The Political Economy of
Peacemaking

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Preface

Finding a negotiated exit out of armed conflict is like an expedition through a mountain range. At the beginning, the mountaineers know that all previous attempts were aborted at one point, and some may have doubts whether this endeavour is not too risky. To make matters worse,

> the mountaineering team is composed of people who have previously been at each other's throats, often literally, and who are roped together. They must now overcome their suspicion and fears to accomplish a common task. For many ending the violence is a sufficient objective. If they succeed, a cease-fire may follow. At last travellers are able to peer over the summit – but they will not see a tranquil panorama of gentle hills. Instead the view reveals new mountains, some apparently more formidable than the one just climbed. The process, it turns out, requires participants to climb an entire mountain range rather than a single mountain.
>
> (Darby 2001: 4)

This book is about one of the many paths through such a mountain range. It looks at peacemaking from a political economy perspective and elaborates its implications for the engagement, negotiation, and transition phases of peace processes. The book emphasizes the importance of recognizing the links between the 'political', 'security', and 'economic' spheres in the messy and often unjust realities of conflict situations. The book does *not* suggest that merely 'getting the economics right' will end armed conflicts. Rather, it examines if a better understanding of the economic dimensions of peacemaking offers new opportunities for assisting negotiated conflict endings. The analysis draws on over a decade of scholarly contributions on the political economy of conflict, and distils various research outputs from a multi-year project on economic issues and instruments in peace mediation.

There are three general themes that run through the book. The first is that the economic dimensions of armed conflicts and groups can be opportunities – not just obstacles – for peacemaking. Issues such as grievances over rapacious natural resource exploitation, the use of economically motivated armed violence, or globalized conflict economies have generally been understood as an integral part of

the conflict and, therefore, as a problem for its resolution. This book proposes to reverse this observation and explore how economic issues can be an opportunity for peacemaking and strengthen war-to-peace transitions.

The second theme captures the need to transform peace mediation from a reactive, ad hoc response to security crises or human rights abuses, to a systematic or programmatic approach to assisting transitions out of war and violence. These processes require a constant effort to succeed, and ongoing support mechanisms and capacities. While international attention to mediation support infrastructures is growing, so far the focus rests on ending the violence associated with armed conflicts. While making sure the fighting stops is undoubtedly important, wanting to end a conflict without specifying 'what next' may complicate this very endeavour. For some belligerents, life is better if they continue fighting, or using their guns in criminal violence after a peace agreement. In this context, economic issues and instruments shape visions on what a 'new future' could look like, and strengthen the transitional pacts necessary to achieve it. Such a forward-looking peacemaking strategy applies to both conflict and non-conflict contexts when addressing the challenges related to the youth bulge, urbanization, and criminal violence.

The third theme is that the integration of economic issues and instruments into peace initiatives requires a new set of partnerships. In order to support the creation of new futures, mediators should reach out to the expertise of development agencies and local or international business. While the exact role of these actors has to be evaluated on a case-by-case basis, they are central in providing a sense of credibility to the prospect of a better future. Having development or commercial actors supporting peace processes strengthens the notion that life without armed violence is indeed possible – and perhaps even more profitable than to keep on fighting. Ensuring credible benefits during negotiation processes is especially important for non-state armed groups (NSAGs), because controlling the levers of violence can be their only negotiation chip and means of financing.

This book is the outcome of a multi-year research project at the Centre on Conflict, Development and Peacebuilding (CCDP) of the Graduate Institute of International and Development Studies in Geneva. The idea for thinking about the political economy of peacemaking was born during a workshop on 'Incomplete Negotiations' of the Processes of International Negotiation (PIN) network near Vienna in July 2005, and coincided with an interest by the Federal Department of Foreign Affairs (FDFA) of Switzerland to strengthen its mediation support activities through targeted research. Joint deliberations between the Swiss FDFA and the CCDP resulted in an overview study on the economic dimensions of peace mediation. Successive research phases focused on the treatment of economic issues in three specific peace processes – Sudan (North-South), Nepal, and Indonesia (Aceh) – and the opportunities for peace mediation deriving from economic instruments including income sharing from natural resources, development assistance, and private sector investment. The outputs of this research project represent the foundation of this book (Appendix 1).

Over the last decade the debate on the political economy of conflict and peace processes has evolved in both practitioner and scholarly worlds. This book takes

stock of this evolution and proposes a thematically organized monograph that examines the current state of knowledge on the role of political economy issues in peacemaking. The book evolves from a general overview of the economic dimensions of peace processes in the introduction towards the exploration of specific topics in subsequent chapters. These include the implications of the political economy of conflict for the engagement of belligerent parties in peace processes (Chapter 1), the treatment of economic issues in peace negotiations (Chapter 2), and the use of economic instruments in peace processes (Chapter 3). In terms of war-to-peace transitions, the book looks at the management of natural resources (Chapter 4), partnerships with development agencies and business (Chapter 5), and the challenge of conflict economies in forward-looking peacemaking strategies (Chapter 6).

Acknowledgements

Abbreviations

AWS	Agreement on Wealth Sharing
CAR	Central African Republic
CCDP	Centre on Conflict, Development and Peacebuilding
CEO	Chief executive officer
CHD	Centre for Humanitarian Dialogue
CNDP	*Congres National pour la Défense du Peuple* (National Congress for the Defence of the People)
CNOOC	China National Offshore Oil Corporation
CNPC	Chinese National Petroleum Company
CPA	Comprehensive Peace Agreement
CPN-M	Communist Party of Nepal – Maoist
CPN-UML	Communist Party of Nepal – United Marxist-Leninist
CSR	Corporate social responsibility
DDR	Demobilization, disarmament, and reintegration
DFID	Department for International Development
DRC	Democratic Republic of the Congo
ECA	Export Credit Agency
EITI	Extractive Industries Transparency Initiative
FARC	*Fuerzas Armadas Revolucionarias de Colombia* (Revolutionary Armed Forces of Colombia)
FDFA	Federal Department of Foreign Affairs
FDI	Foreign direct investment
FDLR	*Forces Démocratique de Libération du Rwanda* (Democratic Forces for the Liberation of Rwanda)
FMLN	*Frente Farabundo Martí para la Liberación Nacional* (Farabundo Marti National Liberation Front)
GAM	*Gerakan Aceh Merdeka* (Free Aceh Movement)
GDP	Gross domestic product
GoS	Government of Sudan
GoSS	Government of Southern Sudan
IDP	Internally displaced person
IFC	International Finance Corporation
IISS	International Institute for Strategic Studies

ILO	International Labour Organization
IMF	International Monetary Fund
KLA	Kosovo Liberation Army
KPCS	Kimberley Process Certification Scheme
LIZ	Lhokseumawe Industrial Zone
LNG	Liquefied natural gas
LTTE	Liberation Tigers of Tamil Eelam
MDTF	Multi-donor trust fund
MERCOSUR	*Mercado Común del Sur* (Southern Common Market)
MoU	Memorandum of Understanding
MPLA	*Movimento Popular de Libertação de Angola* (Popular Movement for the Liberation of Angola)
NAD	Law on Special Autonomy for Aceh
NCP	National Congress Party
NGO	Non-governmental organization
NSAG	Non-state armed group
NPC	National Petroleum Commission
NRF	Natural resource fund
ODA	Official development assistance
OECD	Organization for Economic Co-operation and Development
PCNA	Post-conflict needs assessment
PDI	Private domestic investment
PIN	Process of International Negotiation
PLA	People's Liberation Army
PMC	Private military company
PSI	Private sector investment
PWYP	Publish What You Pay
RENAMO	*Resistência Nacional Moçambicana* (Mozambican National Resistance)
RNA	Royal Nepal Army
SOE	State-owned enterprise
SPA	Seven Party Alliance
SPLM/A	Sudan People's Liberation Movement/Army
TNI	*Tentara Nasional Indonsia* (Indonesia Defence Force)
UNDP	United Nations Development Programme
UNDPA	United Nations Department of Political Affairs
UNITA	*União Nacional Para a Independência Total de Angola* (National Union for the Total Independence of Angola)
UNSC	United Nations Security Council
UNSG	United Nations Secretary-General
USAID	United States Agency for International Development
USIP	United States Institute of Peace
WHO	World Health Organization

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Introduction

Charting the political economy of peacemaking

Over the last two decades, various scholarly literatures and political initiatives have addressed the economic characteristics and consequences of armed conflicts. These involved issues such as 'blood diamonds' and other conflict goods, economically motivated armed violence, self-financing conflict, or the complicity of companies, state elites, or warlords in conflict economies. Usually, these issues have been treated as part of the conflict, and therefore, as an inherent problem for its resolution. This book proposes to change our optics on the economic dimensions of armed conflicts, and perceive them as opportunities, rather than obstacles, for peacemaking; hence it examines how the integration of a political economy perspective into peace initiatives contributes to ending an armed conflict, and supporting war-to-peace transitions.

While many peace mediators are more familiar with addressing the military or political dimensions of conflict endings though ceasefire deals or power sharing agreements, there is an ever greater recognition that economic issues and instruments are important – but relatively neglected – elements in peace processes. For example, Nobel Peace Prize Laureate Martti Ahtisaari maintains that "agreeing about practical and concrete economic conditions during peace negotiations is crucial. Maybe one could even claim that finding a mutual understanding on money can really be seen as a manifestation of joint political will for peace" (Ahtisaari 2008: 11).

This book charts the opportunities and constraints of integrating a political economy perspective into peacemaking. Such a perspective is concerned with the interaction of political and economic processes in society, and especially with the distribution of power and wealth between different groups and individuals. Integrating a political economy perspective into peacemaking does not have the objective of adding another layer of complexity to what is already a tremendously complex and in many ways uncontrollable endeavour: ending an armed conflict through a negotiated settlement. Rather, it is merely an adjustment of mediation practice to the transformation and new characteristics of armed conflict after the end of the cold war.

Embracing a political economy perspective is important for the following reasons:

- The principle targets of peace processes – armed conflicts and the belligerents who fight them – have economic characteristics that must be recognized and

dealt with. These include, for example, the economic agendas and conditions that shape the organization and dynamics of armed conflict, the financing and mobilization cost of armed groups, as well as conflict-induced economic transformations.

- Economic issues and instruments make a positive contribution to peace process dynamics. Economic issues can represent a lowest common denominator between the parties, provide incentives for cooperation, and support tactically informed decisions to stop fighting. Economic instruments have the capacity to change the behaviour of the parties by appealing to their cost-benefit calculations through reasoning and persuasion.
- The integration of an economic perspective into peace initiatives requires a new set of partnerships. In order to support the creation of new economic futures, mediators should reach out to development agencies and local or international companies, especially when negotiations near their conclusion. These actors make the promise of a better future more credible and strengthen the belligerents' commitment to peace because the returns from disarmament and demobilization becomes more tangible.

Certainly, managing economic issues or using economic instruments in peace talks wisely will not solve all problems during what are unpredictable and contradictory transition processes. When peace processes are simply the absence of fighting or a reflection of domestic politicking – and there is no will of the parties to stop fighting – placing economic issues on the table will have little effect, especially if armed violence is self-financing.

Nevertheless, limiting peace processes to the military or political sphere leaves out sizable opportunities for conflict resolution and strengthening a lasting peace. The economic dimensions of peace processes discussed in this book emphasize the importance of understanding economic issues and instruments in relation to political, military, and other contexts; it is not about charting an economically deterministic path for peacemaking. The analysis hopes to facilitate the recognition of opportunities for the engagement, negotiation, and transition phases of peace processes.

This introduction charts the various economic dimensions of peace processes. It introduces the concepts of peace processes and mediation, and briefly reviews the scholarly work on the political economy of conflict. It then describes the three lines along which the book is structured: the first is the relationship between the economic characteristics of armed conflict and the engagement of armed groups; the second the role of economic issues and instruments in peace negotiations; and the third the benefits of forward-looking peace negotiations for strengthening war-to-peace transitions. The introduction closes with an overview of the chapters.

Understanding peace processes

The notions of 'peace' and 'conflict' have preoccupied the minds of philosophers, statesmen, and peoples for centuries. They are generally perceived as the

two extreme ends of a spectrum that defines the conditions in which human life takes its course. Peace studies tend to understand this condition to imply that peace is the norm and violent conflict a deviation; hence, its orientation towards a 'positive' peace: "a condition of good management, orderly resolution of conflict, harmony associated with mature relationships, gentleness, and love" (Boulding 1978: 3). Such an understanding of peace is often related to Asian philosophies that consider harmony and authority as two necessary peace principles. In Confucian thought, for example, pacific harmony within and between individuals is the main ordering principle for society (Adolf 2009: 63, 68). In Western societies, the view that peace is 'normal' emerged within middle-class, intellectual societies in Western Europe – especially in Victorian Britain – and their unwillingness to pay for and die in war (Murray 2009: 3–4; Howard 2001: 30). Today, peace is considered 'normal' by most young Europeans and North Americans whose only exposure to armed conflict is through the media.

In contrast, the disciplines of international relations and history tend to depart from this towards the opposite extreme in which 'conflict' is the norm – and 'peace' a deviation. From this perspective, 'peace' is "the absence of turmoil, tension, conflict and war", or a 'negative' peace (Boulding 1978: 3). However, the existence of *conflict* does not mean that this conflict must be resolved violently. 'Peace' therefore means "an order in which war does not settle conflicts" – thus capturing situations in which conflicts exist, but these are managed without recourse to the use or threat of armed force (Howard 2009: xiv). The logical consequence of assuming that 'conflict' is the default condition of mankind is that 'peace' has to be *established* and *maintained* through a constant human effort; hence the focus of this book on peacemaking. It is important to realize that conflicts generally have constructive attributes:

> [Conflict and dispute] have valuable individual and social functions – they provide the impetus for social change and individual psychological development. The question is not how to avoid or suppress conflict; doing so usually has harmful or stagnating consequences. Rather, the question is how to create the conditions that encourage constructive, enlivening confrontation of the conflict.
>
> (Folberg and Taylor 1984: ix)

In historical terms, instances of peacemaking were first described by Herodotus and Thucydides regarding the struggles between the Greek city-states and the Persian Empire (490–479 BC), and the Peloponnesian War between Athens and Sparta (431–404 BC). Much later, historians associated peacemaking with the great peace conferences, such as the Congress of Westphalia (1643–48), the Congress of Vienna (1814–15), the 1919 Treaty of Versailles, or the 1945 Potsdam Conference. These conferences defined an era of peacemaking between states that were partly responsible for the creation of new international orders after major inter-state wars (Holsti 1991: 353). The treaties resulting from these efforts had the objective of establishing gains and losses from war, legitimizing war outcomes, and

reaffirming international norms and conventions. However, these accords often only represented a short-term victor's peace, and not a long-term commitment to a future in which disputes are resolved without recourse to armed force (Keen 2009a: 24).

In present times, peace accords remain important instruments for ending armed conflicts. Even though most armed conflicts since the end of the Second World War ended with a military victory, more conflicts ended though negotiated settlements in the 1990s and 2000s. Out of the 122 recorded conflict endings in the 1990s, 41 ended though a negotiated settlement and 23 through military imposition, while the rest petered out. This trend continued between 2000 and 2005 with about three times more armed conflicts ending with a negotiated settlement than military victory (HSRP 2007: 35). The shift from inter- to intra-state armed conflict since the 1990s reduced the global systemic impacts of conflict resolution but increased their relative importance as instruments to frame domestic orders in conflict countries.

The experience of armed conflict is traumatic and instils a tremendous energy in people to prevent the suffering and destruction of war. From a historical standpoint, it is fair to say that the costs and strains associated with the conduct of war mostly resulted in negative outcomes for all belligerents and their constituencies. This in turn encouraged those responsible for the conduct and strategy of war to think about limiting, or preventing, the use of armed force as a strategy to achieve political or economic objectives (Holsti 1991: xv, 21–22). A review of the making of ten historic peace treaties found that

> failing to consider present actions in terms of future risks holds that future hostage to ill-considered arguments of military or political 'necessity', which subsequently may place intolerable burdens on those tasked with making peace in the wreckage left by war. [. . .] War must always be a last resort because its aftermath will inevitably raise problems that may be and often are more daunting than those that the war was supposed to solve.
>
> (Murray 2009: 16, 27)

The establishment of 'peace' requires differentiation between what is a 'conflict' and when this conflict transforms into an 'armed conflict'. In these terms, 'peace' means the resolution of an existing 'armed conflict', and the creation of an order that manages future 'conflicts' to prevent these from becoming new 'armed conflicts'. These elements have also been described in the conflict resolution literature as the backward- and forward-looking dimensions of peacemaking. Backward-looking dimensions relate to past violence and injustices; forward-looking dimensions to visions of the future and paths towards new political, economic, or societal orders (Zartman 2005a: 295). Establishing a lasting 'peace', therefore, requires that peacemakers convince belligerents to stop fighting, but also to design the new orders that frame post-conflict transitions. These two dimensions are intricately related because without an understanding of, or credible guarantees for, these new orders, armed violence continues to be the best option for many belligerents.

The making of 'peace' is a *process* that is messy, complex, and uncertain, with few, if any, clear or simple directions or blueprints on how to manage it. Peace processes have been defined as "measures deployed to resolve differences, and settle disputes or conflicts, through diplomacy or other methods of peaceful settlement rather than violence" (Ramcharan 2009: 228). The process of peacemaking evolves over a series of overlapping phases between the engagement of the belligerents and the resolution and transformation of the conflict (Guelke 2003). Since the mid-1970s, the term 'peace process' has become more widely used to describe sustained initiatives to end armed conflicts, after it had initially been associated with American-led efforts to foster a negotiated settlement between Israel and its Arab neighbours (Ramcharan 2009: 229).

Although the diversity and complexity of peace processes makes categorization difficult, a peace process has been described to exist when the protagonists are willing to negotiate in good faith, the key actors are included in the process, negotiations address one or multiple issues in dispute, and the negotiators do not use force to achieve their objectives, and are committed to a sustained process (Darby and Mac Ginty 2000: 7–8). Nevertheless, these are not exclusive defining criteria but rather signposts whose manifestation can vary according to the context. For example, parties hardly ever engage in a peace process in good faith – which would be counter-intuitive after years of fighting – but rather signal a certain willingness to talk. Moreover, the total inclusion of all actors is rarely possible. What matters is the 'sufficient inclusion' which means that there is a large-enough support for deal makers that outnumbers and marginalizes extremists or spoilers (Darby 2001: 119). In addition, armed violence frequently accompanies peace processes, and is one of the most difficult challenges for a peace process. Violence tends to disrupt peace negotiations temporarily; however, it can also have a positive effect by catalyzing efforts toward a settlement (Höglund 2008: 177; Darby 2001: 97–100).

The definition of what is an end goal of a peace process is a contested issue. In its 'narrow' approach, a peace process is exclusively about making sure the killing stops. Mediating a negotiated settlement is, therefore, just one of multiple strategies of conflict de-escalation and termination that may also involve military intervention. A ceasefire deal represents a minimum level of ambition for a 'negative' peace, and peacemakers can then hand over to a different set of actors who manage the post-conflict transition. The limit of this 'narrow' view of peace processes is that it deals with *symptoms*, but not with the motives and conditions that are underlying the use of armed violence.

A 'broad' approach considers peace processes as a *continuum* between the engagement of the belligerents and the implementation of a peace accord (Ramcharan 2009: 230). The notion of a continuum defines a scale of ambition in which the ending of armed violence is just the starting point to build a lasting peace. At the international level, the Agenda for Peace of United Nations Secretary-General (UNSG) Boutros Boutros-Ghali laid out a more comprehensive approach to peacemaking including the prevention of conflict and strengthening post-conflict peacebuilding. The latter was defined as an "action to identify and support

structures which tend to strengthen and solidify peace in order to avoid the relapse into conflict" (UNSG 1992: 5). In addition to creating the conditions necessary for a lasting peace in war-torn societies, peacebuilding has also been associated with the promotion of democracy and market economies (Paris 2004: 5–6). From the perspective of conflict resolution, peace processes aim to transform the sources of a conflict, design orders or institutions that manage disputes peacefully, nurture non-violent behaviour patterns and attitudes, and change discourses that are held to reproduce armed violence (Ramsbotham *et al.* 2005: 29, 163; Dayton and Kriesberg 2009: 3–5).

This book holds that peacemaking is not just about short-term measures to end the violence associated with a conflict, but is embedded in a larger effort of war-to-peace transitions. In this sense, peace processes are not defined temporally by the period before and after a peace agreement or by the common 'conflict' and 'post-conflict' distinction. Instead, peace processes look both backward and forward as they deal with the past violence and injustices, and define new visions and frameworks for a future after war. Such a holistic perspective opens new opportunities for peacemaking and the establishment of a lasting peace.

Mediation and armed conflict

Mediation is one of the most frequently employed methods of peaceful dispute resolution described as a process whereby an independent third party assists conflicting parties to reach a collectively acceptable settlement through dialogue and negotiation (United Nations 1992: 43). One of the tasks of a mediator is to "systematically isolate disputed issues in order to develop options, consider alternatives, and reach a consensual settlement that will accommodate their needs" (Folberg and Taylor 1984: 7).

In conflict resolution, mediation is a strategy of conflict management with the aim of shifting the interaction between parties from being authoritarian or adversarial to integrative and problem-solving. In principle, parties agree voluntarily to engage in mediation because they expect greater benefits from mediation than other ways of conflict management (Bercovitch 1997: 149; Fisher 2001: 4–5). As a strategy, mediation is situated between conciliation and arbitration. Conciliation explores informal links between conflict parties to encourage direct interaction and identify issues of contention. Arbitration renders a binding judgement through a legal procedure based on the consideration of the merits. Conciliation and arbitration are the two opposite ends in a continuum of different degrees of third-party intervention in which mediation covers the middle ground (Fisher 2001: 11).

Mediation has a long record in Asia where Confucian thought emphasized that the optimal solution to a dispute is moral persuasion and agreement rather than sovereign coercion that disrupts the natural harmony in human affairs. In Africa, mediation was used in neighbourhood meetings – the *moot* – that provided informal mechanisms for interpersonal and community dispute resolution without arbitration or sanctions. The use of mediation at the community level has also been common in Japan and entered its legal code as the principle method for the

resolution of interpersonal disputes. In the Western world, mediation became a widely employed tool in the private and corporate sphere in many countries. It is used to manage divorce and custody or heritage issues as well as to settle housing, neighbourhood, environmental, and labour disputes (Folberg and Taylor 1984: 1–2, 130–232). In International Law, mediation is an instrument of the peaceful settlement of disputes between states. Article 33 of the United Nations Charter lists mediation along with negotiation, enquiry, conciliation, arbitration, judicial settlement or resort to regional agencies or arrangements. Mediation also underlies the concept of 'good offices' in which one state acts as a letterbox and messenger for two other states that do not have formal relations with each other (Malanczuk 1997: 275–76).

Peace mediation differs from civil or corporate mediation in the sense that it occurs in highly politicized and violent contexts. It is unrealistic to expect that a mediator can be truly neutral as some definitions of mediation require (Folberg and Taylor 1984: 7). While listening to the parties and understanding their positions is equally important, a peace mediator needs to rely on his or her judgement of what is acceptable while being tested by the parties or other actors within the orbit of an evolving process. For peace mediation, it is therefore more important to establish the mediator's independence and impartiality towards the parties and the issues. The cornerstone of independence is keeping the possibility of withdrawal open at all times – especially if the parties are acting outside of the bounds what is acceptable to the mediator.

Intra-state armed conflicts are a challenge for mediation because they are characterized by asymmetric power relations. In many cases, this asymmetry leads the weaker party to compensate for its lack of power by increasing its commitment to fight, thus further complicating the conditions for mediation:

> Internal armed conflicts are marked by intensity and commitment that . . . so lock the parties into opposition and hostilities that they cannot reach a turning point of perception and find a way out by themselves. They are unable to communicate with each other, unable to think of a solution that could be attractive to the other side as well as themselves, unable to conceive any side payments or enticements to turn the zero-sum conflict into a positive-sum solution, and unable to turn from commitment and a winning mentality to problem-solving and solutions to grievances.
>
> (Zartman 1995: 20)

In these circumstances, belligerents are often hostages to their own mindset that structures the way they perceive problems and solutions, and traps them into believing that armed violence is the only way out (Kohlrieser 2006: 16–17).

Engaging with these challenges is a sensitive endeavour. The leaders or envoys taking part in peace processes can be battle-hardened, traumatized, street-smart, or intellectual, and cheat, lie, and provoke in order to test the limits of the mediator or other parties. Mediating armed disputes also involves aspects of sovereignty – the monopoly of the use of force and legitimacy of government – and issues