conflict is pervasive, some positive economic activity is engendered. Against this backdrop, it is critical to highlight which policies, activities, and organizations tend to contribute to economic activity in conflict zones. In doing so, governments, industry, nongovernmental organizations, and the populace can focus on such productive efforts in the economic arena, and, thereby, inject some positive features in conflict zones.

Enhancing and Undermining Economic Activity

Peace contributes to economic development and conflict has negative effects. Business investment benefits from security and
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stability.\(^1\) During peacetime, economies prosper and business becomes efficient.\(^2\) Moreover, “businesses can help prevent conflicts, primarily by facilitating communication and creating interdependencies in society, across the entire spectra of ethnicity, religion or other potentially dividing factors.”\(^3\) Additionally, “companies can add other values that may help prevent conflict by reducing various intercommunal tensions and creating economic opportunities for marginalized groups.”\(^4\)

In contrast, conflict impinges upon traditional business activities and pushes businesses into otherwise less transparent and competitive settings. With fewer opportunities, private sector activity is stifled. In such milieus, businesses also become targets of kidnappings and extortion, further undermining private sector activities.\(^5\)

Likewise, conflict situations can contribute to macroeconomic weakness, ultimately undermining monetary and fiscal activities. So too, the demand and supply sides of the economy are exacerbated by conflict.\(^6\) In fact, the costs of conflict globally are estimated at $100 billion annually.\(^7\) “On average, a country that experienced major violence over the period from 1981 to 2005 has a poverty rate 21 percentage points higher than a country that saw no violence.”\(^8\)

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5 Ibid, p. 7.
“Persistent effects of violence on outputs are likely to come from the destruction of current assets and falls in investment which reduces future asset creation.”\(^9\) Moreover, “a decline in investment is the main channel through which conflict affects output and growth.”\(^{10}\) Globally, companies tend to eschew investments in conflict zones, as the physical and financial risks are viewed as outweighing the benefits of such high-risk venues.\(^{11}\)

As conflict interferes with traditional payment systems and financial intermediaries, business deals increasingly occur in cash with limited access to credit markets. Conflict enhances infrastructure degradation as transport links, energy and fuel facilities, and trade facilities are often targeted. In weakening economic activity, conflict also undermines workers and labor markets as underemployment ascends. In fracturing governance and industry capacities, conflict likewise diminishes social capital as trust among individuals, groups, and organizations are stymied.\(^{12}\)

To reiterate, “[a]rmed conflict represents a major challenge to job creation. Conflict destroys communities, institutions, infrastructure and human capital.”\(^{13}\) The severity of conflict in weakening economies rests on the geographical scope (nationwide or localized) as well as the stage (ongoing or has ended) of the conflict. Inadequate infrastructure


\(^{10}\) \textit{Ibid.} p. 2.

\(^{11}\) “Business in conflict zones: India Inc and government have to pay”, \textit{The Economic Times}, 2010 May 16.


and the absence of functioning markets, along with the lack of security and displaced populations, are often endemic in armed conflicts. Likewise, growth domestic product rates are generally lower in conflict zones than elsewhere.\textsuperscript{14}

**Impediments to Doing Business, Particularly in Conflict Zones**

Impediments to doing business comprise political instability, traditional crime, inadequate infrastructure, taxes, policy uncertainty, and corruption.\textsuperscript{15} Other obstacles for conducting business include limited entrepreneurship skills, such as customer service and accounting. In addition, small and medium-sized enterprises (SMEs), which are among the main drivers of job growth worldwide, unfortunately suffer from a number of impediments, encompassing: access to financing, networks, and business skills.\textsuperscript{16}

The lack of strong and predictable business regulatory environment, like difficulties with registering business and the enforcement of contracts, foment an increasingly informal business framework -often found in conflict zones- with higher levels of inefficiencies. In markets dominated by few competitors, market domineers often utilize price manipulation, political influence, and vertical integration.\textsuperscript{17}

Limited electricity and transport capacities undermine economic development, including job growth, while simultaneously raising the costs of doing business.\textsuperscript{18} For instance, infrastructure needs for “rural farming communities include transport and communication services, energy, water and irrigational facilities and extension services.”\textsuperscript{19}

\begin{itemize}
\item \textsuperscript{14} Ibid.
\item \textsuperscript{15} Ibid, p. 16.
\item \textsuperscript{17} Rob Mills and Qimiao Fan, *Ibid*, p. 1.
\item \textsuperscript{18} Lakshimi Iyer and Indhira Santos, *Ibid*, p. 13.
\item \textsuperscript{19} “Unlocking the African Moment – Rural Infrastructure in Africa” DSM paper series.
\end{itemize}
The enabling environment of business -fluid “governmental, regulatory, legislative and judicial processes”- is weakened in conflict zones as institutional fragility runs rampant, which also hastens corruption. In some countries, warlords, often buttressed by political power players, are able to accumulate sizeable businesses and create monopolistic businesses. Therefore, companies should try not to assist corrupt government officials, insurgents, or terrorists, as sometimes occurs with some extract industries, such as conflict diamonds in Angola or timber in Thailand and Cambodia.

**Overview of Market Sectors**

There are various ways to categorize economic sectors even in conflict zones. One approach includes separating industry sectors accordingly: basic materials, conglomerates, consumer goods, financial, healthcare, industrial goods, services, technology, and utilities. In another approach, the International Labor Organization delineates economic activities as follows: agriculture, non-agriculture, industry, manufacturing, construction, services, and self-employed.

According to the International Standard Industrial Classification of all Economic Activities, business sectors are set out as such as:

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21 *Ibid*


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- Agriculture, forestry, hunting and fishing
- Mining and quarrying
- Manufacturing
- Construction
- Electricity, gas, water and sanitary services
- Commerce
- Transport, storage and communication
- Services
- Activities not adequately described

As the levels of informal economies can be significant in certain countries, the breadth and dynamism of economies are sometimes underestimated. For instance, in Africa, “the average size of the informal sector as a percentage of GDP was 42% in 2000.” In Zimbabwe and Tanzania, those figures reached 59.4% and 58.3%, respectively. Businesses in informal economies often characterized by small, labor-intensive firms. Notwithstanding, participants in informal economies often fail to pay their full share of taxes, which denies governments of much needed revenues.

Business in Conflict Zones

The private sector creates wealth, promotes socio-economic development, and contributes to preventing and resolving conflict.

27 Ibid
28 Jane Nelson, “The business of peace: the private sector as a partner in conflict
For successful entrepreneurship, particularly in conflict-affected areas, partnerships “among governments, nonprofits, and corporations are critical.” Through their operations, firms can take advantage of first-mover advantages, even in conflict zones. Still, companies should be cognizant of the unique business factors and risks—security, costs, insurance, contractual obligations, personnel—that exist in distinct conflict zones, as they are all not alike.

Despite various externalities inherent in doing business in conflict zones, some opportunities appear too attractive to dismiss. This is particularly true for companies working in extractive industries where business is inextricably tied to the host country, even one suffering the ailments of conflict. For instance, in 2010, it was revealed that Afghanistan “may be sitting on an estimated $1 trillion (U.S.) in untapped mineral deposits including huge veins of iron, copper, cobalt, gold and lithium.” Unfortunately, there are also some indications that easily movable “commodities,” including diamonds and drugs, can contribute to non-separatist conflicts.


highlighting. Roshan is the largest mobile phone company, employer, and taxpayer in Afghanistan. Since 2003, the firm has invested more than $390 million, operates in all 34 provinces of Afghanistan with over 3.5 million subscribers. The company employs directly and indirectly (as dealers, distributors, contractors, and suppliers), 1,000 and 25,000 persons, respectively, one-fifth of them women.  

Unfortunately, Roshan has also suffered attacks against its cell network towers. As its security costs escalated to $14 million annually, Roshan adopted a new community-based security model, with the consultation of local councils (shuras). This proved to be somewhat effective, as the shuras quickly understood that damage to cell network towers would affect local employment and economic opportunities.

Women-owned businesses have succeeded in some conflict zones, as in the sewing business started by Kamila Sidiqi in Afghanistan, who was featured in the book, The Dressmaker of Khair Khana. Likewise, Afghan women formed a business called DOTSI -connoting the term friendship in Dari- that successfully sells soccer balls.

In providing training in relation to entrepreneurship, it is important to find partners with track records of success as well as catering training in relation to local requirements. For instance, the “most popular sectors that Liberian women are seeking skills training in are restaurants, catering, retail, agribusiness, and tailoring.”

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34 Ibid
Afghanistan, the [10,000 women program] is administered through the Thunderbird School of Global Management and the American University of Afghanistan (AUAF). The most popular sectors among women entrepreneurs are construction, food production, and handicrafts (i.e., woodworking and silk). The program aims to train 300 women in 5 years.\textsuperscript{38}

Tourism, while obviously a stronger contributor to growth during peacetime has some dimensions of peace building -reconciliation and socio-economic foundations- that has attractiveness as a conflict wanes. For instance, in post-conflict Rwanda, the tourism sector quickly became the country’s leading foreign exchange earner.\textsuperscript{39} Still, “revenues gained in tourism typically decrease in the event of an armed conflict, for the simple reason that tourists are not inclined to spend their leisure time in a dangerous and potentially life-threatening environment.”\textsuperscript{40}

**Entities Promoting Business in Conflict Zones**

There are various activities companies that operate in conflict zones can commence in order contribute to promoting business, such as:

- Undertake an extensive assessment of the needs and risks inherent in such areas of operation
- Resolve disputes within communities constructively and rapidly
- Adopt international best practices in relation to the hiring of security professionals

\textsuperscript{38} Ibid


\textsuperscript{40} Ulrike Joras, *Ibid*, p. 2.
• Shun providing funds or assistance to armed groups
• Avoid being complicit with human rights violators
• Prohibit participation in bribery and corrupt actions
• Consult and communicate with local communities
• Ensure that actions take into consideration the operating environment
• Promote collaboration with civil society and international organizations\(^41\)

Special economic safe zones, modeled after special economic zones (SEZs), offer duty-free imports, solid infrastructure, with a goal of encouraging exports.\(^42\) “SEZs have been established in several post-conflict countries, including Cambodia and Mozambique, where they have helped attract foreign investors and spur job creation. In Cambodia, for example, export processing zones have been associated with the country’s impressive job creation performance after the war, especially among women.”\(^43\)

There are a number of governmental organizations that aid in contributing economic vitality, such as:

The U.S. Department of Defense’s Task Force for Business and Stability Operations (TFBSO or Task Force), which seeks “to reduce violence, enhance stability, and restore economic normalcy in areas where unrest and insurgency have created a synchronous downward spiral of economic hardship and violence. TFBSO creates stabilization by developing economic opportunities through a range of efforts, including encouraging investment by U.S. and international businesses,

\(^43\) *Ibid.*
developing a country’s natural resources in a way that is economically sound and environmentally responsible, and assisting industrial development and agricultural revitalization.\textsuperscript{44} TFBSO had ample successes while it operated in Iraq, and, presently provides important economic development activities in Afghanistan. More specifically, TFBSO have been primarily concentrated in the minerals, energy, indigenous industries, agriculture, and information technology sectors of the Afghan economy.\textsuperscript{45}

Non-governmental organizations that assist in economic development globally include: the World Bank, International Monetary Fund, International Finance Corporation, regional development banks (i.e., Asian Development Bank, African Development Bank, Latin American Development Bank), among others.\textsuperscript{46} Also, national finance and development institutions (i.e., Overseas Private Investment Corporation, U.S. Agency for International Development, DEG, and COFIDES) succor in economic development.\textsuperscript{47}

\textsuperscript{45} Ibid.
Also, there are various non-profit organizations that undertake economic development and business accelerator activities in conflict zones and developing countries including:

- **Mercy Corps** - “Our economic development projects provide financing, equipment, training or technical support. These projects help people find jobs, build their businesses, supply their communities with the goods they need and improve their lives.”\(^{48}\) Also, “Mercy Corps-sponsored microfinance institutions, savings and credit cooperatives, loan-guarantee programs, and technical support reach more than one million people in over a dozen countries.”\(^ {49}\)

  * **Bpeace** - “It is a non-profit coalition of business professionals offering pro-bono access to our expertise, technical assistance, networks and proven methodologies to help entrepreneurs expand their businesses into sustainable and profitable enterprises. We select motivated entrepreneurs we call Fast Runners to receive access to our services.” The organization operates in Afghanistan and Rwanda, and plans to initiate activities in Bosnia and El Salvador.\(^ {50}\)

  * **Cherie Blair Foundation** - “We invest in women entrepreneurs so they can build and expand their businesses - and in doing so benefit not only themselves but also their families and communities. The Foundation focuses its efforts on Africa, Asia and the Middle East in countries where women have made strides in education and have the potential to succeed in business but lack the necessary support.”\(^ {51}\)

  * **The Small Enterprise Impact Investment Fund** increases access of capital to small and medium-sized enterprises (SME) in developing


\(^{49}\) Mercy Corps, Micro Enterprise, web site: http://www.mercycorps.org/topics/microenterprise (Access date: 02 October 2012).


countries.\footnote{52} Business Edge, part of the International Finance Corporation, training seminars and self-study books for managers and business owners of small and medium-size companies in developing countries.\footnote{53}

A multitude of partnerships among and between government, business, business associations, and nongovernmental institutions have developed in promoting commerce and assuaging the levels of conflict. Such relationships have also fostered the development and adherence by many companies to voluntary codes of conduct connected with their business activities. Also, these “partnerships have helped businesses understand the role they play in areas like human rights, equity and violent conflict as well as helped setting standards of behavior.”\footnote{54}

Conclusion

While peace aids in nations in achieving economic prosperity, conflict undermines such efforts. Although obstacles exist for businesses to flourish, especially in conflict zones, industry manages to excel nevertheless. In fact, diverse entrepreneurial successes occur across a variety of sectors, even in conflict zones. There are many domestic, regional, and international governmental, non-governmental, and private sector entities that encourage and facilitate commerce in conflict zones. In order to ensure economic development is accelerated in conflict zones, it is imperative that such organizations are allowed to play a constructive role in transforming conflict zones into post-conflict zones.

\footnote{54} Tobias Evers, \textit{Ibid.}, p. 17.
ÖZET


Barış, devletlerin ekonomik refahı yakalamasına yardımcı olurken, çatışma ortamı bu tür çabaları baltalamaktadır. Özellikle çatışma bölgesinde ticaretin gelişmesine yönelik engeller mevcut olmasına rağmen, sanayi çevresi bunların üstesinden gelmeyi başarmaktadır. Aslinda, çatışma bölgesinde bile değişik sektörlerde girişimcilerin başarısı görülmektedir. Çatışma bölgesindeki ticareti teşvik eden ve kolaylaştıran birçok yerli, bölgesel ve uluslararası resmi, gayrıresmi ve özel sektör kuruluşları mevcuttur. Çatışma bölgesindeki ekonomik gelişmenin hızlandırıldığından emin olmak maksadıyla, bu gibi kuruluşların çatışma bölgesinde, çatışma sonrası bölgesine dönüştürmede yapıcı bir rol oynaması zorunludur.
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