How do Peace Support Operations Impact on Conflict Regions' Economies?

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Cover image: Shops at the German Air Base Camp Marmal outside Mazar-e Sharif, Afghanistan. Photo by Rickard Wissman, Försvarets Bildbyrå

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Sammanfattning

Vanligast sker fredsfrämjande insatser i utvecklingsländer, länder med svaga och i stor utsträckning informella ekonomier samt med undermåliga offentliga förvaltningar. Detta gör dessa länder extra mottagliga för externa ekonomiska chocker. I takt med att fredsfrämjande insatsers fokus har breddats till att inkludera fler områden och uppgifter har insatsernas inverkan på lokala ekonomiska förhållanden blivit allt mer omtalad.

Rapporten visar att fredsfrämjande insatser påverkar den lokala, såväl som regionala ekonomin, med både positiva och negativa utgångar. Utbudet av varor och tjänster, arbetsmarknaden och bostadsmarknaden är några områden som berörs. Konfliktländers marknader är även sammanlänkade regionalt och flertalet effekter påverkar regionala strukturer såsom handels- och migrationsmönster.

Olika insatser ter sig ha olika mycket ekonomisk inverkan. Området är viktigt att studera för att öka förståelsen för vilka handlingar som kan tänkas leda till vilka effekter. Målet är att identifiera strukturer och aktörer för att röna ut var man bör fokusera insatser för att förhindra skapandet av ”spoilers” eller att den fredsfrämjande insatsens agerande leder till kontraproduktiva effekter för skapandet av fred och säkerhet.

Utvecklingen av insatser verkar fortsätta att gå mot att vara mer omfattande i mandat och uppgifter. En utmaning för framtida insatser blir att hitta metoder som minimerar, eller åtminstone isolerar de ekonomiska effekterna till det lokala konfliktområdet.

Nyckelord: fredsfrämjande insatser, ekonomiska effekter, skuggekonomier, krigsekonomier, väpnade konflikter

Summary

Peace support operations (PSO) are normally carried out in poor countries with large informal markets and little state capacity. This situation makes these countries very susceptible to external shocks such as the economic impact of PSOs. This report analyses PSOs' economic impact on conflict regions.

The report indicates that PSOs have an economic impact both locally and regionally. The effects are both positive and negative. The demand and supply of goods and services, the labour market and the housing market are some aspects affected by PSOs. As local markets are intertwined with national and regional ones, the effects can spread throughout the country and even to the regional neighbours. Some of the aspects impinged on here are changed trade and migration patterns.

Different PSOs seem to inflict differently on the economy. The area is of importance as increased understanding of what actions lead to what types of economic effects can help identify spoilers and avoid PSO actions and policies from being counterproductive.

It seems as if the comprehensive approach will continue to prevail over the foreseeable future. This means that one of the challenges for future PSOs will be to find methods that minimise the economic impact, or at least isolate it to the local conflict area.

Keywords: peace support operations, economic impact, armed conflicts, shadow economy, war economy

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Abbreviations and Acronyms

CIMIC	Civil Military Cooperation
DDR	Disarmament, Demobilization and Reintegration
DPKO	Department of Peacekeeping Operations
EIP	Economic Impact of Peacekeeping
ESDP	European Security and Defence Policy
EU	European Union
GDP	Gross National Product
ISAF	International Security Assistance Forces
LDC	Least Developed Countries
MSA	mission subsistence allowance
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
OECD	Organization of Economic Cooperation and Development
PSO	Peace Support Operation
SSR	Security Sector Reform
TEU	Twenty Foot Equivalent Unit
UN	United Nations
UNMIK	UN Mission to Kosovo
UNTAC	UN Transitional Authority in Cambodia

1 Introduction

Many of the world's armed conflicts are long lasting and rooted in complex historical contexts. The reason behind a conflict can be anything from scarce resources, such as minerals, oil, fertile land and water, to family or clan rivalry. Peace support operations (PSO) have existed for more than 60 years and the number of operations is continuously increasing; of the 54 peace keeping operations that were established by the United Nations (UN) between 1954 and 2000, 36 were launched after 1991.[1] It is, however, not believed that peace can be gained without comprehensive institution building, democracy and respect for human rights.[2] Hence, PSOs have evolved in terms of receiving a mandate with wider focus and scope. Traditional peacekeeping operations often concerned the maintaining and supervising of a newly acquired state of cease-fire or peace. In order to sustain peace in the long term, modern PSOs more commonly entail complex peace building operations where the military component, especially civil military cooperation (CIMIC) units, is coupled with comprehensive state building tasks.

During the last ten years, researchers have shown more interest in how PSOs impact on host countries' economies. The topic is, however, still understudied and very few reports have been written on the economic effects of PSOs. The purpose of this report is, thus, to shed more light on how PSOs inflict consequences on host economies and where the impact will be the greatest. Specific attention will be put on the military intervention component of the PSO.

As they commonly lack reliable statistics and base line indicators, impact assessment on war torn economies are often fraught with methodological difficulties. The aim with this study is not to gather new information, but rather to summarise the work done on economic impact of PSOs and its economic effects on host economies. Hopefully, this report serves as a modest contribution to the understanding of how PSOs in general and military interventions in particular, have an economic impact on host economies and thus their ability to create stability, security and peace.

The questions analysed in this report is *how PSOs in general and military interventions in particular impact on the host economy and what the effects are?* Quite obviously, the impact of PSOs can be negative, positive or both. How a PSO affects the host country depends on several variables. The two most

[1] Hentges, Harriet and Goicaud, Jean Marc (2002). "Dividents of peace: the economic impact of peacekeeping". *Journal of International Affairs*, 2002, vol. 55, No. 2. New York: Columbia University

[2] Compare with Harris, Geoff and Lewis, Neryl (1999). "Armed conflicts in developing countries: extent nature and causes" in Harris, Geoff (Ed.) *Recovery from armed conflict in developing countries. An economic and political analysis*. London: Routledge

noticeable are the design of the PSO and to what extent the economy in the conflict region is resilient to external influences. Other aspects of interest are for instance geographic dimensions: how do PSOs impact on the local conflict area, the national level of the country in which the conflict takes place and on an international or regional level respectively? The analysis is here done by briefly looking at three possible future trends with a 20 year perspective:

1. A trend where funding states are becoming increasingly reluctant to finance vast state building projects and limit their objectives to stopping the immediate armed conflict with the use of traditional military means.
2. Status quo; military intervention is a component of comprehensive PSOs, thus entailing tasks such as CIMIC and related to more directly support socio-economic development.
3. An intensification of today's development with comprehensive PSOs and all encompassing state building projects. In this scenario, the military becomes more intertwined with other (civil) agencies and more actively engaged in tasks that today lie outside the military scope.

In order to answer the research question and show in what areas the impact has the greatest effects, it is important to identify actors and structures in the conflict region. This will be done from a political economy perspective; who are the central actors and what are their incentives for acting in a certain way; what structures are likely to exacerbate the situation of conflict or the economic impact of PSOs? In the end, assessing the economic structures, interests and activities of different actors may help in understanding and identifying existing or potential spoilers, i.e. actors that thrive from a conflict and have vested interest in its perseverance.

1.1 Contextual Background

In this report, the term PSO is understood as the whole range of multifunctional, multidimensional and complex PSO. Such operations are commonly authorized by the UN Security Council. PSOs consist of operations engaged by several different actors, both civil and military, with different mandates, means and methods. These operations are carried out in international environments with actors from different countries with different cultural backgrounds. What all operations have in common is the strive towards a common goal in the conflict area. In this study, focus will be put on the military intervention component, of PSOs.

Most of the existing PSOs and, thus, international military interventions take place in the world's poorest countries. These are categorised by the UN as Least

Developed Countries (LDC). Acknowledging that there is a correlation between development and conflict, these countries often share both common economic frameworks and challenges.[3] Commonly, their economies are to a large extent informal and thus, characterised by barter trade and transactions outside the legal economy. These countries also lack sufficient infrastructures in the sense of e.g. physical, financial and other institutional capacities. Several of these aspects were discussed in the 2007 FOI International Trends Analysis Yearbook.[4] The importance of variables such as income levels and distribution, the proportion of the population in or near poverty, the role of agriculture, the dependency on imports, the level of investments, private sector activities, domestic savings, government revenues and expenditures, inflation, the level of natural resources and raw material and foreign economic relations in general is underlined.

Another dimension of the economic framework of conflict countries or regions is described in the school of thought commonly referred to as *war economies*. Recent studies in the field have shown an increase in conflict self-financing.[5] Both rebels and government have to manage a post-Cold War decline in superpower support and have, thus, increasingly sought alternate sources of revenues to sustain their military campaigns.[6] Such economic activities include predatory exploitation of lucrative natural resources, for example oil, diamonds or narcotics; or the capture of trade networks, Diaspora remittances and/or informal economies. War economies have, like the rest of the world economy, become intricately linked with regional and global trade and financial networks – both legally recognised and illicit ones.

Consequences from PSOs are hard to predict as it is difficult to make a complete causality analysis. Robert Jervis argues that social life and politics constitute systems and that that many outcomes are unintended consequences of complex interactions.[7] A system is defined to consist of units or elements that are interconnected. When one unit changes it produces changes for one or several other units in the system.[8] Jervis means that when the relationship between the units is nonlinear, the system becomes complex and consequences from different

[3] Rönnbäck, Ann-Sofi (2007). "EU trade policy in the future: Contributing to peace or war? A study on EU-African relations" in Edström, Håkan and Wiss, Åke (eds.) *International Trends Analysis – Yearbook 2007*. Stockholm: FOI-R-2361—SE.

[4] See e.g. chapter 5 by Ann-Sofi Rönnbäck "EU trade policy in the future: Contributing to peace or war? – A study on EU-African relations"

[5] See e.g. Berdal, Mats and Malone, David M. (eds.) (2000). *Greed and Grievance: Economic Agendas in Civil Wars*. Boulder: Lynne Rienner Publishers; Ballentine, Karen and Sherman, Jake (eds.) (2004). *The Political Economy of Armed Conflict: Beyond Greed and Grievance*. Boulder: Lynne Rienner Publishers

[6] See e.g. Ballentine, Karen and Sherman, Jake (eds.), (2003). *The Political Economy of Armed Conflict: Beyond Greed and Grievance*. Boulder: Lynne Rienner Publisher.

[7] Jervis, Robert (1997). *System Effects: Complexity in Political and Social Life*. Princeton, NJ: Princeton University Press

[8] Ibid.

actions will be hard to manage. The subsequent argument is that systems are not isolated from each other. They are interconnected and changes in one system can lead to consequences for another system. On both a system level and a unit level, results can be reverse of the intention, they can be orthogonal, and they can spread throughout and between systems.[9]

The greatest problem occurs when consequences cannot be limited to the targeted population(s), for instance when ex-combats are perceived to benefit more from the international community's engagement through disarmament, demobilization and reintegration (DDR) programmes than those who did not take part in the violence.[10] Non-combatants are here given an incentive to engage in violent acts in order to be included in the DDR programme. In this case and others, supply creates demands that sometimes result in a behaviour described by economists as "moral hazard" – an unintended (negative) consequence of the purpose with the action. Jervis' reasoning is important when studying unintended consequences, especially in order to minimise unintended effects when developing methods and policies for PSOs.

1.2 Previous Research and Material

Earlier economic studies of PSOs have commonly focused on the cost of PSOs for the troop providing country.[11] It has, however, also been recognised that international PSOs have an economic impact on the host economy. This area of research is relatively new and most of the studies done have focused on the local economy and, sometimes, national macroeconomic aspects such as inflation. There is a need to further study the economic impact of larger and more complex PSOs. This is important not least as the costs of such operations can exceed the host country's Gross Domestic Product (GDP)[12] and consequences might have counterproductive effects on the goal of stability and peace.

Without reliable statistics and base line indicators, economic impact assessment of LDCs and war torn economies is often a complicated task. In this study, a central source of information is the work done by the UN Department of Peacekeeping Operations (DPKO) and particularly a study named *Economic*

[9] Ibid.

[10] Aoi, Chiyuki; de Coning, Cedric; and Thakur, Ramesh (2007) "Why study unintended consequences" in Aoi, Chiyuki; de Coning, Cedric; and Thakur, Ramesh (eds.) *Unintended Consequences of Peacekeeping Operations*. Tokyo and New York: United Nations University

[11] For example, these studies take into consideration aspects such as the relation between total defence expenditures and the cost/budget of PSO, the utility of PSO from a security perspective and how to finance PSO.

[12] Carnahan, Michael; Gilmore, Scott; and Durch, William (2007). "New data on the economic impact of UN peacekeeping" in *International peacekeeping* Vol. 14, no. 13, pp 384-402. London: Routledge

Impact of Peacekeeping (EIP).[13] However, the DPKO and the EIP study assess the entire (UN) PSO structure and its affiliated actors such as Non-Governmental Organizations (NGO) and it focuses on the impact on the local economy. In this study, the focus is on the military intervention. Furthermore, the impact assessment is expanded to include consequences on a national and international/regional level as well. This said, the EIP study is very useful as it assesses the accounting books of nine UN missions (eight ongoing missions and the UN Transitional Authority in Cambodia (UNTAC)). Several of its conclusions are made in parity with, or are at least related to regional effects of the military intervention component of PSO.

1.3 Outline of the Study

This first chapter has given an introduction to the topic and stated the purpose of the study. The subsequent chapter further describes the economic characteristics of conflict regions. General economic structures and phenomena are described in order to understand how central actors reason in different situations. The third chapter describes how PSO impact on the host economy, both locally and on a national and regional level. The results of the third chapter form a basis for a trend analysis in chapter four. The fifth and final chapter summarises the study and gives policy recommendations as well as suggestions for further research.

[13] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

2. Economic Characteristics of Conflict Regions

Contemporary PSOs frequently take place in LDCs. Nations and regions involved in armed conflicts often share common economic frameworks and endowments. These characteristics are commonly recognised to be interlinked with the conflict. In the academic discourse, this field is known as *war economies*. Even though the purpose here is not to study war economies per se, it is important to have an understanding of the typical economic environment in which PSOs take place. Identifying the weaknesses (and strengths) of the war economy will hopefully enable a greater understanding for how deployment of PSOs can affect and be affected by it.[14]

It was pointed out above that civil wars are being increasingly self-financed. The self-financing element of conflicts may lead to a mutation in character and duration of the conflict.[15] Rather than engaging with random criminality that typically occurs in conflicts, structures of contemporary warfare display a systematic engagement with criminal activities used to finance the conflict. Such activities can be carried out directly by combatants or through transnational criminal networks affiliated with the combatants.[16] Although this was not the initial case, the socio-economic aspect subsequently becomes increasingly important in order to find a solution to the armed conflict. In the peace process, economic factors (including shadow networks) have to be taken into consideration along side political ones.

2.1. War Economies on the National Level

Historically, wars were fought between two or several parties. As can be seen today, the character of "war" is different. It is often low in intensity and takes place in cities and villages, amongst the civilian population.[17] Economic life does not cease to exist during armed conflicts but adapts and takes on new forms. Shifting the methods of warfare also create new opportunities for economic actors. By moving the battle scene to civilian locations, the daily activities of

[14] See e.g. Berdal, Mats and Malone, David M. (eds.) (2000). *Greed and Grievance: Economic Agendas in Civil Wars*. Boulder: Lynne Rienner Publishers; Ballentine, Karen and Sherman, Jake (eds.) (2004). *The Political Economy of Armed Conflict: Beyond Greed and Grievance*. Boulder: Lynne Rienner Publishers

[15] Ibid.

[16] Nitzschke, Heiko (2003). *Transforming War Economies: Challanges for Peacemaking and Peacbuilding*. Report of the 725th Wilton Park Conference, Wiston House, Sussex, October 27-29

[17] See e.g. Smith, Rupert (Gen.) (2007). *The utility of force – The art of war in the modern world*. New York: Vintage Books

people become part of the war. In this environment, the opportunity to engage in the shadow economy and criminality increases. This is usually a consequence of a shift in focus by security maintaining institutions towards fighting the armed conflict.[18]

A large part of economic life in LDCs in general and conflict regions in particular take place outside state-regulated frameworks. This sector of the economy is often referred to as a *shadow economy*. Even though such informal economic relationships often exist without armed conflict, they boom when the state's regulatory capacity is reduced and can be controlled or manipulated by combatants.

It is possible to divide the shadow economy into a combat economy and coping economy.[19] The *combat economy* is based on economic interactions directly related to sustaining the war. This includes weapons smuggling, exploitation of natural resources and other income generating activities used by combatants to finance the conflict. *Coping economies* include illicit activities such as trafficking diamonds, coltan and poppy, but the revenues generated are not used to directly finance the war.[20] The coping economy often becomes an important source of income for the civil society during conflict. This is especially true in borderlands or other areas that are politically and economically marginalised during armed conflicts.[21] It can be hard to separate combat and coping economies because different stakeholders make use of the same or overlapping trade and financial networks. This implies that it will be even harder to isolate certain activities in order to identify potential spoilers.[22]

Any armed conflict, especially long lasting ones, imposes a great burden on local or national institutions which are often already lacking capacities. Corruption is a common element and typically the judicial system, especially the police force, has problems with corruption that undermines its legitimacy. This situation strains any legal economic activities that therefore become attractive targets for rouge groups. This pattern is similar to protection rackets often conducted by organised crime groups in Europe and other parts of the world.[23]

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[18] Ibid.
[19] Goodhand, Jonathan (2004). "From war economy to peace economy? Reconstruction and statebuilding in Afghanistan" in *International Affairs* Vol 58, no.1, pp. 155-174. New York: Columbia University
[20] Ibid.
[21] Ibid.
[22] Nitzschke, Heiko (2003). *Transforming War Economies: Challanges for Peacemaking and Peacbuilding*. Report of the 725th Wilton Park Conference, Wiston House, Sussex, October 27-29
[23] Nordstrom, Carolyn (2007). *Global Outlaws – crime money and power in the contemporary world*. Los Angeles and Berkely, CA: University of California Press

2.2. International Linkages of War Economies

LDCs are often dependant on international trade. LDCs are rarely self sufficient and they need imported goods, such as food and other necessities. In LDCs, revenues from customs and excises commonly constitute the greatest source of national income.[24] In a war situation, security and trade related institutions such as customs, the coast guard and immigration authorities[25] often become overloaded and are unable to regulate the flow of goods and people crossing the borders. War economies fuelling conflicts often thrive on linkages with neighbouring states. Informal trading networks, regional kin and ethnic groups, arms traffickers and mercenaries, as well as legal operating commercial entities all take advantage of the instability created by the conflict. Many people are or become dependant on continued instability in order to continue their illegal activities and collect incomes. Actors who benefit from the war economy have vested interests in a prolongation of the conflict and potential spoilers are likely to be found engaged in the shadow economy. The international character of many of these flows means that spoilers may be situated beyond the borders of the conflict region.

The internationalisation of war economy related activities has many causes. For example, economic networks have become more sophisticated. Increased internationalisation of trade flows in combination with complex and in-transparent supply chains set the ground for coupling illicit transactions with licit ones. An increased utilisation of international sanctions by the UN on conflict regions have also pushed many economic actors to use shadow economic networks to carry on their economic engagements.[26] Weak state regulatory capacity enables such engagements and neighbouring states are commonly not strong enough or unwilling to stop sanction breakers. They also gain from such activities – at least in the short run.[27] Both governments and rebel groups targeted by economic sanctions continue to procure weapons and trade in conflict resources through criminal and arms trafficking networks specialising in circumvention of regulations.[28]

[24] Besides Development Cooperation financial aid
[25] OECD (2007). *DAC Handbook on Security System Reform – Supporting Security and Justice.* Section 7.4: 1, p. 151. Paris: OECD
[26] Wallensteen, Peter; Staibiano, Carina; and Eriksson, Mikael (eds) (2003). *Making Sanctions Effective: Guidelines for the Implementation of UN Policy Options*. Uppsala: Uppsala University
[27] Ibid.
[28] Ibid.

2.3. Shadow Economies Set the Ground for Armed Conflicts

Shadow economies and economic criminality is difficult to curtail, partly as criminal networks are highly adaptive but also because of the vital economic and social functions they have come to serve. On the national level, war economy related activities often undermine peace building operations. In order to expand their control into the political arena, far reaching criminal networks often use mafia like methods. Clearly, shadow economies diminish tax revenues and hamper the state from performing its central duties. Sometimes shadow networks constitute the social contract that is necessary for a state to create stable and accountable governance.[29]

War economies undermine state legitimacy and potentially fuel different stakeholders with incentives to avoid finding an end to the conflict. The state itself can be an active war economy participator.[30] Even when it is not actively participating in a conflict, the state often lacks the administrative and regulatory capacity needed to monitor and enforce rules upon the cross border trade in the conflict region. There are also cases when businesses in developed countries contribute to the war economy. Even in cases where the *prima facie* evidence is clear, there has been a demonstrated unwillingness by government authorities in the developed world to undertake prosecutions of their own nationals.[31] For instance, it is necessary to critically evaluate the effects of economic sanctions. Sanction busting activities often continues to be a relatively low risk activity and if not managed correctly and being fully endorsed and complied with by the international community (particularly regional neighbours), economic sanctions can be counterproductive.

When addressing economic issues related to peace building, primary challenges include taking control of natural resources by untangling legitimate trade from the illicit counterpart coupled to it. A central part of this process is to strengthen regulatory enforcement capacity,[32] especially in border regions, fighting corruption, and creating opportunities to turn the shadow economy participators formal. Addressing the cross border environment is not sufficient, but

[29] Nitzschke, Heiko (2003). *Transforming War Economies: Challanges for Peacemaking and Peacbuilding*. Report of the 725th Wilton Park Conference, Wiston House, Sussex, October 27-29, 2003

[30] If a state or a government is not officially engaging in shadow activities financing the conflict, corruption is still often prevailing and the government or state can be said to be directly or indirectly part of the war economy.

[31] Wallensteen, Peter; Staibiano, Carina; and Eriksson, Mikael (eds) (2003). *Making Sanctions Effective: Guidelines for the Implementation of UN Policy Options*. Uppsala: Uppsala University

[32] With a focus on integrated border management and particularly customs capacity

transforming shadow economies also requires a regional approach[33] creating incentives for all involved states to formalise trade relations and fight smuggling and cross border criminality.

[33] Cooper, Niel and Pugh, Michael with Goodhand, Jonathan (2004). *War Economies in a Regional Context: The challenges of Transformation*. Boulder: Lynne Rienner Publisher

3. The Economic Impact of PSOs

One of PSOs' primary contributions to economic development lies in restoring or maintaining the security needed to engage in economic activities. A state of security is both a prerequisite for a functioning formal economy and an incentive for investments in it. However, deploying a large PSO in an LDC has many other consequences; intended and unintended, as well as positive and negative ones. Their will be both economic winners and losers following the deployment of a PSO. As has been mentioned above, the frequency of PSOs and their scope have increased during the past 15-20 years. The most apparent economic effects from deployment of military troops are seen in the local economy but PSOs also have an impact on national and international economic activities and structures. This chapter briefly assesses these structures.

Compared to humanitarian and development missions, as well as to other "stick policies" such as economic sanctions, military interventions are much costlier means of actions for the providing countries.[34] Deploying a PSO in a foreign country is of course a vast undertaking and demands far-reaching planning and coordination. The military equipment that needs to be transported to the mission area, before and during the mission, is often extensive and of a sensitive nature.[35] Hence, military missions are coupled with resource demanding logistical planning and use separately managed supply chains.[36] In theatre, many services, e.g. administration, interpretation, accommodation, private security, transportation, etc. are procured locally. Consequently, a wide range of services are being supplied locally to the military personnel. The economic impact of military interventions' effects on the host economy can vary from increased local spending to affecting logistical planning and international supply chains. The consequences affect both microeconomic activities such as basic services and housing to macroeconomic structures such as international trade flows, national income and inflation.

3.1. Local Impact

Most of the previous research on the economic impact of PSOs criticise military interventions for having negative impacts on war torn economies, stressing the creation of unintended consequences and bubble economies. These bubbles distort the economy e.g. in terms of labour, rental and retail markets, temporary

[34] Accordingly, military interventions are commonly seen as a last resort engagement in order to affect or change a certain development.

[35] For every Swedish soldier that was sent to Chad in 2008, approximately 1,5 containers (Twenty Foot Equivalent Unit, TEU) with equipment and supplies war sent as well.

[36] This is especially true for transportation of material and other supplies and concerns all modes of transportation.

service industries, increased illegal use of drugs and prostitution.[37] However, the conclusions of the EIP study argue that UN PSOs do more economic good than harm. The reasons are an immediate upsurge in economic activity as a consequence of increased security, the spending of international mission subsistence allowance (MSA), local mission procurement and wages paid to locally hired staff.[38] Furthermore, in the EIP study it is argued that the local mission spending has a "Keynesian multiplier" effect of approximately 1.5. This means that each USD spent by the mission recycles in the economy generating USD 1,50 additional GDP.[39]

The local economic impact can be divided into three categories: spending of MSA; procurement of goods and services; and use of local labour market.[40]

3.1.1. Spending of MSA

Increased international presence undoubtedly leads to an increase in demand for local goods and services in the conflict region. This demand stimulates local business growth and entrepreneurship in areas such as housing, food, clothing, entertainment, restaurants and transportation, as well as prostitution. In the EIP study, MSA varied across missions representing half of the local impact in four missions and around 40 per cent in the others.[41] The largest area of expenditure was on housing. This area is perhaps not as valid for military contingents as they normally have other accommodation arrangements. However, military missions are also in need of complementary services and employees performing these tasks have an effect on rental markets, pushing the price higher.[42] Other effects concern the renovation of houses to meet a demand for higher standards of living. There are also several examples of people being pushed out of their

[37] See e.g. Smoljan, Jelena (2003). "The relationship Between peace building and Development" in *Conflict, Security and Development*, Vol. 3, No. 2, pp. 223-250. London: Routledge

[38] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

[39] Ibid.; Ragan, Christopher C. S. and Lipsey, Richar G. 2005. Part eight "The economy in the short run" in *Macroeconomics*, 11th Canadian edition. Toronto: Pearson Addison Wesley

[40] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

[41] In all of the studied missions, military contingents represent the majority of deployed international staff. The exception is UN Mission to Kosovo (UNMIK) where troops were deployed by the North Atlantic Treaty Organization (NATO) who also paid their MSAs.

[42] Wittkowski, Andreas (2006). UNMIK's Impact on the Kosovo Economy – Spending Effects 1999-2006. Brussels: European Union's Economic Policy Office and UNMIK.

homes or from their land in order to make room for international and military staff.[43]

The second and third largest areas of spending were food and recreation (including restaurant meals). Even though military contingents have their own canteens[44] military staff uses civil society facilities as well. Many restaurants and other leisure services are established as a response to increasing demand. It is often argued that many of these businesses constitute short-sighted investments as they have to close down once the international community leaves. In addition, their creation in the first place risks distorting the long term economic development. However, others argue that they constitute initial investments and do more good than harm as they provide job opportunities and salaries at least for a period.[45] Many of these restaurants, shops and hotels also contribute to the formal economy and, thus, generate revenues for the state.[46]

3.1.2. Procurement of Goods and Services

PSOs procure a wide variety of goods and services locally. These range from cleaning and security services, engineering or construction services, and office supplies and equipment, to essential goods such as fuel, lubricants, and bottled water. The extent to which these services and goods are procured locally depend on several factors including the size and characteristic of the local economy, and the size and duration of the mission. In the EIP study, missions procured approximately 20 per cent locally. The diversity of the local economy is the most important factor determining local or international procurement.[47]

Local procurement has a significant impact on the supply of goods and services and the level of employment and incomes. One of the most prominent sectors affected by procurement is building and construction. Here and in other sectors, procurement requires that businesses are properly registered and complying with governments' regulations. This contributes to bringing workers into the formal labour force. This can play an important part in making the local work force more competitive and in the best case even fuel export competitive industries.[48] Other procured services at the military base are canteen and cleaning services.

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[43] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

[44] Also see 3.2.2 on procurement.

[45] In some cases government officials acknowledged or even promoted international missions as they regarded coupled demand to lay the ground for tourist infrastructure.

[46] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

[47] Ibid.

[48] Ibid.

By providing job opportunities, international missions contribute to increasing employment, (higher) incomes and giving professionals a possibility to be further trained. More positive effects are transfer of know-how, technology and infrastructure development and access to better healthcare.

A growing sector is the procurement of private security. Together with the transport sector, this is a very sensitive area as great responsibility is given to the staff performing such services. In Afghanistan, for instance, private security is extensively used by both civilian and military personnel. Usually, the private security suppliers consist of both international and national actors that employ local staff. Private security personnel are often recruited from groups who have experience in using fire arms; these could be ex-clan militias, drug traffickers or other shadow actors. Even though they have left their former shadow networks and have been incorporated in the formal economy, it is widely recognised that many of these persons are still involved in shadow economy related activities such as poppy growing and distribution.[49] It is difficult to assure that the persons being employed by the PSO are not simultaneously involved in illegal or shadow economy activities. Hence, such policies can create or sustain spoilers and, thus, hamper the creation of security.[50]

3.1.3. Effects on the Labour Market

The hiring of local staff is a much debated matter when discussing impact on the local economy. PSOs employ national personnel to fill predominantly administrative tasks (including interpreters) and clerical and support roles.[51] Positions are normally classified on a seven point scale. The lower level entail positions such as cleaners, gardeners, drivers and junior clerks. More senior level positions include mechanics, technicians and clerical staff in areas such as procurement, inventory, accounting/financing, travel and personnel. The basic principle of setting wages is the “Fleming Principle” which stipulates that wages should be set by the best prevailing conditions.[52] This means that the wage and other conditions should match whichever employer in the country that offers the best terms. The purpose is to ensure that the mission attracts the best staff for its positions.[53]

[49] Interview with Ms. Suriya Subhrang who is the Commissioner on Women’s’ Development at the Afghanistan Independent Human Rights Commission. Conducted in Kabul 2008-11-19.
[50] Other similar proffessions, such as the police and military, are struggling with the same problem.
[51] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/
[52] Ibid.
[53] In order to give some perspective to employment policies of local staff, one should bare in mind that it is between 10-50 times less expensive to use a local employee compared to an international one.

Some argue that this is perhaps the most efficient way of boosting local economic activity and spending as it provides employment opportunities and (higher) incomes. Others mean that as the missions hire the best staff at wage rates that the national government or local private sector cannot match, valuable human capital is being withheld the economic and political administration of the country.[54] The promoters of local employment on the other hand, stress that not only are employment opportunities created and local staff being incorporated in the formal economy, but local staff are also more likely than international staff to spend their incomes on locally produced goods and services, thereby enhancing the multiplier effect and having a further positive impact on productivity. In addition, international contracts commonly provide social benefits such as health care which will have positive spin off effects on the economy.[55] Sceptics of local procurement underline the inflationary impact on wages because of procurement, especially in the public sector.

It is relevant to discuss whether PSOs contribute to an internal brain drain from the national bureaucracies to international missions. The amount of people transferring from government to international missions has never been quantified and the indications of this trend are based on interviews.[56] It is, however, confirmed by the World Bank and the Organization of Economic Cooperation and Development (OECD) that the upward pressure international missions put on wages can have severe negative effects on labour-intensive and export-oriented businesses. For these businesses, a 50 per cent increase in wages could increase costs by 30-40 per cent making them non-competitive on international markets.[57] Further studies are needed to fully address this issue. Interesting research questions would be to find out where PSOs' locally employed persons come from, what they did before they were employed by the PSO and where they ended up after their contracts expired?

3.2. Regional Impact

The effects of PSOs impact on the local economy are both negative and positive common consequences are increasing inflation and local brain drain as well as a surge in economic activity and increasing incomes. PSOs do also impinge on broader aspects in the aggregated national and even the regional economy.

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[54] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/

[55] Ibid.

[56] Ibid.

[57] See e.g. World Bank (2009). *World Development Report 2009 – Reshaping Economic Development*. Retrieved from www.worldbank.org/wdr/, Washington: World Bank; OECD (2006). *Development Assistance Committee's Promoting Pro-Poor Growth: Private Development*. Retrieved from www.oecd.org/dataoecd/43/63/36427804.pdf/

Typical areas of interest here are macroeconomic aspects, trade patterns, economic geography and migration.

3.2.1. Inflation, Skewed Markets, Migration and Social Disturbance

PSOs do not only affect the local markets in which they are physically deployed. The large influx of economic means into a poor country naturally overheats the local market creating a bubble economy. However, as these countries often are endowed with weak administrative and limited democratic capacities, the economic effects tend to spread to national and even international markets.[58] Notably, housing and services procured by international missions increase prices in the whole country, increase corruption and give incentives to engage in short term business activities (many times at the cost of abandoning other more long term projects). The local bubble economy attracts the most skilled labour and entrepreneurs. Skilled labour is a scarce resource in development communities and when they leave other businesses or administrations, they are hard to replace. This development hampers the prospects of achieving sustainable development.

On the real estate and premises markets, demand can by far exceed supply. Chronic bottlenecks are common in these sectors.[59] Effects on these markets are often regarded as a strictly local phenomenon. However, they often spread across the country resulting in many nationals losing their homes as rents are pushed up beyond their reach.[60] This effect is exacerbated by weak regulations and property rights. Many people lack proper documentation that shows their rightful ownership and risk being evicted by powerful economic and/or criminal actors.[61] The housing industry is also directly linked to the construction industry, the latter which is commonly booming because of PSO demand. Sometimes, buildings and infrastructure created is useful in the post-conflict period when reconstructing and developing the country. In other cases, it is just left as an empty shell or being torn down.

There is evidence of production shifts to luxury goods resulting in decreasing supply of cereal and staple diets. Raising prices on basic nourishments contribute to lower access to food across the country and even in the region.[62] International staff also uses international currency in the conflict area. In Afghanistan for example, USD and Euros are as accepted as Afghanis. Among businesses,

[58] Ammitzboell, Katarina (2007). ”Unintended consequences of PSO on the host economy from a people’s perspective” in Aoi, Chiyuki; de Coning, Cedric; and Thakur, Ramesh (eds.) *Unintended Consequences of Peacekeeping Operations*. Tokyo and New York: United Nations University
[59] Ibid.
[60] Ibid.
[61] Ibid.
[62] Ibid.

international currencies are regarded as more stable than local money and is therefore preferred. PSOs bring in much needed foreign currency to the country,[63] but parallel currencies simultaneously reduces the government's power to conduct independent monetary policies. When international currencies are preferred to the local one, it also creates problems for the people who do not participate in the PSO driven (bubble) economy. Without access to the most preferred mean of payment, they may have difficulties buying certain goods or services and currency exchangers may take advantage of them.

PSOs' salary setting policies can have adverse effects on other sectors. This problem is perhaps even more problematic on a national aggregated level than a local level because it creates unnatural migration patterns. For the same reason, salary setting policies often extend to having international impact. Paying drivers monthly salaries that are more than or the same as doctors, teachers, professors and other professionals earn in a year is a strong enough incentive for students to leave universities to become drivers or for doctors and professors to take positions as administrators at the mission sight. The effects are e.g. national inflated salary levels, regional brain drain and migration patterns. These impacts strain the government's ability to perform its duties, they create frustration from neighbouring countries that also lose skilled personnel to the conflict region and social and family structures may be disturbed.[64] Furthermore, if governmental administration is managed by unskilled personnel, bureaucracy tends to become overly complicated and corruption will increase; again putting even more stress on public institutions' ability to perform their tasks. This is also a particular problem in the private security sector, because it attracts and absorbs skilled (many newly trained) personnel from the police force and national military forces. Similar patterns can be found throughout the conflict region and, consequently, migration flows can be traced from neighbouring countries and regions.[65]

Obviously, inflated salary levels affect employers negatively. Creating disparity in wage levels, PSOs also increase engagement in alternate sources of income. This includes increased corruption which in turn further enables greater penetration of the drug economy and other shadow activities. Wage level disparities also raise social tensions that can worsen the instability that already exists in conflict regions.

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[63] On the other hand, if only accepting Afghanis the foreign currency would still receive foreign currencies as it would have been used as a means of payment to buy the Afghanis in the first place.

[64] For example, peace operation missions deliberately favour the employment of women. In some cases, the share locally employed female share is 20-25 per cent in societies where women do not normally work.

[65] Ammitzboell, Katarina (2007). "Unintended consequences of PSO on the host economy from a people's perspective" in Aoi, Chiyuki; de Coning, Cedric; and Thakur, Ramesh (eds.) *Unintended Consequences of Peacekeeping Operations*. Tokyo and New York: United Nations University

PSOs create opportunities and attract many people to the conflict region. However, the supply of labour often becomes greater than the demand, leaving many without a job and income. In the hope of being able to earn a lot of money and send remittances to their families, tribes and villages, many of these persons have invested all their, and sometimes a village's, resources in order to be able to get to the conflict area. If they fail to find employment or to earn enough money, they will probably have difficulties returning home without anything to show for it. They have a strong incentive to seek alternative sources of income. At best, they may engage in petty criminal activities but they also run the risk, or seek to participate in organised crime or join the conflict as a combatant.[66]

An additional aspect of migration flows to conflict regions is that employers elsewhere risk losing their workers. Unlike when businesses deliberately shift their engagements to new productions and services, a vast migration to the conflict area can force producers to downsize or shift their production. In LDCs, the majority of the people are commonly farmers and it is probably the agricultural sector that will be worst affected by such a development. As farm owners or farm runners in LDCs commonly lack capital, or capital goods, they cannot replace lost employees with technologies. Their production might therefore be impaired if workers leave. In the end, it is the national food production that decreases and if it becomes a scarce(r) resource, a possible consequence is that it generates further tensions in the civil society.

3.2.2. Trade

PSOs in general and military interventions in particular often take place in locations that are difficult to access. Consequently, the planning and logistical machinery surrounding military contingents are very complex. In order to make sure provisions and material reaches the operation area, the military uses its own separate supply chains. These supply chains are, however, often of a sensitive nature and related information is often classified or hard to access.[67] This means that it is difficult, if not impossible, for local regulators to control flows to and from the country in the military supply chains. Military supply chains can thus be compared with shadow transportations as the goods are not going through customs, nor intended to be used in the formal economy. However, there is evidence showing that goods that were not intended for the private market still find their way there.[68] Common examples of these goods are tobacco, alcohol and other goods that are scarce or expensive in many LDCs. However, the goods

[66] Compare with e.g. Nordstrom, Carolyn (2007). *Global Outlaws – crime money and power in the contemporary world*. Los Angeles and Berkely, CA: University of California Press
[67] E.g. goods manifest, shipping notes, receipts, etc.
[68] Compare with e.g. Nordstrom, Carolyn (2007). *Global Outlaws – crime money and power in the contemporary world*. Los Angeles and Berkely, CA: University of California Press

may also consist of arms, ammunition and other weapons that are being used to directly sustain the conflict.[69] The role of widespread corruption and private security is underlined and discussed further below.

Another issue surrounding the international military (and many other international actors as well) is that they are often exempted from paying taxes. Thus when goods intended for the military's own use only enter the national markets, it adds to the shadow economy. This is a controversial political issue.[70] In addition, tax exemptions for international actors can also serve as a demonstration effect, leading to powerful civil actors to increase the pressure on a weak state to be advantageously treated as well. The attitude of trying to minimize taxation tends to spread to the point where widespread exemptions and lacking regulations of flows hampers honest local and national businesses. Merchants selling imported goods cannot compete with goods sold in the mission's commissary, goods imported for the mission but that have leaked into the market or goods on which duties simply have not been paid.[71]

A third issue is of a different, more structural nature. When military missions take place in, from a logistical point of view, more remote locations new trade routes are created.[72] If used for legally recognized activities, these trade routes could boost trade flows to and from such areas. However, economic activities in these areas are often of a shadow character, because regulatory power is weak and corruption widespread. The outsourcing of supply chain management to private actors must, thus, be questioned. This pattern is also reflected by the demand and supply structures in border areas. Unless the military has total control, their supply chains will most likely be used for shadow activities. In fact, considering their informal character in combination with the lack of enforcement capacity, military supply chains can constitute the perfect means of transportation for trade with illicit goods such as drugs, weapons, people and valuable raw materials.[73]

Private security is often mandated to accompany military supply chains. As discussed above, private security personnel often have ties to shadow networks and criminal actors can, thus, use legitimised private security personnel to gain access to border regions and other sensitive areas. In doing so, these actors are

[69] Ibid.
[70] This reasoning is valid for all goods but off course even more controversial when the goods are e.g. arms, ammunition or illegal goods.
[71] Carnahan, Michael; Gilmore, Scott; and Durch, William (2006). *Economic Impact of Peacekeeping*. Report conducted for the DPKO and final version published in March 2006. Retrieved from: www.un.org/Dept/dpko/lessons/
[72] Compare with e.g. Studdard, Kaysie (2004). *War Economies in a Regional Context: Overcoming the Challenges of Transformation.* International Peace Academy Report. New York: IPA
[73] E.g. Nordstrom, Carolyn (2007). *Global Outlaws – crime money and power in the contemporary world*. Los Angeles and Berkely, CA: University of California Press

able to move their (illicit) goods across borders. No matter whether those goods are directly intended to support warfare (e.g. arms and ammunition), support it financially or just constitute illegal economic activities, such trade supports regional instability and, thus, the conflict.

3.3. PSOs' Economic Impact Summarised

LDCs have little resilience to external economic influences and are more affected than stronger and more varied economies would have been by external shocks, such as the installation of a PSO. Shadow actors are, however, seemingly more adaptable to these changes than is the government. Shadow actors are therefore better able to take advantage of opportunities created by war economies and the presence of PSOs.

PSOs unquestionably impact on several economic aspects in the local conflict area. It also seems clear that they also impact on a broader geographical area including neighbouring countries. In the local economy, PSOs first and foremost affect the housing, retail and service markets and the labour force. The peace operation creates a bubble economy with high inflation and unnatural shifts in production structures; the effects can set aside the development strategy and hamper the long term development of the country. On the other side, PSOs contribute to job creation and formalisation of many positions. Such effects increase incomes (and thus capital accumulation) and contribute to job training, healthcare and many other positive aspects.

On a national and regional level, PSOs' hiring and public procurement policies might have a structural impact on the economy; skilled labour leave their positions elsewhere to seek rents in the conflict area. The same pattern is visible for unskilled labour and in both cases the consequence is that different tasks are being stopped or conducted by less qualified persons and this affects the output negatively. This is especially visible in the government, in the police and in the military where educated and skilled labour is scarce. On a regional level, new trade routes are being created and labour on this level too migrates to seek opportunities in the conflict area.

To sum up the economic impact of PSOs, one can say that there seems to be a difference between local effects and regional ones. When different markets become intertwined, internationalised, and coupled with shadow activities it is hard not to have an impact on different aspects of the economic society. To different degrees, these impacts are likely to spread throughout the economy and local effects are thus linked with national and regional ones and vice versa. The local impact is more positive than the regional one. Here, labour is formalised and the influx of capital boosts the local markets and stimulates investments. The shifts of local productions that might occur will meet new demands but are unlikely to have a great impact on supply of food and other basic needs. While

these more structural effects are positive, at least in the short term, the biggest critique is that individuals will be set aside on e.g. the housing market and that there is a market created for shadow actors.

Contrary to the local impact, the effects of the regional impact are harder to predict. Here, the effects seem more negative on a structural level, but positive for the individual. Distorted human capital flows undermine government capacity and businesses. Production shifts on this level are commonly detrimental to locally produced basic needs such as food. Trade patterns are misused by shadow actors and not really taken advantage of by legitimate businesses. The subsequent chapter elaborates with how the impact of PSOs might develop over time.

4. Three Possible Trends in a 20 Year Perspective

The impact of PSOs on host economies has been described in the previous chapters. This chapter briefly put this economic impact in three likely trends of how PSOs and military interventions will develop until 2020-2025.[74] The focus is put on the design and methods of the PSO. The surrounding environment, especially socio-economic factors, is assumed to be similar as today. Hence, it is assumed that PSOs will continue to take place in weak or failed states where the economic development is comparable with today's LDCs. This entails governments with low regulatory capacity which leaves space for shadow networks and other criminal actors to operate. The country will, thus, have no or very little resilience to the external shock on the economy that PSOs constitute.

Other important factors are the role and relationship between the UN, NATO, the European Union (EU) and the US. Will the US hegemonic position continue to decline, will the UN be able to increase its legitimacy and strengthen its role on the international scene, what will happen with NATO as the EU enrols new members and nations like China and India are growing both economically and politically? [75] These questions will be touched upon but not deeply examined.[76] The three trends looked at are:

1. A trend where funding states are becoming increasingly reluctant to finance vast state building projects and limit their objectives to stopping the immediate armed conflict with the use of traditional military means.
2. Status quo; military intervention is a component of comprehensive PSOs, thus entailing tasks such as CIMIC and related to more directly support socio-economic development.
3. An intensification of today's development with comprehensive PSOs and encompassing state building projects. In this scenario, the military becomes more intertwined with other (civil) agencies and more actively engaged in tasks that today lie outside the military scope.

[74] On the socio-economic side, which is more or less disregarded from in the scenarios, a large number of variables are likely to influence the actual economic impact of PSO. These include trade policies, regional integration, presence of terrorism, raw material endowments, economic development, institutional capacity and Security Sector Reform (SSR).

[75] Eklund Wimelius, Malin (2007). "The future of military interventions – Who, why and where?" in Edström, Håkan and Wiss, Åke (eds.) *International Trends Analysis – Yearbook 2007*. Stockholm: FOI-R-2361—SE.

[76] The possible development between NATO and the European Security and Defence Policy (ESDP) is examined in a forthcoming FOI report by Lindström, Madelene and Winnerstig, Mike.

In the following discussion, the different trends will be examined and questions of interest are: under what circumstances would they occur (?); would the economic impact in these trends differ (?); will the effects of the impact on peace and security in conflict region and its surroundings be different from today (?).There will of course be no definite answer; all depends on what it is that changes. Important variables are for example capital, labour, mandate, aim and scope, political will, culture, etc. For the sake of simplicity, the shifts in size in the trends refer to all of these variables and a concluding discussion (4.4) will elaborate with the impact when these variables vary within different trends. Taking into consideration that war economies can differ between each other, some general patterns can still be identified and subsequently, some general conclusions can be drawn.

4.1. More Limited PSOs

The strongest argument for more limited PSOs is perhaps that the vast operations undertaken today, built on the comprehensive approach concept, are very costly and that their efficiency compared to traditional military interventions is being questioned. Contemporary PSOs have become increasingly ambitious entailing more specific development units such as CIMIC and with extended mandates; e.g. the International Security Assistance Force's (ISAF) functioning as the Kabul government's extended arm supporting the country's provincial governments and governance structures.[77] In the policy sphere (the US, NATO, EU and Sweden, etc.) and in the academic discourse, there is a debate on what the core functions of the military should be; whether it should engage in development work and if so, how and in coordination with whom. In for instance Iraq and Afghanistan, the military, especially their CIMIC components, are already heavily engaged in what has traditionally been perceived as development work. Furthermore, they have an important role in training national security and army personnel, and in some cases police staff, giving them a crucial mandate and role in SSR.[78]

Extensive state building projects are currently being undertaken in Iraq and Afghanistan and even though certain accomplishments have been achieved on the political field (building democracies), the security situation seems to be deteriorating in both these countries. Bearing in mind that state building projects require much more resources than does an isolated military intervention and unless clear results can be displayed for the home population, the associated

[77] This concept is commonly known as the comprehensive approach. See e.g. Nilsson, Claes; Hull, Cecilia, Derblom, Markus; and Egnell, Robert (2008). *Contextualising the Comprehensive Appoach – The elements of comprehensive intervention*. Stockholm: FOI; FOI-R--2650--SE

[78] OECD (2007). *DAC Handbook on Security System Reform – Supporting Security and Justice.* Paris: OECD

larger costs will be hard to account for. Still, some kind of intervention would probably take place out of humanitarian reasons, e.g. as to avoid a new genocide like the one in Rwanda in 1994

On the other hand, not much of the literature on comprehensive approach and state building is critical towards these concepts as a tool to create a sustainable peace. Looking at the ongoing debate on the design of PSOs, there are not really any indications of a change.

There are other factors that logically would influence the design of PSOs. The number of conflicts that need intervention should matter as there is only so much capacity to intervene.[79] The amount of conflicts in which the international community is engaged in has increased since the end of the Cold War and there are no signs of a shift in this trend.[80] The global state of the market is also important as recessions normally affects military spending negatively, thus decreasing the international intervention capacity. On the other hand, many countries are increasing their intervention capacity at the expense of invasion defence capacity.

What would the impact and effects of smaller PSOs be? The impact on the host economy would probably be reduced. Smaller missions are likely to be less resource demanding and it would probably be easier to better isolate the economic impact to the conflict area. One central aspect is that the military intervention in a smaller PSO designs is much shorter in time than a comprehensive PSO. If the impact is indeed limited to the intervention area, it will probably be more positive than negative and actually play the role as a booster of economic development, at least in the short run. Thus, military interventions can here have a positive impact on the economy by injecting capital and formalising economic activities in the conflict area. This development is given that the military intervention is carried out during a period that is short enough not to allow any national or regional structural effects to take root. This said, even if the military can avert the armed conflict temporarily, the long term development is highly uncertain and the armed conflict could very well resurface as soon as the international troops leave the country.

4.2. No Dramatic Change From Today

PSOs and military interventions are today increasingly using a comprehensive approach to peace building. The reason is that earlier conflicts have re-emerged

[79] This also depends on whether interventions are unilaterally or multilaterally instigated.

[80] A related debate concerns the possibility of using private security as peace keepers. This development has arisen as a consequence of lacking capacity of UN forces to involve in all conflicts needed. For more information see e.g. Hull, Cecilia (2008). *What future for privatized peacekeeping? Prospects and realities in the UN debate*. Stockholm: FOI-R--2540--SE.

over and over again. The long term solution is regarded to be found in building government capacity enabling it to provide security itself – and thus also economic development. The two contemporary PSOs in Afghanistan and Iraq are good examples of implementing comprehensive approach. These missions are conducted with ambitions of building democratic institutions and government capacity.

The support of the operations in Afghanistan and Iraq constitute substantial and expensive undertakings. Therefore, they are dependant on the driving force from the western (US) democracies, especially since it is taking longer time to create security and government capacities than was originally believed. From a historical perspective, hegemonic power relations have always shifted. Fast growing countries such as India and China are building capacity and they have already stepped up their ambitions to influence the direction of multilateral organisations such as the UN. It is not unlikely that these and other emerging economies will seek or receive an enhanced role in PSOs in the next 20 years. The question is then if they will do so with ideological, humanitarian, economic or other incentives?

If PSOs remain similar to the ones in Afghanistan and Iraq, so will probably the economic impact and its effects on security aspects. There are however aspects that can change the impact; awareness of ones impact is perhaps the primary factor. But there are also significant differences in impact depending on tactical aspects of operations. For example, US troops have repeatedly used airstrikes in Afghanistan and most analysts say this is because they don't have enough soldiers on the ground.[81] As air force and infantries require different resources, their external economic impact will also differ.

Furthermore, looking at the situation today it is unlikely that the international PSO staff alone can provide all types of security across the conflict region. This means that the role of private security, which is a relatively cheaper (and available) alternative than using military staff, remains important. Another aspect of importance is military supply chains and how these are managed; are they managed internally by the military or externally by private logistics and security companies. If the latter option is chosen, the mandate given to private security needs to be revised and clear accountability demanded. There are for instance examples of weapons disappearing on their way to American troops in Afghanistan.[82] This is off course not acceptable and these weapons have most likely ended up in the hands of Taliban or other opponents to the international operations in the country.

[81] Pehrson, Lennart (2009-02-15). "Obama trappar upp kriget i Afghanistan trots varningar". *Dagens Nyheter*, Stockholm: Dagens Nyheter AB

[82] Dagens Nyheter (2009-02-13). "200 000 vapen försvunna på väg till Afghanistan". *Dagens Nyheter* (TT/AFP): Stockholm: Dagens Nyheter AB

4.3. Intensified PSOs with Comprehensive State Building Ambitions

Based on the debate about the PSO in Afghanistan, it seems more likely that additional resources, including more troops, are dedicated than the other way around.[83] For several reasons, such as the US war on terror, it is hard to argue that the way in which the international community has dealt with Afghanistan will be applied elsewhere. Notably, most conflicts take place on the African continent. Countries here are often subjected to humanitarian crises and are therefore in need of interventions. They are, however, of less importance – both strategically and ideologically – for western partners such as the USA. Hence, state building projects like the ones undertaken in Afghanistan and Iraq are perhaps unlikely.[84]

Today, African nations such as the Democratic Republic of Kongo or Zimbabwe, are perhaps the most probable to be intervened by the international community. However, in 20 years much can happen on the global arena of international relations. Traditionally unstable regions such as South Asia, the Middle East and Iran are continuously included in the discourse of potential interventions. In addition, the events taken place in Georgia this summer might be an indication of a Russia that is pushing forward its positions on its former territories.[85] These countries/areas are perhaps more sensitive from a western security perspective and if intervened, it will probably be done with state building ambitions. The aim would be to implement western like democracies and/or win durable stability and influence. In this case more comprehensive PSOs would be needed.

Since the end of the World War II, PSOs have become increasingly extensive in nature. Military powers have built specific structures and capacities to fulfil the comprehensive approach. A clear continuation would increase is probable to result in the military personnel receiving new tasks, perhaps with development or humanitarian characters. This would involve military personnel becoming more interactive with the population, both its civilian and combatant parts. If PSOs develop in this direction, it is reasonable to assume that their impact on host economies would be greater than it is today. As political and financial linkages seem to grow ever stronger and becoming increasingly intertwined, impact would probably spread faster and with stronger effects on even more parts of the local and regional economies.

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[83] See e.g. Pehrson, Lennart (2009-02-15). "Obama trappar upp kriget i Afghanistan trots varningar". *Dagens Nyheter*, Stockholm: Dagens Nyheter AB

[84] Depending on particularly the energy sector, this might quickly change as China and Russia seem to push forward their positions on this continent.

[85] See e.g. Larsson, Robert (ed.) (2008). *Det kaukasiska lackmustestet: Konsekvenser och lärdomar av det rysk-georgiska kriget i augusti 2008*. Stockholm: FOI; FOI-R--2563--SE

More personnel on the ground, especially CIMIC, and more capital goods would demand more security and maintenance of the material. This would probably increase the local procurement and an increased scope of the peace operation and military intervention would demand increased security capacity and private security would probably be used in order to obtain this. Furthermore, the greater scope of PSOs is likely to have a stronger regional impact as national and regional resources are attracted to PSO camps and bases.

4.4. Future Impact Summed Up

To summarise the likely impact of future PSOs and military interventions, given that the conflict region's socio-economic frameworks remain similar with today, it can be argued that there is a relationship between the size of PSOs and their impact on the economy. This is, however, not the only truth as the impact is likely to differ depending on the design and methods of PSOs. A serious problem is that shadow networks have shown to be very adaptive, inventive and able to take advantage of new opportunities whilst circumventing threats of different types. The same cannot be said for the government and formal economy with the exception of businesses taking advantage of business opportunities in the conflict area. It is therefore important that PSOs do continuous reassessments on their impact and try to find new ways and methods that hinder shadow actors.

There is a difference in effects depending on whether the impact of PSOs can be limited to the conflict area or if it spreads to a regional level. Whilst effects on a local level to a great extent are positive, several regional effects are counterproductive regarding the aim of providing security and stability. It would therefore be advantageous if PSOs' impact on the conflict region and its surroundings could be minimised or at least geographically isolated.[86] Concerning the relation between the size of PSOs (including personnel as well as capital goods) and their economic impact, it is reasonable to assume that some of the impact could be avoided by trying to restraint the amount of external economic activities, to hide the PSO economy from the "real" economy. This would include limiting local procurement and at the least revising wage setting policies. Finally, when using external parties – especially private security – or internal personnel, clear structures of accountability are needed.

Further studies on PSOs' economic impact are needed. The relation between the economic impact of PSOs and their size and design; how different PSO operations and policies affect specific areas of the local economy; and how the actors and structures in war economies are resilient towards external influences are areas that need additional knowledge to fill in some of the existing holes. While researchers have started looking on local economic effects, there is a large

[86] Even though this would also mean that positive effects could be lost.

gap regarding the link between PSOs and their regional or international economic effects. It would here be interesting to make a comparison of two different PSOs acting in similar environments; hopefully such a study would contribute with lessons learned about the specific qualities needed for a PSO to minimize its decrementing economic effects that are counterproductive to the aim of the PSO.

5. Final Remarks

Conflicts have changed in nature in the post Cold War era. They often take place in civilian settings, use the threat of civilian casualties as leverage, find new financing methods and perhaps also have different aims compared to the Cold War era. The conflicts are also greater in numbers and the international community has deployed increasingly more PSOs with the aim of stopping these conflicts.

Troop providing countries and PSOs have taken it upon themselves to evolve over the past two decades. They commonly take place in LDCs with greater scopes that entail more spheres of the society and with ambitions that stretch beyond the immediate creation of cease-fire and security to state building and security sector reforms. Even in cases like Afghanistan where ISAF consciously aims at making as little impact as possible, it is quite evident that the PSO influences the economy in many ways.

When reviewing the relevant literature, it is apparent that the economic impact of international presence in general and PSOs in particular is understudied. Especially when PSOs become more pervasive, it is crucial to understand the socio-economic context of the environment where they take place. Furthermore, conflicts are becoming increasingly self-financed by the combatant parties who often are affiliated with shadow networks. Unless PSOs become aware of and take measures towards minimizing their impact, the policies of PSOs may have counterproductive effects on the aim of achieving security, stability and peace.

It is not possible to anticipate all effects a PSO will have on the host economy. However, the greater the knowledge is, the easier will it be to understand the incentives of different actors and, thus, to identify spoilers. The design of the PSO can be divided into a few central issues that all reflect the labour-capital structure of the PSO. These issues include how PSOs carry out local procurement, employment policies (especially wage setting methods and consideration to where and with whom prospect employees have been involved), how the PSO personnel spend their MSA, the set up of military supply chains and the use of private security. Depending on how these issues are addressed, the PSO will have different effects, amongst other areas, on migration, trade, market structures (demand and supply), formal versus shadow economies and the labour market.

It can be argued that the impact of PSOs often goes in both directions, meaning both having positive and negative effects on the economy. The analysis must, however, be made on a local as well as a regional level. Whilst it seems as if the impact on the local level to a great extent is counterfactual, the impact on a regional level is rather counterproductive. The local impact contributes to formalise economic structures, increase employment and it gives a general boost

to the economy. The regional impact is more coupled with detrimental shifts in production, distorted trade flows and migration flows that undermine human capital needs, especially in the government administration.

As a result of this analysis, relevant strategic policies may include cooptation of spoilers with a view to reintegrate them into the formal economy, criminalising warlords and seeking to bring them to justice and fashioning national and regional policies of Keynesian economic development. However, if this should be done it must be done with long term strategic plans and with an awareness of its ancillary impacts in order to avoid or manage counterproductive effects. In addition, chains of accountability must be clear so that PSO policies are not mixed up with the policies of the national or local government. Particularly, the lawlessness, with its resulting shadow activities such as smuggling and trafficking with illicit goods and persons need to be addressed and fought.

The issue of increasingly using private security raises many interesting questions related to the creation of security. Not only do private security companies absorb skilled personnel from all formal sectors; particularly (often newly trained) national police and army personnel but also from previously marginalised (and illegal) groups such as clan militias and other shadow groups as these actors are trained to use arms. It is worth mentioning that hundreds of people are hired by private security companies who arm them and give them access to many sensitive locations in the conflict area, not at least border regions and military supply chains. On the one hand, private security contributes to increase formal employment, but, on the other hand, evidence shows that employees often maintain or generate ties with shadow networks and use their formal position for illicit activities. This obscures who is in control of security and who is liable – is it the PSOs or the private security firms? Furthermore, if private security management and personnel have access to shadow networks, which is quite common in conflict regions, they will probably have counterproductive effects on resolving the conflict as they engage in activities that contribute to finance warring parties and other antagonists or just upholding instability in the country.[87] Another question concerns what happens with private security staff when the PSO leaves the country?

This paper also looks at possible future developments of PSOs' economic impact. One aspect discussed is whether the relationship between the size of PSOs and their impact on the economy is linear – the larger the PSO, the greater the impact. To a certain extent this seems to be the case. There are, however, some question marks that concern to what extent the design of the PSO will change the economic impact. Looking at three possible future trends, the impact of capital intensive versus labour intensive PSO designs are one matter of further

[87] In addition, by supporting shadow economies per se, private security has negative effects on the goal of providing security

need to study. It is difficult to say in what direction PSOs will move in the coming 20 years. Some factors indicate a smaller PSO that return to traditional tasks such as maintaining a cease-fire or newly obtained state of peace. However, assuming that conflicts remain similar to their present nature, it is more likely PSOs continue to employ a comprehensive approach to peace building. Civil military relations will be further developed and so will methods of state building.

5.1. Future Research

Future studies in this field of research can with advantage take socio-economic aspects into consideration. An example of a model that would be interesting to study is shown in figure 1.

Figure 1

Socio-Economic Development / **Development of PSOs**	Weaker state, increasing criminality, declining dev.	Status quo	Economic dev. stronger state enhanced reg. capacity
Less comprehensive	*Scenario 1*	*Scenario 2*	*Scenario 3*
Status quo	*Scenario 4*	*Scenario 5*	*Scenario 6*
More comprehensive	*Scenario 7*	*Scenario 8*	*Scenario 9*

In figure 1, 9 scenarios (or trends if so preferred) are given. These should give a broad spectrum of different factors that will influence the outcome of PSOs' future impact on the economy. The socio-economic development refers to the economy's resilience against external shocks and central to the PSO side is its design and future tasks and thus mandate and scope.

The model in figure 1 could be used as a schematic model in order to examine the whole scope of economic impact (as was done in this paper) but it could also be used to analyse a specific topic or sector. Another interesting topic for further studies could be to analyse how the use of private security or military supply chains (or both) impact on the economy of the conflict area. Other interesting areas for further exploration include how the specific PSO design (capital, labour and different methods) have different economic impacts and the relation between local and regional impact – how local effects are spreading to have regional impact and if it is possible to isolate the impact to the local level.

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