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TRADE IN AN INSTABLE ENVIRONMENT: THE IMPACT OF FRAGILITY AND CORRUPTION

REPORT ON SESSION

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Summary

Trade occurs. It occurs between countries, between regions, between the small and the big ones. Trade is affected by tariffs, by non-tariff barriers, by subsidies, by export restrictions, and ... by violent conflicts. Thus, this session focused on trade in conflict areas; in areas where trading partners are faced by violence or by the wounds which violent conflicts left behind.

The first speaker delineated various approaches on how economic recovery can be achieved; the second speaker emphasized the opportunities which lie in instable environments identifying specific WTO issues to unlock such economies; the third and final speaker gave a practical example of a small private business engaged in the highly fragile region of Kabul, Afghanistan.

Introduction

Dr Matthes Buhbe,

Director, Geneva Office of the *Friedrich-Ebert-Stiftung* (FES), Geneva, Switzerland

In his introductory remarks, Matthes Buhbe highlighted the weakness of some orthodox economic models which do not take into account the specific circumstances fragile states are facing. For developing countries, the empirical evidence is alarming: None, not a single state in conflict has been able to achieve even one of the eight Millennium Development Goals. Buhbe argued that the session should not only provide clarification regarding the economic predicament faced by fragile states. It should also show some ray of hope.

Presentations by the panelists

(a) Dr Elisabeth Schöndorf,

Researcher, Research Division International Security, *Stiftung Wissenschaft und Politik*

(German Institute for International and Security Affairs), Berlin, Germany

In her presentation, Elisabeth Schöndorf stated unmistakably that economy recovery is a precondition for sustainable peace. The current 180 conflicts worldwide would have a huge effect on the economic capabilities of affected countries; the majority of which lie in Africa. Schöndorf argued that international aid and peacekeeping measure are important to provide short-term assistance. In particular after the hot phase of a crisis, countries need to generate their own resources which require economic growth and recovery to reach long-term stability.

Schöndorf argued that violent conflicts would not destroy economic life as such. Instead, violent conflict often facilitates a shift from the formal to the informal sector. Schöndorf emphasized two different forms of conflict economy: the combat and the shadow economy. The combat economy is characterized by all activities needed to mobilize resources for financing military expenditures in a conflict by parties concerned. The shadow economy on the other hand captures the illicit economic "opportunities" which arise from a failing legal and property rights system.

Therefore, a fragile state is to be considered a hotbed for a sustained conflict economy. In order to move away from such an economy several measures have to be put in place such as sanctioning public administration, efficient regulatory system, enforceable rule of law as well as physical and technological infrastructure, the ability to target inflation and fiscal deficits, and putting a stop the so called brain drain and, last but not least, ensuring feasible employment and income rates.

The transformation of a conflict to a peace economy is thus a challenge which would

require the collaboration of a broad range of actors on the local/national and international level, from both the public and private sector.

Schöndorf continued by pointing out that trade and business can play an active role in economic recovery. The role of business in particular has at least two completely different scopes. First, business might be hindered by the fear of substantive damages; damage of property and material. Thus, business owners are forced to spend vast amounts of money on "private" security measures as available infrastructure is often not reliable.

Second, business can also fuel a conflict. Those businesses gaining from the existence of fragile state structure during and after a conflict might not be too enthusiastic in supporting measures to solve conflicts. Especially in the case of commodity markets, this phenomenon is frequently reported.

In fact, conflict can further specific economic activities, for instance in the area of trading commodities. There would be no need to mention that these activities pose difficulties on peace building measures.

Schöndorf emphasized that conflict economies would not and could not exist in a vacuum but are embedded in the globalized economy.

b) Dr Achim Wennmann,

Executive Coordinator of the *Geneva Peace-building Platform*, and Researcher at the Centre on Conflict, Development and Peace-building (CCDP) of the Graduate Institute of International and Development Studies in Geneva, Switzerland

The opportunities which arise from instable environments were at the heart of Achim Wennmann's presentation. First, he focused on the identification of these opportunities in a practical sense. Second, he highlighted the

potential of WTO mechanisms which could be used to unlock these opportunities.

Concerning the first item, Wennmann referred to the Global Peace Index, which ranks countries due to their peacefulness, in citing the following finding of this Index. If peacefulness of countries worldwide were to increase by 25 per cent, two trillion US Dollar could be freed up in order to invest in productive areas. According to another analysis by Oxfam, Africa lost 287 billion US dollar between 1990 and 2005 due to armed conflicts. Thus, there exist tremendous opportunities for investment in productive areas if substantial support for peacekeeping in conflict areas could be ensured.

Another immense challenge for the international community lies in providing sufficient employment opportunities for the high number of young people under the age of 20 who live in conflict areas. According to estimates by ILO, about 400 million additional jobs would be required.

Wennmann emphasized the need to accept that even in countries with conflict areas many things continue to work. He referred to the example of Somalia, which continues to be the biggest cattle exporter for the Middle East despite its chronic instability. In fact, many exporting trading communities can initiate local peacekeeping measures. The question on what works in fragile countries and what can be built upon is of the utmost importance.

He furthermore addressed the faulty perception of the private sector running away from countries affected by conflict. Armed violence and instability should instead be considered a side factor for business. The bigger a business, the easier it can mitigate such an environment. The private sector should thus be seen as core opportunity or even as an ally for recovery since it is the private sector

which has the most to gain from a reduction of violence.

Concerning the second item, Wennmann listed mainly six areas in which WTO issues could help to unlock the above mentioned opportunities in conflict affected and fragile states:

- a) Aid for Trade;
- b) Trade facilitation as a crucial area to help countries to improve the trade performance of for example landlocked countries;
- c) To look at the linkage of custom organizations within fragile states and state building since custom organizations are frequently a core source of corruption and fragility in these countries;
- d) Public procurement as an important element especially in the immediate aftermath of a conflict to help local economies develop in certain sectors. Wennmann gave the example of a country having furniture industry, arguing that public procurement should be used to rebuild such local industry in order to mobilize potentials in the local economy;
- e) Domestic implementation of WTO law.
- f) The creation of new states. Conflicts sometimes result in the creation of new states, which might subsequently desire to become a WTO member. As a number of fragile states are already members of the WTO their experience could be used for exploring the potential of WTO accession for newly created states.

In his conclusion Wennmann underlined the enormous opportunities available to unlock fragile states. He argued that these opportunities lie in closer cooperation between the peace building, development, and trading communities which should explore together what is really needed in practice to enable an economic recovery.

c) Mr Jean Amat Amoros,

Co-Founder, *Gundara*, Berliner label for fair trade leather bags from Afghanistan, Berlin, Germany

Jean Amat Amoros presented the work of Gundara, a small Berlin based company selling handmade leather bags produced in Kabul, Afghanistan. According to Amoros, Gundara currently contributes to the income of ten households in the highly fragile state of Afghanistan.

Amoros argued that although the general situation in Kabul is characterized by insufficient security, Gundara provides a range of potential for business. All over Kabul, more and more small businesses would appear. Amoros highlighted the importance to, first, build trust with local partners involved and, second, to adhere to unwritten (cultural) rules. He also mentioned the easier access to the media, and thus the public, by selling leather bags from Afghanistan as nobody would expect being able to buy such products from a highly fragile country.

Amoros furthermore described the local challenges for business in such an insecure area. For instance, the shop in which the leather bags are produced in Kabul has been destroyed twice in the past three years due to explosions in the street. Regarding economic matters, such insecurity also poses problems in terms of delivery and delay since customers in non-fragile countries are not used to wait for their bags for two months. Thus, as a seller, the loss of client recommendation has to be calculated.

Amoros furthermore pointed out that the creation of a long-term business plan would also be difficult considering the day-to-day

approach to life dominant amongst people in Kabul. Thus, long-term stock management of products is difficult. A further problem is to understand product standards. For example, customers of the online-shop would want the exact same bag they see on the website whereas local producers might find it hard to understand why the bag could not look slightly different.

In his conclusion, Amoros stated that in many cases private sector engagement starts (long) before state structures are functioning properly; a fact which might be underestimated in some peace keeping debates.

Discussion

Two further items that came up during the discussion should be mentioned. First, criticism was raised of the ambivalent behavior of some industrialized countries producing and exporting weapons but simultaneously engaged in peace building measures. Second, it was emphasized how resilient the private sector can be to a highly insecure environment. No matter which size the business might have,

they would try to keep going even in violent conflict situations.

Conclusion

Trade is not only possible in conflict areas but simply takes place regardless of external circumstances. Indeed, trade can play an important part during the economic recovery of a fragile area. Specialists of peace keeping, development, and trade policy need to cooperate much more closely in order to facilitate a fruitful economic recovery. It should furthermore not be forgotten that business might even be part of day to day life long before any sort of functioning state structure has been put in place. Thus, the trade community would benefit from having a close look on how to stimulate such developments in violent conflict areas.

Neither governments nor any other actor should turn a blind eye to the illegal practices which happen every day in so called shadow and combat economies. Raising awareness and implementing transparency in trading practices are only two simple recipes to deprive such practices of their breeding ground.

On the author:

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