



Economic Causes of Civil War: The Role of Global Economic Structures

JOHAN TEJPAR



FOI, Swedish Defence Research Agency, is a mainly assignment-funded agency under the Ministry of Defence. The core activities are research, method and technology development, as well as studies conducted in the interests of Swedish defence and the safety and security of society. The organisation employs approximately 1000 personnel of whom about 800 are scientists. This makes FOI Sweden's largest research institute. FOI gives its customers access to leading-edge expertise in a large number of fields such as security policy studies, defence and security related analyses, the assessment of various types of threat, systems for control and management of crises, protection against and management of hazardous substances, IT security and the potential offered by new sensors.



FOI
Swedish Defence Research Agency
Defence Analysis
SE-164 90 Stockholm

Phone: +46 8 555 030 00
Fax: +46 8 555 031 00

www.foi.se

FOI-R--2899--SE
ISSN 1650-1942

Base Data Report
May 2010

Defence Analysis

Johan Tejpar

Economic Causes of Civil War: The Role of Global Economic Structures

Cover Image: A routine check of a small fishing vessel outside the coast of Somalia. Photo by: Nicklas Gustafsson, Försvarets Bildbyrå

Title	Economic Causes of Civil War: The Role of Global Economic Structures
Rapportnr/Report no	FOI-R--2899--SE
Rapporttyp/Report Type	Underlagsrapport/ Base Data Report
Månad/Month	Maj/May
Utgivningsår/Year	2010
Antal sidor/Pages	32 p
ISSN	ISSN 1650-1942
Kund/Customer	Försvarsmakten/Ministry of Defence
Projektnr/Project no	E11102
Godkänd av/Approved by	Göran Kindvall
FOI, Totalförsvarets Forskningsinstitut	FOI, Swedish Defence Research Agency
Avdelningen för Försvarsanalys	Department of Defence Analysis
164 90 Stockholm	SE-164 90 Stockholm

Sammanfattning

I denna rapport görs en översyn av teorier om ekonomiska orsaker till inbördeskrig, framförallt teorier om begär (eng. greed), respektive teorier som bygger på missnöjesanledningar (eng. grievance). Dessa teorier speglar i stort den debatt som förs inom området. Avseende ekonomiska orsaker till inbördeskrig råder enighet om att den mest signifikanta orsaken är ”möjligheten” att genomföra ett inbördeskrig, och att denna är nära sammanknuten med ekonomisk tillväxt och utveckling på ett mer generellt plan. Dock föreligger olika meningar om vad ”möjlighet” utgörs av.

I teorierna om begär anses ekonomiskt självintresse vara den huvudsakliga drivkraften till inbördeskrig. I teorierna om missnöjesanledningar analyseras inbördeskrig som en del av en större konfliktskykel som skiftar mellan olika typer av konflikter. Huvudpoängen är att missnöjesanledningar sällan direkt leder till inbördeskrig men att de är orsaken till mindre konflikter som på sikt riskerar att trappas upp och eskalera till inbördeskrig.

En viktig slutsats i rapporten är att oberoende av vilken teori man väljer att tillskriva orsaken till ett inbördeskrig så spelar den globala ekonomin stor roll. I takt med att länder knyts tätare samman genom finansiella flöden, handel och migration ökar möjligheterna att finansiera ett inbördeskrig, eller en konflikt, och att den ska sprida sig över nationella gränser. I ett 20-års-perspektiv är det troligt att världsekonomin integreras ännu djupare och globala ekonomiska mönster har fortsatt stor inverkan på huruvida inbördeskrig utbryter eller ej. Denna påverkan kan ske i både positiv och negativ riktning.

Nyckelord: inbördeskrig, ekonomiska orsaker till inbördeskrig, globala ekonomiska strukturer, globalisering, ‘greed and grievance’

Summary

In this report, theories on economic causes of civil war have been reviewed, particularly theories on greed and grievance. These theories are well studied and reflect at large the ongoing debate on different conflict drivers. Here, they are also put in a global economic context. Concerning economic causes of civil war, it is clear that opportunity is identified as the single most significant factor and that it is closely connected to economic growth and development. There are however different views on what the most important opportunity is.

While greed-related arguments identify self-interest as the principal conflict driver, grievance-related arguments commonly analyze civil war as part of a conflict process where conflicts transform into different shapes. The main point is that even though, for example, religious or ethnical grievances do not instantly start civil wars, they could very well be the reasons for smaller conflicts that at a later stage escalate into civil war.

An important conclusion in this report is that irrespective of the type of cause of civil war, the global economy has a significant impact on whether civil wars occur or not. As nations become closer connected by financial structures, trade flows and migration patterns, the possibilities of financing wars increase and there is a risk that negative effects of civil wars will spread to neighbouring countries, particularly when connected with informal markets. In a 20-year perspective, it is likely that the global economy will be further integrated and its impact on the risk of civil wars will be sustained.

Keywords: civil war, economic causes of civil war, global economic structures, globalization, greed, grievances

Table of contents

1	Introduction	7
1.1	Definitions and delimitations	7
2	Economic Causes of Civil War	9
2.1	Perspectives on the theories of 'greed and grievance'	10
2.1.1	Reassessing the greed and grievance theory.....	13
2.2	What can we learn from the case studies?	14
3	The Global Economy	17
3.1	Global economic structures.....	17
3.1.1	The Process of Globalization	19
3.1.2	Globalization and the 2007-2010 financial crisis.....	20
4	Economic Causes of Civil War and the Global Economy – Some Possible Developments	23
4.1	The economic opportunity argument.....	23
4.2	The state capacity argument.....	24
4.3	Religious, political and ethnic grievances	25
4.4	Future developments.....	26
5	Final Remarks	28

Acronyms and Abbreviations

CIFP	Country Indicators for Foreign Policy
COW	Correlates of War Project
EBRD	European Bank of Reconstruction and Development
FDI	Foreign Direct Investments
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IBRD	International Bank of Reconstruction and Development
IISS	International Institute for Strategic Studies
IMF	International Monetary Fund
IPE	International Political Economy
MNC	Multinational Corporations
NGO	Non-Governmental Organizations
PRIO	International Peace Research Institute, Oslo
SSR	Security Sector Reform
UCDP	Uppsala Conflict Data Program
WTO	World Trade Organization

1 Introduction

The world is too small and tightly networked for the damages of conflict to be contained within the country at war.

**Nicholas Stern, Former Senior Vice President
and Chief Economist at the World Bank¹**

This paper examines how global economic structures affect economic causes of civil war. Whilst the two separate subjects are well studied, the linkages between them are rarer in the academic discourse.² Since World War 2, there has been a shift in conflict character from taking place between states to taking place within states. During the last decades explanations of civil war have repeatedly invoked economic factors as the root causes of these conflicts. For example, a common explanation of the war in Rwanda is the pressure on land while contest for natural resources often has been elevated when analyzing the war in Angola. An influential debate has been the one on “greed and grievance”. Even though there are other similar discourses, particular focus is here given to the greed and grievance debate as it reflects the major views on explanatory factors related to different economic and other causes of civil war.

The main purpose of this report is to review the research on economic causes of civil war and put it in an international economy perspective (IPE). As the literature on economic causes of civil war is immense, the focus here will be on globalization and transnational economic flows. The analysis will also consider the possible development in a 15-20 year perspective. The aim is to add to the understanding of how civil wars are instigated and sustained.

1.1 Definitions and delimitations

The definitions of different types of armed conflicts are important in order to avoid confusion on what kind of conflict that is studied. As indicated above, this paper involves only civil war. Significant differences across civil war definitions are mainly due to disagreement on three questions: What threshold of violence distinguishes civil war from other forms of internal armed conflict such as

¹ Stern, Nicholas (2003). Statement at the release of the World Bank Policy Report “Breaking the Conflict Trap: Civil War and Development Policy”. Retrieved on June 3 2009.
<http://web.worldbank.org/external/default/main?menuPK=477815&pagePK=64168092&piPK=64168088&theSitePK=477803>

² See e.g. Barbieri, Katherine and Reuveny, Rafael (2005). “Economic Globalization and Civil War” in *Journal of Politics*, Vol. 67, No. 4, pp. 1228-1247. Cambridge: Cambridge University Press; World Bank (2003). *Breaking the Conflict Trap: Civil War and Development Policy*. New York: Oxford University Press

genocide, massacres and pogroms? How do we know when a civil war starts and ends? How can we distinguish between intrastate, interstate, and extra state wars?³ Looking at the existent research, definitions of civil war commonly consist of an absolute number of deaths as a threshold. The ‘Correlates of War (COW) project uses a relatively high threshold of 1000 battle-deaths.⁴ The Uppsala Conflict Data Program (UCDP) at Uppsala University has a lower threshold, 25 annual battle-deaths.⁵ For both these definitions, the government (national army) has to be actively involved as one of the combating parties. Hence, two combating guerrilla fractions are not considered as an armed conflict.

Another central delimitation for this paper is that it focuses on economic explanations of civil war. Which indicators to include as economic vary among researchers; from ‘hard’ indicators related to monetary transactions, to ‘softer’ indicators more related to socioeconomic factors. This paper focuses on the former while acknowledging the need to highlight the latter to give a better and more nuanced understanding of the matter at hand.

The role of informal markets, smuggling, corruption and other criminal activities are all relevant factors when looking at possibilities to finance conflicts. A final delimitation is that this paper does not examine or discuss these aspects of economic causes of civil war.

In the next chapter, the greed and grievance theories on economic causes of civil war are reviewed. Chapter three describes the development of the global economy, both the private market and the role of economic institutions. In chapter four, economic causes of civil war are analyzed in a global economic context and the future development is considered. In the fifth chapter, final remarks are made.

³ Sambanis Nicholas (2004a), “What is civil war? Conceptual and Empirical Complexities of an Operational Definition” in *Journal of Conflict Resolution*, vol. 48, pp. 814-858.

⁴ Singer and Small (1994)

⁵ See Gleditch, Nils Petter; Wallensteen, Peter; Eriksson, Mikael; Sollenberg, Margareta & Strand, Håvard (2002). ”Armed Conflict 1946-2001: A New Dataset” in the *Journal of Peace Research*, vol. 39, no. 5, pp. 615-637 London: Sage Publications; and http://www.pcr.uu.se/research/UCDP/data_and_publications/definitions_all.htm

2 Economic Causes of Civil War

Many researchers have used a quantitative approach to explain why civil wars occur. Typically, scholars interested in understanding conflicts have, during the last decades, increasingly examined the correlation between civil war and economic variables. The comprehensive data set produced by Singer and Small in *The Wages of War 1816-1965: A Statistical Handbook* laid the ground for the COW Project.⁶ Since then, several conflict databases have been developed. Some of the more well-reputed ones are the UCDP at Uppsala University (Sweden), the Peace Research Institute Data (Norway), the Conflict Database at the London-based International Institute for Strategic Studies (IISS) and Country Indicators for Foreign Policy (CIFP) at Carleton University in Canada.⁷ Closely related to the data sets is the work of the World Bank.⁸

In spite of the great amount of research on why civil wars occur, researchers disagree on what constitutes the link between micro level theories and the macro level data. Put differently, there are problems with connecting the results of quantitative studies with those of qualitative studies. “The Case Study of Civil War” project was launched in 2000 and organised by Yale University. This project included 21 case studies on civil war onset and war avoidance.⁹ The principal goal was to link existing data to information concerning causal mechanisms such as incentives for rebel recruitment. One of the major challenges identified was to explain when and why conflict escalation leads to civil war, as opposed to other kinds of violence.¹⁰ It is worth noting that during the last decade more qualitative studies have been undertaken, often with the purpose of better explaining the causal pathways that link individual or group behaviour to the outbreak of civil war.¹¹

⁶ Singer, J. David & Small, Melvin (1972). *The Wages of War 1816-1965: A Statistical Handbook*. New York: Wiley

⁷ The Uppsala Conflict Data Program can be accessed for free at www.pcr.uu.se/research/UCDP/. The International Institute for Strategic Studies' Conflict Database is found at www.iiiss.org/. The Country Indicators for Foreign Policy has a comprehensive dataset on failed and fragile states; it can be accessed at <http://www.carleton.ca/cifp/>

⁸ Relevant World Bank programs are ‘Conflict and Post-Conflict Reconstruction Unit’ and ‘Support to Low-Income Countries Under Stress’ (LICUS). They are found at www.worldbank.org.

⁹ The following countries were included: Algeria, Azerbaijan, Bosnia, Burundi, Colombia, Democratic Republic of Congo, Georgia, Indonesia, Ivory Coast, Jamaica, Kenya, Lebanon, Macedonia, Mali, Mozambique, Nigeria, Russia, Senegal, Sierra Leone, Sudan, and United Kingdom (Northern Ireland). Some of these countries had more than one civil war. The following case studies were commissioned but never completed: Afghanistan, El Salvador, Moldova, Somalia, Sri Lanka, and Uganda.

¹⁰ See e.g. Sambanis, Nicholas (2004b).

¹¹ See e.g. Sambanis, Nicholas (2004b). “Using Case Studies to Expand Economic Models of Civil War” in *Perspectives on Politics*, Vol.2, Nr. 2, pp. 259-279. Cambridge: Cambridge University Press

The following sections present recent theories based on both quantitative and qualitative research. The results are then summed up in a final section. Focus is on theories that discuss different aspects of greed and grievance-related drivers of civil war.

2.1 Perspectives on the theories of greed and grievance

The greed and grievance theories have been very influential in understanding civil war. These theories are based on ideas of an individual's trade-off between production and appropriation. People decide to become rebels after weighing the economic opportunity cost of violence against its expected utility. If there are opportunities to rebel, greed (preferences for private/group gain) leads to political violence. Grievance (ethnic or political repression) is just rhetoric to legitimize engagement in appropriation rather than production. However, the richer the state, the higher is the alternative cost of not choosing production believed to be.¹² The rebellion is sustained through looting of natural resources, extortion of the local population and financial support from diasporas. In sum, a country's economic opportunity structure – its income level, growth and economic system – determines the 'supply' of insurgency for a given level of insurgency 'demand'.

Traditionally, the most common explanations of civil war have concerned ethnic or other culturally tilted divisions.¹³ For example, Easterly and Levine argue that there is greater risk of conflict in fractionalized societies than homogenous ones.¹⁴ Over time, many researchers have questioned the ethnic division theory and used economic data to show that also other variables can explain the occurrence of civil wars. For example, the COW project provided quantifiable data and laid the ground for Paul Collier's and Anke Hoeffler's influential theories of greed and grievance and the motivations of rebellion.¹⁵ The greed and grievance theories have served a useful heuristic purpose in sharpening the debate and encouraging more qualitative and historically informed research on civil wars.

¹² The assumption here is that wages are higher in rich states than in poor ones.

¹³ Ibrahim, Elbadawi and Sambanis, Nicholas (2002). "How Much War Will We See? Explaining the Prevalence of Civil War" in *Journal of Conflict Resolution*, Vol. 46, No 3, pp. 307-334; Muller, Edward N. (1985). "Income Inequality, Regime Repressions and Political Violence" in *American Sociological Review*, Vol. 50, No. 1, pp. 47-67

¹⁴ William Easterly and Ross Levine (1997). "Africa's Growth Tragedy: Policies and Ethnic Divisions". *Quarterly Journal of Economics*, vol. 112, Issue 4, pp 1203-50. MIT Press Journals

¹⁵ Paul Collier and Anke Hoeffler (1998). "On Economic Causes of Civil War". *Oxford Economic Papers* 50 (1998), pp 563-573. Oxford University Press; Paul Collier and Anke Hoeffler (2004). "Greed and Grievance in Civil War". *Oxford Economic Papers*, 56, pp 563-595. Oxford University Press

In their early research, Collier and Hoeffler contested the “traditional” ethnic division theory and instead pointed at a set of economic characters or factors to explain civil war. They assume that rebellion will only occur if the rebels believe that they will win; war occurs when rebels’ incentives are sufficiently large relative to their costs. Rebellion is here explained to be driven by greed.¹⁶

Whilst financing a rebellion can be unrelated to the domestic economy (e.g. financed externally),¹⁷ the military capability to fight the rebellion (i.e. cost of rebellion) is dependant on military expenditure. Collier and Hoeffler stated: “the probability of rebel victory would be diminishing in the *per capita* taxable base of the economy”.¹⁸ The reason, they say, is because the opportunity cost of rebellion becomes higher and the will to engage in rebellion – with the prospective rebels losing their income – decreases the higher average incomes are.¹⁹

Natural resources are also commonly mentioned in economic reasons of war. Natural resource endowments are connected to the per capita income and is a non-monotonic factor,²⁰ meaning that at an initial stage of exploiting natural resources the risk of war increases as the incentives for rebels to try to capture these resources are high, whilst at a later stage of the exploit circle, access to natural resources reduces the risk of war. The reason is that the government’s income, and thus space for military spending and capacity, increases with the degree of exploitation. Another factor recognized in Collier’s and Hoeffler’s theories is the size of the population; the larger the population the more potential for a greater taxable base. This is argued to be an attraction for secession and thus increase the risk of civil war.

On the cost-side, instigating and upholding a rebellion is likely to be expensive and the duration of conflict is therefore significant as well. Furthermore, rebels cannot be treated as a single agent. Collier and Hoeffler acknowledge that there is a need for coordination among rebels, which can be costly, and includes this in their model as well.²¹ Concerning the ethnic division theory, Collier and Hoeffler argue that it is not the fractionalization per se that is a driver of conflict, rather the opposite, with the exception of when a society becomes polarized into two large groups.²²

¹⁶ Collier and Hoeffler (1998)

¹⁷ As one response to this development, the number of economic sanctions has increased and they are often aimed at containing such financial flows to rebel groups or rebel leaders.

¹⁸ Collier and Hoeffler (1998), p 564

¹⁹ There is an intrinsic distributional factor based on economic geography or geographic inequality that could offset this factor.

²⁰ There is a lack of a theory that explains why lootable wealth is linked with chaos in some instances and order in others.

²¹ Collier and Hoeffler (1998), p 565

²² Collier and Hoeffler (1998), pp 571-572

Collier's and Hoeffler's economic model is not uncontroversial and the most substantial critique concerns limitations regarding the character of their explanatory variables.²³ The critique also concerns the definition of variables and, for example, Richard Snyder argues that the "primary export variable" lumps lootable resources, such as diamonds and opium, with non-lootable resources, such as petroleum and copper, thus blurring important distinctions among lootable resources themselves, such as legality, detection, and elasticity of supply.²⁴ As a response to critique against their theories, Collier and Hoeffler expanded their "greed theory" to include variables related to grievance but also more economic variables, particularly related to the opportunity of (financing) rebellion. The latter includes remittances from Diasporas, extortion of natural resources and economic support from hostile governments.²⁵ The grievance-related variables tested are: ethnic or religious hatred, political repression, political exclusion and economic inequality.²⁶ Collier and Hoeffler find that the indicators testing opportunities for rebellion show significant correlation whereas the indicators of grievance do not add much explanatory power. They also find a positive correlation between high risk for civil war and secondary school enrolment of boys.²⁷ Looking at opportunity, primary commodity exports increases the conflict risk. Large Diasporas and the extortion interpretation also significantly increase the risk for conflict.

Contrary to the opportunity-related indicators, Collier and Hoeffler find most proxies for grievances insignificant. 'Ethnic dominance' – where one ethnic group is in majority – is the exception.²⁸ However, they also acknowledge that they have not controlled all possible proxies for grievances in relation to economic opportunity. For example, an alternative interpretation is saying that primary commodity dependence can be a cause of bad governance and thus promote grievances.²⁹ Collier and Hoeffler also say that grievances partly can explain conflicts when such grievances are sufficiently widespread and common across societies and time.³⁰

In their most recent research, Collier and Hoeffler together with Dominic Rohner expand their greed and grievance theory even further.³¹ They hold their position

²³ Sambanis (2004:b)

²⁴ Snyder, Richard (2006). "Does Lootable Wealth Breed Disorder? A Political Economy of Extraction Framework" in *Comparative Political Studies*, Vol. 39, No. 8, pp. 943-948. London: Sage Publications

²⁵ Collier and Hoeffler (2004)

²⁶ Ibid., p. 570

²⁷ Collier and Hoeffler (2004)

²⁸ Ibid., pp. 587-589

²⁹ Ibid. p. 588; Snyder (2006)

³⁰ Ibid. p. 589

³¹ Paul Collier, Anke Hoeffler and Dominic Rohner (2009). "Beyond Greed and Grievance: feasibility and Civil War". *Oxford Economic Papers*, 61. Oxford University Press.

that opportunity of rebellion is the most important driver of civil war. However, they are blurrier on the significance of greed or grievance, saying that opportunities can be based on both greed and grievance arguments. They also add feasibility to their model saying that where rebellion is materially (military and financially) feasible, it will occur.³² They also argue that feasibility trumps motivation, which means that the first “social entrepreneur” will use the first possible motivation to instigate a rebellion.

2.1.1 Reassessing the greed and grievance theory

James D. Fearon and David D. Laitin share the same logic as Collier and Hoeffler. They discard ethnic and religious characteristics as drivers of civil war, and underline the importance of conditions that favour insurgency. They too acknowledge that the higher the GDP, the lower the risk of civil war. While Collier and Hoeffler ascribe this to the poverty argument (a struggle to become richer), Fearon and Laitin interprets it as primarily linked with state capacity. However, unlike Collier and Hoeffler, Fearon and Laitin see no significant association between civil war and high growth or with secondary school enrolment. They also dismiss the resource predation argument, with an exception for oil-rich states;³³ a result that is confirmed by Nilsson and Sjöstrand.³⁴

Fearon and Laitin particularly highlight the association between civil war, state weakness and poverty, but also rough terrain and large populations.³⁵ Hence, rather than looking at economic “greed” arguments of opportunity for insurgency, they have a Hobbesian approach; in relatively weak and capricious states, both fear and opportunities encourage the rise of candidates to state power. These states are commonly financially and bureaucratically weak and opportunities here rather consist of a state’s lacking capacity to control insurgencies.³⁶

The greed and grievance theories receive both support and resistance from other quantitative researchers. Opportunity is regarded as the key explanatory factor but there are differences in what opportunity consists of. Basically, the influential work by Fearon and Laitin highlights the inability of the state to control rebel movements as the greatest opportunity factor. However, while Collier and Hoeffler attribute greed as the main driving force of conflict and highlights the

³² Collier et al. (2009), p. 3-4

³³ Ibid. They do however say that it is not the oil per se that is the conflict driver but the fact that oil rich states commonly have weak state structures.

³⁴ Nilsson, Mari and Sjöstrand, Jenny (2009). *Öppenhet för handel och konflikter inom stater*, Swedish Defence Research Agency. Stockholm: FOI-R--2557--SE

³⁵ Fearon, James D. and Laitin, David. (2003). “Ethnicity, Insurgency and Civil War” in *American Political Science Review*, vol. 97, no. 1, February 2003

³⁶ Ibid.

opportunity to finance rebellion, Fearon and Laitin are vaguer in defining the driving forces of conflicts (if a weak state per se can be reason for a conflict) and settles for identifying the main characteristics of a civil war prone state.

2.2 What can we learn from the case studies?

The *Case Study Project on Civil Wars* contests Collier's and Hoeffler's as well as Fearon's and Laitin's theories and their argument of opportunity as the main determinate of civil war.³⁷ The fundamental starting point is that quantitative studies might explain some types of conflict escalation but do not sufficiently explain why some types of these escalations lead to civil war; there is a missing link between micro-level factors and macro-level behaviour.³⁸

Sambanis argues that the negative correlation between GDP and civil war needs to be reassessed. It is not only the strength of the state, but also how it is governed and reacts that influences the outcome of violence. The case studies also indicate that the role of civil society is significant and tightly connected to state capacity.³⁹ He continues with school enrolment, saying that it is not so much the size of the secondary school enrolment as what the schools teach that is the most significant factor. For example, there seems to be a clear connection between intolerance and to what extent nationalism is promoted at schools.⁴⁰ Looking at predatory behaviour of natural resources – a central argument in Collier's and Hoeffler's theories – the case studies show that rather than focusing on natural resources, it is the possibility to loot *any* resources that is important. The opportunity to loot varies depending on the looted good. In certain cases the opportunity is created as a result of a governments' lacking capacity to enforce the rule of law and looting can be carried out on an ad hoc basis. In other cases rebels need to totally control grand lots of land in order to take advantage of natural resources, as is the case when it comes to oil extraction.

How does the case study project relate to the above dismissal of ethnic and religious grievances as a driver of conflict? Sambanis' conclusions are that ethnicity is stronger correlated with what in the literature is described as coups and genocides, and therefore distinguished from civil war. However, he argues that there is often a connection between different types of conflict and for example coups can, by escalation or reciprocal actions, develop into civil war. A related argument concerns the size of rebel groups as ethnicity can be an important recruitment factor. Acknowledging that several rebel groups started

³⁷ Sambanis, Nicholas (2004b)

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ See e.g. Kreuger, Alan B. and Malecková, Jitka (2003). "Education, poverty and terrorism: Is there a causal connection?" in *Journal of Economic Perspectives*, vol. 17, no. 4, pp. 19-44

small, commonly only with tens of people,⁴¹ an important question to answer is what it is that makes rebel groups grow? The case study project shows that particularly time, but also external support and states' inability to repress the insurgency in its early stages are very significant. A particular issue concerns whether rebels have the freedom to decide to join the insurgency or not.⁴² Sambanis also links ethnicity and civil war to regional dynamics. Even though the initial cause of starting an insurgency was not motivated by ethnicity, ethnic solidarity can very well be the reason that keeps a conflict going and growing into a civil war.⁴³

A final area identified in the case studies concerns the organization of conflict and the interrelationship between "crime, grievance and politics". Sambanis approaches this area regionally, highlighting the importance not only of intra-state factors but also of neighbouring countries.⁴⁴ His main point is that many civil wars have been possible to start and continue because neighbouring countries have provided either a sanctuary for rebels to hide, a trafficking junction where goods are being sold and weapons bought or both.⁴⁵ Here is also where criminal activities and the insurgence are complicatedly entangled and fuelling each other, which means that there are important links between political and criminal forms of violence. This relation implies significant risks that the conflict per se can spread across borders as well.

In conclusion, the case study project shows that organized violence is the result of four interacting factors: the demand for loot, the demand for political change, the opportunity to mobilize criminal or insurgent groups, and the mechanisms that characterize claim making and resource extraction. The case study project delivers both a methodological reassessment in terms of "what is missed when using a quantitative approach" and theories on why conflicts escalate to civil wars. As many countries are caught in the conflict trap, civil war is a phase in a cycle of violence and by isolating civil war in quantitative studies; focus is put on an event rather than a process. In order to understand this process (in terms of macro-level implications), it is not satisfactory to only do a quantitative analysis

⁴¹ For example; in Colombia, the National Liberation Army grew from 30 men in 1965 to 270 in 1973 and 4500 in 1999. In Azerbaijan, the NK rebels grew from under 1000 in 1988 to 21000 in 1994. In Aceh, Indonesia, GAM started with 24 members in 1976 and by 2001 it had 2000-3000 members plus a militia of 24000; it came to control 80 percent of Aceh's villages. (all figures from Sambanis, Nicholas, (2004b))

⁴² Kilcullen, David (2009). *The Accidental Guerrilla – Fighting Small Wars in the Midst of a Big One*. New York: Oxford University Press

⁴³ Sambanis, Nicholas (2004b); compare with the results of Lake, David A. and Rothchild, Donald (eds.) (1998). *The International Spread of Ethnic Conflict: Fear, Diffusion and Escalation*. Princeton: Princeton University Press; and Brown, Michael E. (ed.) (1996). *The International Dimension of Internal Conflict*. Cambridge: MIT Press

⁴⁴ Sambanis, Nicholas (2004b)

⁴⁵ Sambanis, Nicholas (2004b)

of micro-level data. The case study project shows that ethnicity and political processes are relevant factors when explaining civil war, not at least when put in a cross-border context. Other important factors that are not given attention in the quantitative analyses concern the connection between crime, grievances and politics. Lastly, time is also considered important as it is often needed for a rebel group, or a criminal group, to grow big enough for the conflict to escalate into a civil war, thus stressing the need for intelligence to enable early detection and strike back of rebel groups.

3 The Global Economy

In the previous chapter, it was established that economic causes, particularly related to opportunity, are important factors in understanding the occurrence of civil war. The global economy has become more closely interconnected which implies that economic causes of civil war should be affected. The aim of this chapter is, therefore, to identify some central issues and discuss the significance of economic institutions and processes, most notably globalization and how they are related to civil war. The first section describes how economic structures have developed over time. The second section highlights some central points concerning globalization and the last section connects the structures with globalization in order to show some of the connections between, for instance, a global financial crisis and civil war.

3.1 Global economic structures

Global economic structures and trends basically concerns two issues that are interrelated: economic structures driven by the market and economic structures driven by international institutions.

After World War 2, a set of international institutions – most notably the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT)⁴⁶ and the International Bank of Reconstruction and Development (IBRD)⁴⁷ – were created emphasizing “*the importance of rule-based regimes to stabilize business expectations*”.⁴⁸ These institutions dealt with relatively narrow questions on a rather small scale. Their agenda setting and the decision making processes somewhat resembled that of “clubs”, dominated by a few rich nations with similar interests and agendas. With time, more nations demanded to be included in this decision making process and as they gained more and more influence and leverage, the scale and the variety of relations within these institutions increased. Since the 80’s and 90’s, negotiations in the large international institutions cover an enormous amount of issues, stretching from very technical and nitty gritty to broad rules and frameworks. The larger scale at the negotiation tables has resulted in very complex outcomes covering multiple issue areas and the resulting rules are hard to govern, enforce and take reprimands against when broken. In addition, technological development has also led to a vast increase in global networks such as those led by Non-Governmental Organizations (NGO:s). Faster and cheaper communications in real time have

⁴⁶ Today known as the World Trade Organization (WTO)

⁴⁷ Today known as the World Bank

⁴⁸ John Manyard Keynes quoted in Skidelsky, Robert (2000). “Skidelsky on Keynes” in *The Economist*, November 25 2000, p. 112

allowed these networks to organize themselves and grow, both in size and strength. They are able to put more pressure on both international institutions and national governments.

In consistence with Keynesian theories, which the post World War 2 international institutions were built on, these institutions constrained the ability of states to manipulate their exchange rates in the short run. In international trade, GATT encouraged free trade through tariff reductions and by limiting the creation of new trade barriers. Thus, a system that sought to prevent the follies of the 1920's and 1930's was created. With a stable exchange rate and international regimes dealing with relatively narrow agendas, the international regimes received legitimacy from their effectiveness. At the same time this system allowed the use of domestic tools of intervention; John Ruggie labels this system "embedded liberalism".⁴⁹ However, the increasing agendas of the post World War 2 institutions have made reaching agreements more difficult. This has undermined their efficiency and thus, their legitimacy. Simultaneously as the international institutions' capability to govern has decreased, the significance of corporatism has risen.

In addition to international institutions there was in the 60's and 70's a steady rise in the number and size of Multinational Corporations (MNC:s). Deregulations of the financial markets, such as the abolishment of capital controls, has made capital more mobile and allowed a surge in foreign direct investments (FDI). Ruggie argues that the role of the state is diminishing and identifies trends of society's enhanced role in corporatism and the impact of MNC:s. There are approximately 65000 MNC:s, all sensitive to consumer demands, and their own and their suppliers' internal policies and norms most certainly affect global governance.⁵⁰ Furthermore, governments have lost some of their policy instruments. With the emergence of truly international financial markets, new technologies make it possible to move capital immediately and short term flows are highly sensitive to interest rate differentials and exchange-rate expectations. This makes it difficult for domestic monetary authorities to control inflation and states are therefore very sensitive to capital flows.⁵¹

Even though new actors have grown, such as the European Bank of Reconstruction and Development (EBRD), there is an imbalance between global

⁴⁹ Ruggie, John Gerard (1982). "International Regimes, Transactions and Change: Embedded Liberalism in Post War Economic Order" in *International Organization*, vol. 36, no. 2

⁵⁰ Ruggie, John Gerard (2003): "Taking Embedded Liberalism Global: The Corporate Connection" in Held, David & Koenig-Archibugi, Mathias (eds): *Taming Globalization*. Cambridge: Polity Press.

⁵¹ Goodman, John B. & Pauly, Louis W (1995): "The Obsolescence of Capital Controls: Economic Management in an Age of Global Markets" in Frieden, Jeffrey A. & Lake, David A. (eds): *International Political Economy – Perspectives on Global Power and Wealth*, 3rd edition. New York: St. Martin's Press.

markets and global governance, where the former has outrun the latter. The development of technological tools and the abolishment of financial controls have allowed a surge in MNC:s. Furthermore, MNC:s are not subject to the bureaucratic procedures of the international institutions, and are therefore commonly more efficient which makes their impact on a grass root level steadily higher. It is important to note that this imbalance of governance and actual impact has been consistent during the last decade, even though this has been a period during which the U.S. and other countries have put much energy in efforts to securitize international (financial) flows. This has been done by increasing the amount of and precision in governing tools and financial infrastructure and the efforts are ultimately aimed at curbing opportunities to finance terrorist activities.

The diminishing state control and inability to intervene was one of the principal reasons why the recent financial crisis, starting in 2007-2008, was ever able to take place. One common argument is that the state's monetary policy tool is irrelevant to curb recessions such as this one while another explanation of the worldwide impact of the financial crisis often relates to globalization.⁵² The subsequent section aims to give further insight into what globalization actually consists of.

There is also reason to say something about the role of particular nations. The US and the EU are still the largest economic blocks in the world. However, countries like China, India and Brazil are growing fast and have also gained influence in different economic forums such as the WTO. These countries are also investing heavily in for example Africa and Latin America and make a substantial contribution to the growth on these continents and, hence, increase their influence in these continents' policy institutions. In addition, their increasing activity on global markets further integrates financial infrastructures making it even harder to control flows. When trying to track a financial source it is sometimes necessary to identify a large number of parties involved in the transaction, which for instance makes it very hard to impose economic sanctions or other restrictions.

3.1.1 The Process of Globalization

Globalization is often considered as the most significant character of the international economy and it is a topic hard to avoid when discussing the world economy. Keohane and Nye define globalization as the process by which globalism, global networks, become thicker.⁵³

⁵² Krugman, Paul (2009): *The Return of Depression Economics and the Crisis of 2008*. London: Penguin Books Ltd.

⁵³ Keohane, Robert O. and Nye Jr., Joseph S. (2000). "Globalization: What's New? What's Not? (And So What?)" in *Foreign Policy*, Spring 2000, pp. 105-119.

As interdependence and globalization have become thicker, systemic relationships among different networks have become more important and more network interconnections have been created.⁵⁴ The 1997 Asian financial crisis illustrates the extent of network interconnections. What first appeared as an isolated currency crisis in a small emerging market country, showed to have global effects. It generated financial panic throughout Asia, prompted huge bail-out packages orchestrated by the IMF and, in the end, led to a widespread loss of confidence in emerging markets and the efficiency of international financial institutions.

The degree of thickened globalism experienced during recent decades has been driven by technological development and has given rise to three changes: increased density of networks, increased institutional velocity and increased transnational participation.⁵⁵ Technological development has enabled communication and economic transactions in real time for small costs. The sheer magnitude, complexity and speed distinguish contemporary globalism from earlier periods. Hence, globalization can be understood as an increased sense of vulnerability to distant causes.

A common perception when multilateralism fails, which, for example, seems to be the case with the current WTO trade negotiations, is that regionalism increases and undermines globalization.⁵⁶ Followers of this line commonly predict an outcome where the world will be divided into a number of regional blocks and result in a fragmented world economy. Just as globalization strikes differently in different parts of the world, increased regionalization can alter the impact patterns of globalization.

3.1.2 Globalization and the 2007-2010 financial crisis

The recent financial crisis has very clearly displayed how countries in the periphery, as well as in the centre, of the international economy are heavily affected by distant developments and it gives an indication of how the global economy, and the role of globalization, has developed over the last decade. The 21st century financial crisis was described by Johannes Malminen as being endemic, epicentric, epidemic and explosive.⁵⁷ What Malminen means is that the financial crisis was created and sustained by the Western market and its institutions and it was also in the rich part of the world that it broke out. It struck directly at Western institutions, particularly banks, but the consequences were

⁵⁴ Network effects refer to a situation where a product becomes more valuable once many people use it, e.g. an economic transaction tool.

⁵⁵ Keohane, Robert O. and Nye Jr., Joseph S. (2000)

⁵⁶ Kaiser, Magnus (2005): *Ekonomisk utveckling 2010 och 2025 – omvandling och globalisering*. FOI Memo 1587. Stockholm: FOI

⁵⁷ Malminen, Johannes (2009): Seminar at Society and Defence on 18/11/2009

epidemic in the sense that it affected the whole world. Hence, even though most African, several Asian, some Latin American and most former Soviet states were relatively innocent in creating the financial crisis, they were most definitely affected by it. This development also highlights that regionalization in no way has curbed globalization yet, at least not concerning financial interconnections and infrastructure.

Similar to the economic depression in the 1920's and 30's, market developments have outrun state regulation. The outbreak of the 21st century financial crisis was caused by speculations in real estate, most significantly the sub-prime market, financial markets and the usage of new financial tools, particularly derivatives which had unpredictable effects for the development of international markets.⁵⁸ The consumer side lost confidence in both the market and the state and reacted with very restrictive behaviour, which exacerbated the impact of the crisis. The Obama Administration's USD trillion-class bailout is yet to show any substantial effects, which implies a need for the state to regain control of certain systems in order to win back the confidence of the consumers, the demand.⁵⁹

In the wake of the crisis, some issues concerning the relation between the financial crisis and developing countries can be identified. It should be noted that many developing countries are not as financially integrated with Western countries as the latter are with each other; several effects of the financial crisis are therefore secondary but its impact is, none the less, substantial. For example, as the financial crisis has affected basically the whole world there is no possibility for a single country to export itself out of the crisis.⁶⁰ However, where the rich part of the world, with developed social security systems, is quite resilient to the economic crisis, or at least able to borrow itself out of it, many poor countries do not enjoy this luxury. These countries are dependent on income from their exports, from overseas aid and other support provided by international institutions, from FDI (that enable the development of production assets) and from expatriates' remittances.⁶¹

With higher unemployment and lower growth, and thus with weaker financial positions, it becomes politically harder for western governments to keep up their level of aid and support to poor countries. Rich countries also tend to become more protectionists in times of recession – as this is politically more viable than opening up markets and letting cheap labour “steal” jobs. Initiatives such as “buy

⁵⁸ Krugman, Paul (2009): *The return of Depression Economics and the Crisis of 2008*. London: Penguin Books Ltd.

⁵⁹ Ibid.

⁶⁰ Stiglitz, Joseph E. (2010): "Global Economic Trends: A Conversation with Joseph E. Stiglitz", seminar arranged by the *Council on Foreign Relations* on January 25, 2010. Retrieved from www.cfr.org

⁶¹ Willem te Velde, Dirk (2008): "The global financial crisis and developing countries", *Overseas Development Institute*, Retrieved from www.odi.org.uk on January 13, 2010

American” and other more formal barriers to trade undermine the work of the WTO. Trade volumes and trade prices will slow down, not least in India and China, countries that have boosted the international economy to new levels in recent years. It is likely that fewer migrants are able to go abroad, and if they do go, it will be harder for them to find jobs. Hence, there will both be fewer remittances and lower volumes of remittance per migrant. With a more strained world economy, MNC:s are under pressure, which affects FDI:s in developing countries. Closely related to FDI: s is commercial banking. This sector is also under a lot of pressure and it is likely that developing countries become the primary victim when banks cannot lend as much as they have done in the past (the first signs of this behaviour can already be seen in many African and Latin American countries). In sum, even though they did not participate in creating the crisis, developing countries pay a very high price for it.⁶²

⁶² Yifu Lin, Justin (2008): *The Impact of the Financial Crisis on Developing Countries*, Retrieved from http://crisistalk.worldbank.org/files/Oct_31_JustinLin_KDI_remarks.pdf on January 13, 2010

4 Economic Causes of Civil War and the Global Economy – Some Possible Developments

It seems clear that there is a connection between economic endowments and civil war. However, the specific attribution is hard to ascribe and, hence, to what degree and the particular contribution of economic endowments can be contested. It is also clear that global economic structures affect the most remote, conflict prone countries – if by nothing else, certainly by enabling remittances to be sent home by expatriates. The question is then: how are economic causes of civil war linked to the global economy, and how will this relation develop in the next 20 years? It is not the purpose here to choose one explanation but rather discuss their relevance and conditionality in different circumstances. There are many linkages between the reviewed theories and no matter what theory one looks at, the global economy has an impact on the occurrence of civil war. A central relation, described in 3.1.2, concerns the state of the global economy and economic growth in poor countries. Economic growth is assumed to increase government revenue and, thereby enable better government capacities, not at least military capacity.

4.1 The economic opportunity argument

Concerning theories that emphasize economic opportunity as a main driver of why civil war occurs, several linkages with global economic structures can be identified:

- income opportunities (income growth) vs. expected incomes as rebels
- natural resource dependence
- military spending (as a function of state income)
- secondary school enrolment
- remittances

Economic growth and the labour market in a poor country are closely connected to the global economy. The growth in most poor countries is dependent on international capital (FDI, bank loans and aid) and exports; these economic flows often constitute a large share of the formal market and, thus, state incomes. Hence, depending on whether capital strong areas such as the U.S., EU and China are in economic expansion or recession, income growth in other countries, including development countries, will be affected.

Natural resources are argued to be important as a source of income. To what degree different natural resources are attractive depends on international demand, and, therefore, on the state of the international economy in terms of business cycles. In economic booms, natural resources are sold at high prices. For countries with abundance of natural resources, the effects are then likely to be negative in terms of risk of civil war. There is an exception when the government has controlled such resources for a long time. In natural resource scarce countries, a lower price on imports is likely to give more room for investments and economic growth. If military spending is a function of state income, it would follow the same reasoning as above.

To what degree boys are allowed to go to school basically depends on two different reasons that are both based on the growth logic described above. First, school enrolment requires that the state provide schools and education.⁶³ Secondly, children can only go to school as long as they are not needed as labour and a source of income to the family. Hence, the economic situation of the country, which is dependent on the world economy, plays an important role in boys' possibility to go to school in terms of if there are any schools to go to and if the family has the economic space to let their children go to school.

Concerning remittances, in times of global recession it will be harder for migrants to receive residence permits and/or jobs. Hence, remittances would be reduced in both number and scope which would impair rebels' ability to finance conflicts but, more significantly, also increase the incentives for recruitment as the people have lower incomes. In times of economic booms, the effects would be the reverse. This arguing is only true if remittances increase or decrease proportionally across different receiver groups and it all comes down to the preferences of senders, a fact that is not mentioned in the greed and grievance theories.

4.2 The state capacity argument

The state capacity argument is based on a similar logic as the economic opportunity argument. Rather than highlighting economic self interest, these theories identify weak governments and incapacity to govern as the opportunity and, thus, the main reason for civil war. In addition to the state revenue arguments in 4.1, issues of interest here are:

- international institutions
- overseas aid

⁶³ It is assumed that in situations where the state is not able to provide schools, there will not be a market for private schools either.

As discussed above, most poor countries are affected by the world economy and they have fewer coping mechanisms to reverse the effects of global economic downturns. In order to build institutions and provide essential services to the population, most fragile states are also heavily dependant on international support, both in terms of capacity and overseas aid. As has been argued above, rich governments political space is tightened during economic slow downs and their ability to give aid is then limited. Furthermore, in economically harder times, governments' willingness to pursue an open trade policy is reduced which has a direct impact on food and energy prices as well as on other essential goods. Similarly, reciprocal demands on loans from institutions such as the IMF are generally less generous, forcing poor governments to tighten their fiscal and other macroeconomic policies even further. This will affect the income growth negatively, at least in the short run.

4.3 Religious, political and ethnic grievances

Economic means are not the sole determinates to whether a government will be able to resist armed opposition or not. An important factor that distinguishes grievance theories from the opportunity-based theories above is that conflicts are regarded as dynamic processes able to shift from one type into a new type of conflict, including civil war. A conflict undermines economic development and fuels new conflicts, or transforms existing ones. This is often labelled the conflict trap.⁶⁴ Theories on grievances are generally rather detached from economic causes of civil war but several links can still be identified, primary concerning:

- transnational crime
- land issues
- migration

The globalization, mainly characterized by technological development, has made it possible for people and goods to cross borders in a countless number of different manners. This has opened a myriad of possibilities for traffickers of different types, e.g. people, drugs and timber. The more intense networks become, the harder will it be to control cross-border trafficking, including flows used to finance conflicts.

The global economy also affects migration, both internal and external. International trade and price fluctuations affect production structures. With better technology and irrigation methods, agriculture becomes less labour intensive which fuels urbanisation processes. Particularly when migration is forced as a

⁶⁴ Collier, Paul; Elliott, V. L.; Hegre, Håvard; Hoeffler, Anke; Reynal-Querol, Marta; and Sambanis, Nicholas (2003): *Breaking the Conflict Trap – Civil War and Development Policy*, World Bank Policy Research Report. Washington DC: World Bank and Oxford University Press

consequence of increased food prices, lower demand in locally produced goods, etc. is detrimental in terms of the risk of conflicts. In the first place, such migration tend to cause local conflicts as migrants will have to live somewhere, feed on something and compete for a limited number of jobs. However, such small conflicts tend to be coupled with ethnic, political or religious grievances and can escalate to larger conflicts and even civil war. Hence, diversified economies and economic development should in this sense reduce the risk of conflict as smaller groups at the time will be affected by production shifts or economic shocks. The possibility for such diversification is generally dependant on international support and demand.

As fragile countries' economic activities commonly are dominated by agriculture or other rural industries that are dependent on natural resources, an important economic endowment is land. Land issues often have a long history of different ownership and different interpretations in what constitutes ownership. Such interpretations can be dependent on religion, culture, ethnicity or a combination of the three. As described above, shifting demand causes the value of different production assets to change over time which makes land more or less valuable. Land can then be a trigger of violence, either because persons not having access to the land believe it is their right to have such access, or because they use grievance arguments to justify their attempt to take control of the land.⁶⁵

4.4 Future developments

Since World War 2, conflicts have shifted from taking place between states to being conflicts within states. Researchers are puzzled and have devoted great resources to untangle the driving forces of this development. Since the economic depression in the 1920's and 30's, the world has enjoyed steady economic growth and development, even though it is stained with business cycle recessions. The most significant characteristic of the global economy, the globalization, is argued to primarily be driven by technological development rather than by governments and international institutions (even though the latter are not insignificant in this process). Political institutions have rather been forced to try and keep up by enhancing economic integration through creating and strengthening a number of international institutions.

One conclusion is that globalization and economic integration has made it more difficult or less rewarding, to engage in conflicts between states. Rather, the opportunity and motivation to engage in armed conflict has primary become an intrastate concern. Theories reviewed in this report highlight opportunity as the main driving force of civil war. The two most significant trends aimed at limiting

⁶⁵ The latter argument is in accordance with Hoeffler's and Collier's theories.

the risk of civil war are income growth and state capacity to strike back violence. Both are basically a function of economic growth and development.

There are no tendencies that the current development of the global economy will change in a radical way. The 2007-2010, and future, financial crises are likely to bring regulative effects in a five year period. However, as the globalization is argued to be driven by technological development, the market will find new ways to further integrate the world economy and remote countries will be increasingly affected by distant actions and developments. What is more likely to change is the relative influence of growing powers such as China and India. These countries have enjoyed a steady growth of about ten percent of GDP for a long time and in a 20 year period; this is likely to slow down with a negative effect on fragile states as an effect.

Concerning fragile states sensitivity and vulnerability with regard to the global economy, there are no clear signs that it will be more difficult for the conflict entrepreneur to finance, motivate and instigate a conflict. Rather the opposite as financial flows, including revenues from illegal activities, increase over time and with technological development. The effects of nationalistic tendencies will not contain different kind of illegal flows, but rather hamper the formal economy unevenly in proportion to its informal counterpart. This will slow down growth, the most significant deterrent of civil war, and create opportunities for the conflict entrepreneur. Nationalistic behaviour will also render it more difficult for immigrants to earn wages and send back money. Some of this money might be put into conflict activities but the most of it contributes to families' possibility to buy essential goods such as food. Without this source of income, the risk of engaging in conflict is greater.

A last development concerns the role of international institutions. The UN, WTO, IMF, World Bank, etc. are important in building government capacity in fragile states. However, they are associated with heavy bureaucracies and other inefficiencies. In a 20 year period, it is not unlikely that the role of such institutions will diminish in favour of local actors and the civil society. Such a development could in the first phases have serious effects on aid to fragile states but in a longer term increase local ownership and create better, longer lasting institutions.

5 Final Remarks

In this report, theories on economic causes of civil war and theories that highlight grievance-related arguments of civil war have been reviewed. A general conclusion is that conflicts are connected to local economic endowments and that local structures are affected by global economic structures. Hence, global economic developments and trends have an impact on whether civil wars occur or not.

Concerning economic causes of civil war, it is clear that opportunity is identified as the single most significant factor no matter whether you look at greed or grievance-based explanatory arguments. There are, however, different views on what the most important opportunity consists of. One part of the opportunity argument highlights sheer economic reasons such as opportunity to recruit rebels and finance a rebellion. The other part of the opportunity argument focuses on lacking governmental capacity. The logic here is that a weak government, with a low capacity to defend itself, is incentive enough for rebellion. To a certain extent, both these parts are closely connected to economic growth and development in general. It is worth noticing that these theories say nothing about smaller conflicts that do not fit in the civil war definition.

Grievance-related arguments, on the other hand, commonly analyze civil war as part of a conflict process where conflicts transform in different shapes. The main point is that even though, for example, religious or ethnical grievances not instantly start civil wars, they could very well be the reasons for smaller conflicts that at a later stage escalate into civil war. These theories also take a broader cross-national stand point, both with regard to movement of people, goods and financial flows.

Turning to the global economy, the more interconnected states are the more vulnerable they become to distant causes. Furthermore, there is a trend where the importance of governments and international institutions has been partly replaced by a fast growing and to a certain extent uncontrollable market and large multinational corporations. The consequence is that it is harder for the state to intervene and stop a certain development, for example an economic crisis. An important conclusion in this report is that irrespective of the type of cause of civil war, the global economy has a significant impact on whether civil wars occur or not. The effects of the global economy reaches even the most remotely located countries.

As nations become ever closer connected by financial structures, trade flows and migration patterns, there is an increasing risk that negative effects of civil wars will spread to its neighbouring countries. In the worst case scenario, the conflict will spread across national borders. This is particularly common when rebel fractions have close ties to organized crime.

Even though it is likely that governments will take some cautionary measures in the wake of the financial crisis, there are no signs that the markets will be decreasingly interconnected across the world. The main reason is that globalization is not institution-driven but rather the result of a fast technological development that shows no tendencies to slow down; it has not done so over the past century, if ever. Hence, the global economy will be further integrated and its impact on the risk of civil wars will increase, both negatively and positively. It is therefore important to continue to analyze the relation and correlation between economic reasons of civil war and between micro-level factors and macro-level behaviour.

A final note on the causes of civil war is that civil war need not be analyzed as one homogenous conflict. Greed and grievance-related causes can exist parallel in the same conflict and fuel the conflict at different levels. However, all parts of a conflict are costly affairs and future challenges for the international community are likely to treat aspects such as how to limit the possibility to finance civil war. This work has started with specific sanctions and other attempts to isolate conflict entrepreneurs and their opportunities to engage in looting and other conflict-related activities. The next step is how to enhance the transformation process of many economies, particularly informal markets and transnational flows, from being grey/black to being white. Only then will it be easier to identify financing sources, limit looting and, ultimately, really isolate conflict entrepreneurs. In order to manage and succeed such a transformation, building government capacity, particularly institutions that are directly involved in trade, banking and financial infrastructure, is essential.

List of references

- See e.g. Barbieri, Katherine and Reuveny, Rafael (2005). "Economic Globalization and Civil War" in *Journal of Politics*, Vol. 67, No. 4, pp. 1228-1247. Cambridge: Cambridge University Press
- Brown, Michael E. (ed.) (1996): *The International Dimension of Internal Conflict*. Cambridge: MIT Press
- Collier, Paul and Hoeffler, Anke (1998): "On Economic Causes of Civil War". *Oxford Economic Papers* 50 (1998), pp 563-573. Oxford University Press
- Collier, Paul; Elliott, V. L.; Hegre, Håvard; Hoeffler, Anke; Reynal-Querol, Marta; and Sambanis, Nicholas (2003): *Breaking the Conflict Trap – Civil War and Development Policy*, World Bank Policy Research Report, Washington DC: World Bank and Oxford University Press
- Collier, Paul and Hoeffler, Anke (2004): "Greed and Grievance in Civil War". *Oxford Economic Papers*, 56, pp 563-595. Oxford University Press
- Collier, Paul; Hoeffler, Anke; and Rhoner, Dominic (2009): "Beyond Greed and Grievance: feasibility and Civil War". *Oxford Economic Papers*, no 61 Oxford University Press
- Easterly, William and Levine, Ross (1997): "Africa's Growth Tragedy: Policies and Ethnic Divisions". *Quarterly Journal of Economics*, vol. 112, Issue 4, pp 1203-50. MIT Press Journals
- Fearon, James D. and Laitin, David. (2003): "Ethnicity, Insurgency and Civil War" in *American Political Science Review*, vol. 97, no. 1, February 2003
- Goodman, John B. & Pauly, Louis W (1995): "The Obsolescence of Capital Controls: Economic Management in an Age of Global Markets" in Frieden, Jeffrey A. & Lake, David A. (eds): *International Political Economy – Perspectives on Global Power and Wealth*, 3rd edition. New York: St. Martin's Press
- Gleditch, Nils Petter; Wallensteen, Peter; Eriksson, Mikael; Sollenberg, Margareta & Strand, Håvard (2002): "Armed Conflict 1946-2001: A New Dataset" in the *Journal of Peace Research*, vol. 39, no. 5, pp. 615-637 London: Sage Publications
- Ibrahim, Elbadawi and Sambanis, Nicholas (2002). "How Much War Will We See? Explaining the Prevalence of Civil War." *Journal of Conflict Resolution*, Vol. 46, No 3, pp. 307-334.
- Kaiser, Magnus (2005): *Ekonomisk utveckling 2010 och 2025 – omvandling och globalisering*. FOI Memo 1587. Stockholm: FOI

Keohane, Robert O. and Nye Jr., Joseph S. (2000): "Globalization: What's New? What's Not? (And So What?)" in *Foreign Policy*, Spring 2000, pp. 105-119.

Kilcullen, David (2009): *The Accidental Guerrilla – Fighting Small Wars in the Midst of a Big One*. New York: Oxford University Press

Kreuger, Alan B. and Malecková, Jitka (2003): "Education, poverty and terrorism: Is there a causal connection?" in *Journal of Economic Perspectives*, vol. 17, no. 4, pp. 19-44

Krugman, Paul (2009): *The return of Depression Economics and the Crisis of 2008*. London: Penguin Books Ltd.

Lake, David A. and Rothchild, Donald (eds.) (1998): *The International Spread of Ethnic Conflict: Fear, Diffusion and Escalation*. Princeton: Princeton University Press

Malminen, Johannes (2009): Seminar at *Society and Defence* on November 18 2009

Muller, Edward N. (1985). "Income Inequality, Regime Repressions and Political Violence" in *American Sociological Review*, Vol. 50, No. 1, pp. 47-67

Nilsson, Mari and Sjöstrand, Jenny (2009): *Öppenhet för handel och konflikter inom stater*, Swedish Defence Research Agency. Stockholm: FOI-R--2557--SE

Ruggie, John Gerard (1982): "International Regimes, Transactions and Change: Embedded Liberalism in Post War Economic Order" in *International Organization*, vol. 36, no. 2

Ruggie, John Gerard (2003): "Taking Embedded Liberalism Global: The Corporate Connection" in Held, David & Koenig-Archibugi, Mathias (eds): *Taming Globalization*. Cambridge: Polity Press

Sambanis Nicholas (2004a): "What is civil war? Conceptual and Empirical Complexities of an Operational Definition" in *Journal of Conflict Resolution*, vol. 48, pp. 814-858

Sambanis, Nicholas (2004b): "Using Case Studies to Expand Economic Models of Civil War" in *Perspectives on Politics*, Vol.2, Nr. 2, pp. 259-279. Cambridge: Cambridge University Press

Singer, J. David & Small, Melvin (1972): *The Wages of War 1816-1965: A Statistical Handbook*. New York: Wiley

Singer, J. David & Small, Melvin (1994): *Correlates of War Project: International and Civil War Data, 1816-1992*. University of Michigan

Skidelsky, Robert (2000): "Skidelsky on Keynes" in *The Economist*, November 25 2000

Snyder, Richard (2006). "Does Lutable Wealth Breed Disorder? A Political Economy of Extraction Framework" in *Comparative Political Studies*, Vol. 39, No. 8, pp. 943-948. London: Sage Publications

Stern, Nicholas (2003): Retrieved on June 3 2009

<http://web.worldbank.org/external/default/main?menuPK=477815&pagePK=64168092&piPK=64168088&theSitePK=477803>

Stiglitz, Joseph E. (2010): "Global Economic Trends: A Conversation with Joseph E. Stiglitz", seminar arranged by the *Council on Foreign Relations* on January 25 2010. Downloaded from www.cfr.org

Uppsala Conflict Data Program (2009):

http://www.pcr.uu.se/research/UCDP/data_and_publications/definitions_all.htm

Willem te Velde, Dirk (2008): "The global financial crisis and developing countries", *Overseas Development Institute*. Retrieved from www.odi.org.uk on January 13, 2010

World Bank (2003). *Breaking the Conflict Trap: Civil War and Development Policy*. New York: Oxford University Press

Yifu Lin, Justin (2008): *The Impact of the Financial Crisis on Developing Countries*, Retrieved from

http://crisistalk.worldbank.org/files/Oct_31_JustinLin_KDI_remarks.pdf on January 13, 2010

