

# ECONOMICS OF PEACEBUILDING (ECONOMIC TASKS IN TIME OF PEACEBUILDING)

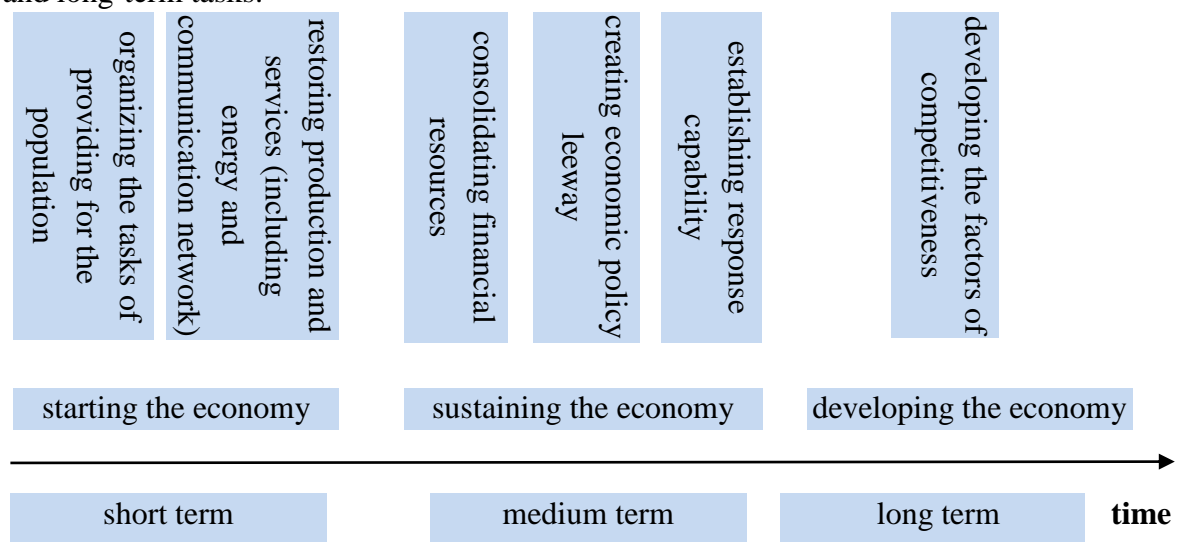
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**Abstract:** *This paper describes the tasks of the government – and the internal and external forces and organizations supporting it – in the short term restoration of the economy as well as in the middle term insurance of its functioning and in the long term establishing of its development. It identifies the key elements of creating and reinforcing supply and financial security as well as economic policy leeway in the middle term. It also examines how permanent growth can be stabilized by improving the factors of competitiveness in the long term. The paper aims to draw attention to the fact, which is often forgotten by military personnel, members of other armed organizations and public administration experts, that peacebuilding has very important economic dimensions.*

**Keywords:** peacebuilding, economic recovery, supply security, competitiveness

## 1. Introduction

At the end of the previous article (Role of peacebuilding in context of economic security) [1] I divided the economic tasks of peacebuilding activity into short-term, medium term and long-term tasks:



*Figure 1: The economic tasks of peacebuilding  
(made by the author)*

In this article I expand these tasks to understand, why peacebuilding activity (and its economic dimension) is so complex and difficult and which are the main factors and circumstances which can obstacle us reaching our goals. For separating the different terms and their meanings, we can't assign an exact time interval to them. Briefly we can say, that short term means that period of time, while we start and invigorate the functioning of the economy. After it medium term means that period within we stabilize the still fragile functioning of the economy. Long term starts from that point when the normal activity of the economy has already stabilized and it is automatically functioning thus we can focus on the social and economic progress. It depends on the – internal and external – circumstances that how much time (months, years) these tasks require in the reality.

## **2. Economic tasks of peacebuilding**

### **2.1. The short-term economic tasks of peacebuilding**

During the process of peacebuilding creating supply security is a task of primary importance. Supply security includes all the elements of the production/service and distribution chain together with the related factors, which makes it a very complex task. [2] Consequently, the supply security tasks during peacebuilding are significantly dependent on the general level of development of society, the economy and the technological environment as well as on the extent of the damage caused by the conflict. In a country of low development level which has suffered extensive damage the first step is usually the organization of the tasks of providing the population with the basic needs. In order to do this, outside organizations are needed, which can partly or entirely provide a part of these goods (food, medical supplies), since in such a situation the economy is not capable of covering the basic needs of the country, and nor does it produce any exportable value in exchange for which it would be able to purchase these goods. (Figure 2) That is why providing for the population is usually impossible without outside help. Restoring the critical infrastructure (logistic infrastructure, water supply, energy and communication network etc.) that is needed to provide basic supplies for the population is also among the first steps. This requires, in addition to material inputs, labour force, capital and technology. The labour force is available in most cases. However, it can happen that there is a shortage of certain highly qualified experts (engineers, medical experts, IT experts). In order to fill the shortage outside help will be needed again, and this is where various NGOs can be approached. There are also technological preconditions for the restoration of the infrastructure, which can often be an obstacle in a country of low development level. It is not certain that the actors of the local economy possess those technologies which would facilitate the rapid and effective restoration of supply. In such cases outside help may also be necessary. Technological assistance might come from NGOs, however, they cannot really be regarded as economic actors and as such they do not have a technological background. Typically, technology comes from a country with a more developed economy. It can happen that the more developed country – typically the state – will provide the technology in the form of a technological transfer (aid), but it is more common that based on normal market logic, multinational companies will carry out the restoration – obviously in return for payment and a profit. For the latter, and also to pay the domestic and foreign workers participating in restoration and supply, financial resources are needed. In a post-conflict country, especially if it is underdeveloped, there is a limited availability of financial resources or none at all. Therefore, outside help is needed once again. It can come from the international community directly or indirectly through various international organizations (UN

institutions, the World Bank). It is important to supervise the use of these resources in order to make sure that the money is spent on providing for the population and not on something else (arms, organized crime, corruption).

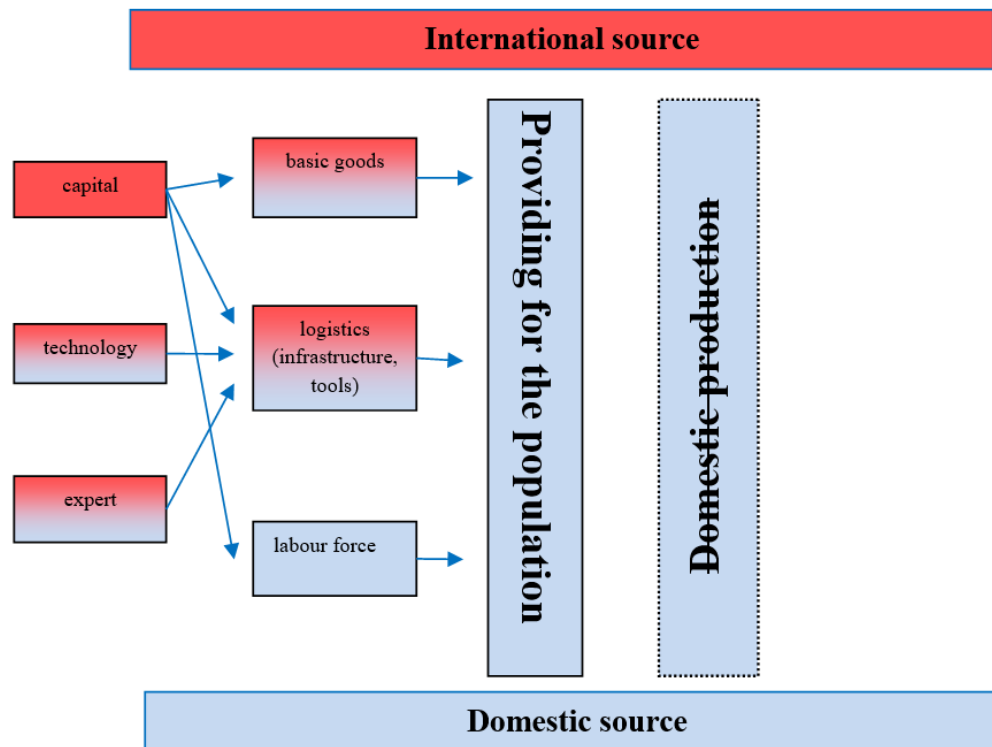


Figure 2: Peacebuilding in the short term, organizing the tasks of providing for the population (made by the author)

The next step is creating the conditions for the domestic economy to be capable of meeting the demands of the population. (Figure 3) It includes tasks similar to those described above, with more emphasis on technology and capital. The difference is that here we are talking about finance facilities provided for the enterprise sector. In fact, the international community, including the states and private individuals, are much less willing to finance the establishment of private companies than providing for the population. [3] The suffering of the population usually stimulates the international community to act and provide help. However, few would readily give money to foreign companies or for the economic policies of a foreign country. The fact is that organizing the tasks of providing for the population is no more than intravenous therapy for the country; recovery can only start when the country's economy is capable of producing or procuring the basic goods. For this purpose it is necessary to artificially restore the economy and ensure the availability of agricultural and industrial means of production. The given country is only to a limited extent capable of financing it, so outside sources are indispensable. But these sources are often (generally) not available. Most of the time, the international community is only willing to finance the basic provision of the population, but not (or only to a very limited extent) the restoration of the economy. As a result, the country remains in the state of a coma, and recovery has not started yet. The domestic enterprise sector is incapable of financing this recovery, while the foreign private sector is not willing to do so. Foreign capital will only be invested in the reconstruction where — naturally — foreign companies can see the opportunity to obtain

some useful resources. In this case the proceeds of these resources will flow abroad, which is detrimental to the country in the long term. With regard to the efforts to revive the enterprise sector, it is often argued that supervising the proper use of outside financial resources is even more difficult in this case. It is true, but if the economy is not restarted, the final resolution of the conflict cannot be achieved and it is highly likely that sooner or later it will flare up again with even bigger intensity. After World War II the pacification of Western Europe and Japan was only achievable through the restoration of the economy, which was helped by outside financial aid (the Marshall Plan).

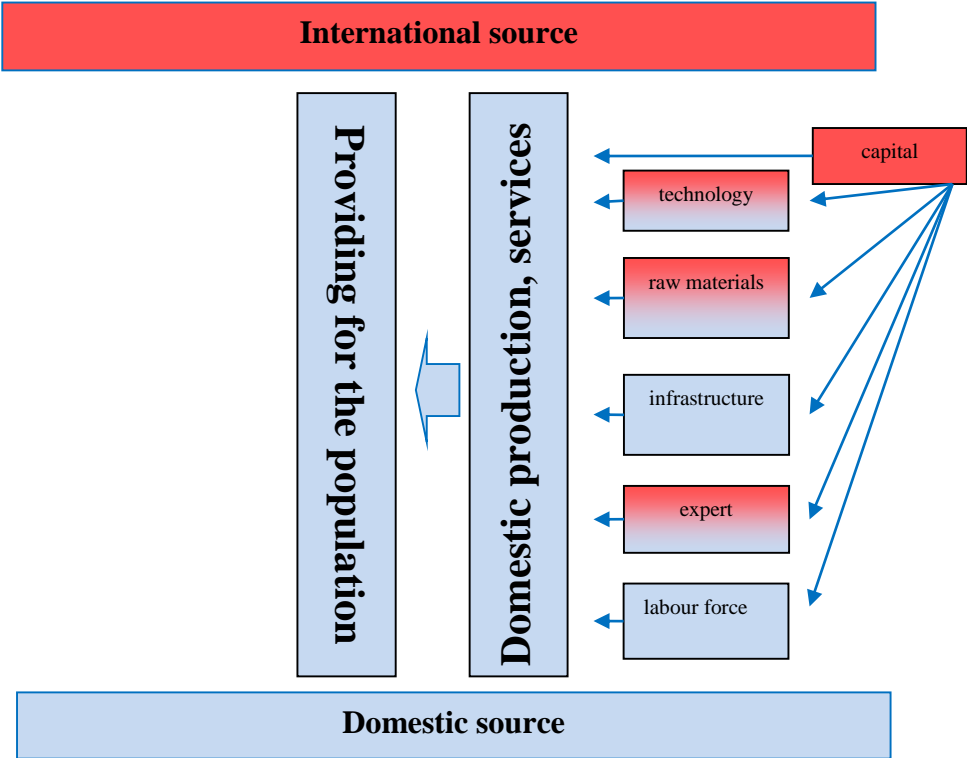


Figure 3: Peacebuilding in the short term, starting domestic production and services (made by the author)

**2.2. The medium-term economic tasks of peacebuilding**

The medium term economic task of peacebuilding is to ensure that the restarted economic activity is sustained. During the period of peacebuilding economies are still very vulnerable. Their typical characteristic is the presence of sectors that create little added value, and the diversification of the economy is also low, which make the economy even less resistant to crisis (or increase vulnerability). For this very reason, in this period it is still extremely important to maintain precise and effective governance, and that the international community should not abandon the country which has just started to recover from the crisis.

After the economy started functioning in the previous period, and became capable of satisfying its basic needs, in this period the most important task is to create economic policy leeway. (Figure 4) It means that economic policy has to become capable of forming and influencing the economy both directly and indirectly, whether it be responding to social challenges or determining directions of development. The main prerequisite for this is financial leeway, which means sustainable public debt, a manageable level of inflation and a stable rate of exchange. The conditions for a sustainable public debt are a low budget deficit and cheap outside (or possibly domestic) sources of capital. A low

budget deficit can be achieved if the tax system has been created and works appropriately, expenditures are planned for the long term and corruption is under control. The conditions for obtaining cheap outside sources of capital are more or less the same. However, the market is, typically, rather unstable in the period of peacebuilding and therefore, subsidies from the international community may be needed again. The condition for a manageable level of inflation is that the state should not cover budgetary expenditures by having more money printed, which requires that the state should have tax revenues. Creating a stable rate of exchange may be the most difficult task because it requires balancing the balance of payments account, in other words achieving that the value of the debit entry should not be significantly higher than that of the credit entry. It can be achieved by producing exportable goods and increasing the capability to attract capital. Since it is particularly challenging in the case of a post-conflict country, it can be regarded as the most difficult task connected to the creation of economic policy leeway. Another reason for this is that in order to protect the rate of exchange from sudden fluctuations, it is necessary that the bank of issue should have sufficient foreign exchange reserves, which is very rare in a post-conflict country.

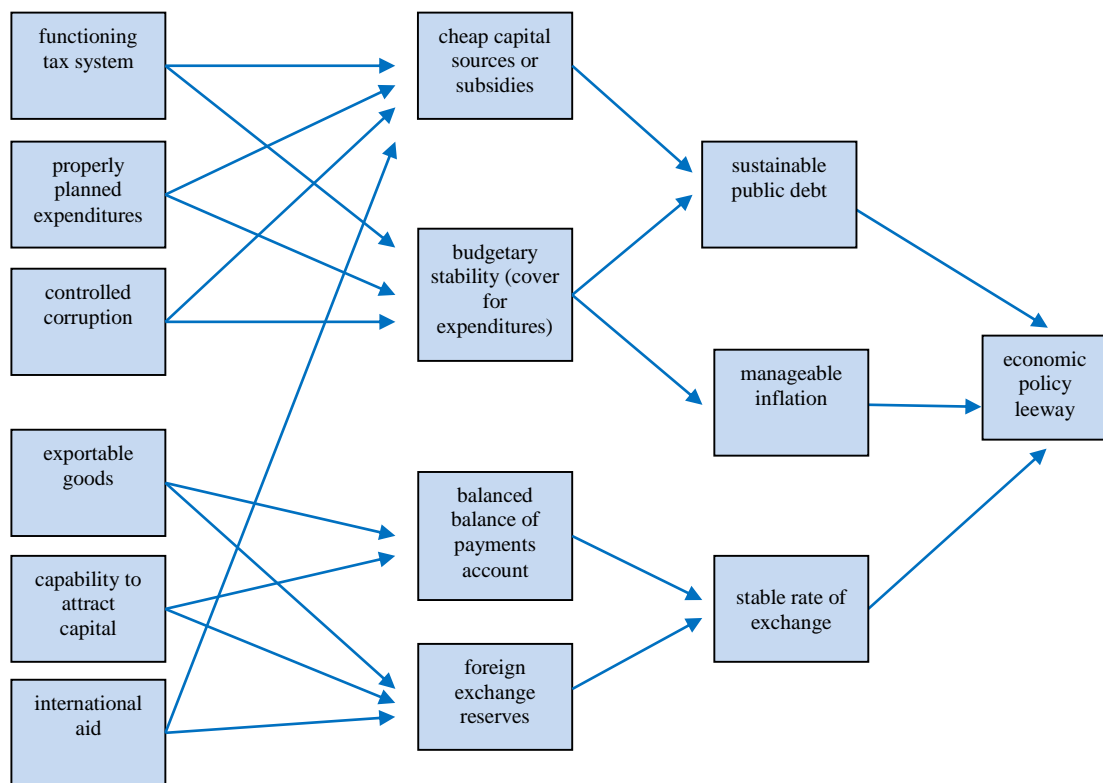


Figure 4: Creating economic policy leeway (made by the author)

There is no guarantee that the given country will not need to face further crises during the period of peacebuilding, whether it be a crisis of political, military, natural or global economic origin. The economic tasks of peacebuilding include the creation of the economy's capability to respond to such crises. As a result of the functioning of the economy — and society — being rather vulnerable, it is worth placing special emphasis on the continuous strengthening of this capability. The appropriate regulatory systems need to be drawn up, the necessary reserves need to be established (e.g. medical instruments,

durable food products, etc.) – at this level of economic development this is the maximum that defence economic capability can mean. (Since there is a shortage of financial resources and capital, we cannot speak of any reserve capital assets or availability contracts). This level can only be reached if in the short term the economy has already been started, and the normal level of providing for the population has been ensured.

### **2.3. The long-term economic task of peacebuilding**

In the long term the task is obvious: to start the development of the economy. In order to do this, the factors of competitiveness need to be improved. In our globalized world there is a competition for competitiveness among the national economies. Capital and qualified work force will flow to those countries whose economy is more competitive, and that is where, in the course of transnationalization, the processes producing a higher added value will take place. In other words, that is where more income will be produced, people will have higher living standards and there will be a more developed social welfare system. Capital will leave a country with a less competitive economy in no time, unemployment will increase, only a low added value will be produced, and as a result, living standards will decrease.

To put it very simply, there are three things that can improve competitiveness: special resources, a high level of productivity or low costs. [4] In the short term competitive advantage can be achieved in all three areas, but in the long term high social welfare can only be created through high productivity level. For this reason, if a country wants to take a path of convergence during the process of peacebuilding, it has to aim at increasing productivity. Basically, productivity has the following factors: [5]

- technological environment, technological level
- research, development and innovation
- qualification of labor force
- quality of infrastructure
- speed of technology-diffusion
- innovativeness of local small and medium sized enterprise sector
- national, business, organizational culture and values
- general work ethic
- applied management tools and leadership culture
- effectiveness of legislative environment and governance
- general sanitary (health) conditions
- trust (among the members of society and among the economic actors)

The most important characteristic of good governance is that the emphasis in the country's economic politics is placed on the above mentioned components. This development is a very complex task, and analyzing it would go far beyond the scope of this presentation. In short, the indispensable precondition is the thorough understanding of the existing social, economic (and political) structure and social and cultural attitudes. It might be the most important. Furthermore, a good knowledge of economics, world economics, technology and awareness of the technological and economic trends are also needed.

In addition to these, improving productivity, obviously, requires a huge amount of capital. Suffice to think of increasing the standards of education, health care, infrastructure and reforming the structure of the economy, and we have not even mentioned research and development and innovation. The development of education, health care and infrastructure is mostly financed by the state. In order to reform the structure of the

economy and reallocate private capital to new sectors which are on an upward path and produce more added value, economic-political aid — investment and innovation support as well as preferences — is needed besides the direct interventions of the state (state investments). There is no doubt that in a post-conflict country resources are in short supply, and for this reason, again, outside resources are required. For programs aimed at improving competitiveness outside resources can be provided by the various organizations of the World Bank. The mission of the World Bank is, typically, to support these types of long-term programs and projects which are aimed at competitiveness enhancement and economic restructuring by providing low-interest or interest-free loans. In addition to all these, it might become necessary to reschedule or partly write off the public debt which was accumulated before the crisis. The economy of a completely or partly destroyed country can be wrecked by the interest burden of the debt. It means that debt interest payment and due loan repayment extract so much resources from the economy that the lack of these resources will prevent the development of the factors of competitiveness listed above. The economy is forced to spend the income that has been produced on debt repayment and not on improving education, health care or infrastructure. It means that instead of catching up, it will fall further behind in the competition for competitiveness, which, in turn, might lead to a renewed conflict. One thing has to be understood: it is not enough to make or enforce peace in a country, but the right conditions have to be created for the country to step on the path of continued economic development. If the latter does not happen, it is only a matter of time when the international community will have to intervene again in the given country. The fact is that the total cost of a series of interventions could be a lot higher than the cost of setting the country on an upward path. The key to the upward path is competitiveness, and that is why, even during the process of peacebuilding, improving competitiveness must be a priority of good governance irrespective of whether it means internal — sovereign — governance or external — international community — support.

### **3. Conclusions**

What has been discussed above shows that those who are involved in peacebuilding face serious economic and professional challenges, which the leadership of the given country might not be able to meet on their own. For this reason, during this period of peacebuilding it may be necessary for the international community to help the country by providing economic experts. Experts who do not only understand the laws of the economy but are also aware of the methodology, the difficulties and the specialities of peacebuilding, the fragility of the post-conflict transition phase and the particular ways underdeveloped countries function. The international organizations should create a resource base of such experts who could be “deployed” in any kind of post-conflict situation, and would be able to help the rebuilding of the country independent of power interests. (The United Nations has already created the Peace Building Architecture [6], but it should be further developed. Especially because we can’t see real progress and development in those countries – Bissau-Guinea, Burundi, Central African Republic – where the UN has started to use this architecture.) Thus, the efficiency of peacebuilding could increase, and in case of success it would be possible to establish a protocol similar to the supervision of the UN Trusteeship Council, which was set up to oversee the decolonization of certain territories. During the period of peacebuilding the country’s economic politics could come under UN supervision — at least in the short and medium terms, which could increase its efficiency and the likelihood of success. (The UN’s efficiency is questionable, though.) Of course, at the moment it is a far-fetched idea, since

it is hardly conceivable in the case of sovereign states, which is what we are talking about, no matter how underdeveloped and devastated these states are.

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