

Chairmanship Workshop on Economic and Environmental Activities of the OSCE as Confidence Building Measures

Peacebuilding through economic cooperation: a case for the OSCE involvement

Discussion Paper

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The conventional narrative concerning the involvement of business in conflict is the one of ‘war economies’ where predatory business benefits from the chaos and lawlessness of violent conflicts and even perpetuates conflicts as a means to maximize profits. A more benign stand of business amidst violent conflict is that of by-stander and victim: risks are high, investment climate is bad and access to markets is limited hence profits are low. Within this view business is not an *actor*, but rather an object in the situation of conflict. Following this logic business can not be an actor in peacebuilding either.

An important collection of writings that comprised a pallet of roles of business in peacebuilding in a broad range of conflicts saw light in 2006 in the “Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector”¹ by International Alert. It was demonstrated that domestic private sector can be an actor at the level of official peace process both through direct participation and by means of pressuring the governments to pursue a negotiated solution², of the dialogue and the transformation of the conflict context at the levels of peace process that is often referred to as Track II³ and at the grassroots level serving their communities affected by conflict and reaching out to community on the other side of the divide by means of economic links. Domestic private sector is often the sole income generation opportunity and a source of charity for communities in the situation of conflict hence its role in the alleviation of hardship and reconstruction.

The question on whether economic interest could be a driver in peace process does not have a definite answer. This is partly due to the lack of cases where economy would dictate political rapprochement of the conflict parties. The impact of the recent China-Taiwan Economic Cooperation Framework Agreement (ECFA) signed in June 2010 is yet to be seen, but this is a

¹ Banfield, J., Gündüz, C., and Killick N., eds. (2006) Local Business, Local Peace: the Peacebuilding potential of the Domestic Private Sector, International Alert, London

² The example of the “Group of Seven” in the Northern Ireland, for example, is telling of the private sector’s capacity to pursue its collective interest through direct involvement in peacemaking. Business associations and trade unions that formed the “Group of Seven” presented a clear case of ‘peace dividend’ and were pressuring the governments to keep the cease fire agreement in place and move forward to dialogue and peace accord. A year after the Good Friday Agreement substantial increase in tourism and investment as well as the unemployment rate decline demonstrated how sensitive business is to the promise of ‘peace dividend’. In Colombia in 1990s business spearheaded public movement for peace because the private sector was a target for extortions, harassment and violence. In a way the private sector had no choice but head the peace movement (Salil Tripathi and Canan Gündüz (2008) A role for the private sector in peace processes? Examples, and implications for third-party mediation. Centre for Humanitarian Dialogue, The OSLO forum Network of Mediators)

³ Diamond and MacDonald, Multi-track Diplomacy

rare case of a peacemaking move that was grounded in business incentives⁴. The political standoff is not resolved, but the agreement signed between two economic entities signifies an opportunity to move forward with a political settlement. This move received a controversial reception in Taiwan. Some, including the acting government see the opening up to China's business as a rescue for Taiwanese business at the time of crisis, while the opposition regards this agreement as a political sell-out and a sure economic defeat in the long-run. China regards its acknowledgement of Taiwan as an economic partner as a milestone towards the political integration, but also has economic needs that could be met better through this agreement. Despite the differences in the assessment of the agreement, business as a factor is a part of it.

The present paper focuses on the role of domestic private sector as a *subject of economic cooperation* between conflict parties.

Economic cooperation across the conflict divide is negatively impacted by the conflict context: if the sides are separated from each other, private sectors of the two or more sides may be operating within different and often incompatible legal contexts, societal pressure is being applied to those who cooperate with the 'enemy', access to external markets may be limited or non-existent if international embargo is applied to one or the other side, collective identity may be prevailing over business incentives at certain point - hence reliability of cross-conflict business deals is minimal, which may further feed into the mistrust and animosity.

It is important to note from the onset that not any economic interaction between conflict parties across conflict divide or outside the conflict serves peacebuilding.

In order to strategically incorporate peacebuilding into economic cooperation between conflict sides one needs to analyze conditions in which economic interaction between businesses on the opposite sides of conflict divide have neither a positive nor a negative impact on peacebuilding. Cross-conflict business alliances that directly profit from violence, such as drug and weapons trade should be distinguished from business that adjusts to the reality of conflict and would have been perfectly legal. Entry points for creating conditions for the domestic private sector to strengthen peacebuilding may be elicited this way.

1. *Personal contact* of the dealers and expansion of the number of people involved in the cross-conflict exchange defines whether doing business with the counterpart from the other side contributes to repairing the damaged relationships between the societies and draw a resolution closer. It was demonstrated in the study of the trade and other economic exchanges between private sectors of Serbia and Kosovo that these were happening without the actual Serb entrepreneur communicating with a Kosovo Albanian vis-à-vis. Trade between Serbia and Kosovo is taking place without actual businesspeople and producers, Serbs and Kosovo Albanians, meeting each other. It is camion drivers who act as middleman. A whole institute of middlemen emerged who were ethnic Albanians from Sanjak in the south of Serbia and Kosovo Serbs from Kosovo Mitrovica that are not only goods and cash carriers, but also exclusive cross-conflict communicators⁵. Thus the circle of Serbs and Kosovo Albanians involved in the cross-conflict business was not expanding. Against the background of high animosity and lack of motivation to interact with the 'other' the trade was going on, but with no actual handshakes of the former enemies.

2. In many conflict situations traders, farmers and other entrepreneurs especially in the conflict-affected areas develop their own smart schemes of maximizing chances for survival through cooperation and matching resources that are based on sheer trust since no insurance or

⁴ Daniel H. Rosen and Zhi Wang (2010) Deepening China-Taiwan Relations through the Economic Cooperation Framework Agreement, Peterson Institute for International Economics, Number PB10-16, June 2010; Jain-rong Su (2010) Taiwan's Cross-strait Economic Policy Under Ma Ying-jeou, Taiwan Brain Trust, Special Issue, www.braintrust.tw

⁵ A Joint European Vision: Free Movement of Goods and People in Kosovo and Serbia. Freedom House, European Movement in Serbia and KIPRED

legal protection may be sought in such instances. Thus confidence-building meaning of these business operations is obvious. Trust-based business operations between individuals and companies may be sustained if there is local peace, but may turn out to be a fragile foundation for violence prevention should hostilities break out in the larger context. Carefully crafted farming machinery lending schemes, cross-conflict beekeeping models and other initiatives at the interface of South Ossetian and Georgian villages prior to the August 2008 war vanished, the entrepreneurs were killed, evicted and demoralized, and the logic of war prevailed.

The examples of the course the conflict in June 2010 took in Osh and Aravan in the South of Kyrgyzstan suggest that there seems to be a critical mass of the appreciation of cross-ethnic businesses by the community and existence of institutions that represent business as a whole that defines whether violence would spread. In Osh Uzbek and Kyrgyz entrepreneurs who may have cooperated prior to the eruption of violence did not withstand as a unified force to stop violence from spreading. In Aravan that has a similar ethnic composition, entrepreneurs, the community, in general, and the authorities prevented violence through managing rumors and keeping the communities together. The latter was possible not least because of the Mehr-Shavakat business association that was connecting SMEs through assistance with selling perishable goods, fruit and vegetable and connecting suppliers with buyers within the town at the time of blocked access to markets.

The *institutionalization of trust* between individual entrepreneurs and companies not only serves businesses from across the divide with coordination, communication and management of risks, but also symbolically anchors cross-community interdependence.

3. *Illicit cross-conflict economic links* put businesses in a vulnerable position vis-à-vis political pressure from the formal and informal authorities and dis-empowers them as peace actors.

Both micro-level and large-scale cross-conflict business enterprises such as borderland wholesale markets lack sustainability because in the context of prohibited cross-boundary economic transactions local business is pushed into the grey economy sector. The example of the Ergneti and Sagakhlo markets that were a reliable source of income for thousands of Georgians and Ossetians demonstrates that even large-scale cross-conflict business activities that involve many people and great financial volume may be ephemeral as a peacemaking mechanism. Arguably these trust-only and cash-only trading platforms had served as a peace mechanism for over five years until Mikheil Saakashvili that was swept into power by the Rose Revolution in Georgia ordered to close both markets. Legal grounds for this decision were in place. Political reasons for rejecting an option of the establishment of a regulated trade with provisional duty collection points on both sides of the conflict were obvious for the Georgian government: anything that even indirectly recognizes separateness of the South Ossetia hurts Georgia's national interest to restore its territorial integrity. Besides, for the rehabilitation of the national economy, a parallel economy would have been a grave obstacle.

In the 2004 analysis of this phenomenon escalation of hostilities was forecast in case Ergneti market was closed⁶. Unfortunately the prognosis came true and hostilities resumed in the summer of 2004. Efforts to design and re-establish a regulated and transparent wholesale market in Ergneti did not bear fruit because political differences could not be bridged.

Thus irrespective of the fact that these markets functioned smoothly and according to certain unwritten rules that were acceptable to the participants and observed, and despite the fact that the 'enemies' were trusting each other with their money and security, after they were shut down no tangible legacy of the trust, confidence and experience of the possibility of economic cooperation remained.

⁶ Dzhikaev, V. and Parastaev, A. (2004) Economy and Conflict in South Ossetia,' in *From War Economies to Peace Economies in the South Caucasus*, Eds. Phil Champain, Diana Klein and Natalia Mirimanova, International Alert, London

The story of the famous Arizona market in the Brcko district in Bosnia-Herzegovina shows that where there is a will there is a way. The innovative and committed to move forward as a multi-ethnic entity, the district of Brcko supported by the local Office of the High Representative legalized the market and ordered all taxes and duties to be paid into the district budget⁷. Another example of a decision that blended political peacemaking tasks, security considerations and economic rationale was the opening of regulated business activities across the Green Line in Cyprus and of free movement of people. Interestingly, it is the visitors crossing the Green Line and spending money on the other side, to who the biggest economic effect of the opening of the crossings is attributed, not business transactions. These models of temporary regulations of business activities across conflict lines demonstrate that it is a matter of creativity and political will along with a strong economic rationale for such opening made by the private sector that can turn these models into a component of making peace. Active external support that was the case both in Brcko and in Cyprus is also an important factor.

Regulation of cross-divide economic cooperation in the absence of the political solution is a challenging task particularly in the case of state formation conflicts when certificates of origin, license, tax and customs of a breakaway entity that seeks independent statehood are not acceptable for the mother state and other states as legal. As a result economic operations across the divide are pushed into the sphere of the shadow economy.

4. *Lack of vision* of scenarios of post-settlement economic development inhibits the possibility to capitalize on the positive experience of economic cooperation and support it in a strategic way. Trade between Kosovo and Serbia was assessed as a parochial ghettoized private activity that does not lead to peacemaking because “without a clearer picture of economic development potentials, planners have little inspiration for new and innovative ways to think about economic development. This becomes a self-perpetuating cycle where the current policies encourage and contribute to the gray economy”⁸. Within the local private sector coping strategy sustaining peace is a means, while designing peace as the end is beyond interest or power of local businesspeople, even though they could contribute much to the development of blueprints of a peaceful future drawn by the central political authorities of the conflict parties. Thus input from the peripheries, especially from the conflict borderlands ought to be included if a comprehensive peace agreement is to be crafted.

Participatory design of future scenarios that involve business as a factor may open up new possibilities for the private sectors across the divide to model creative ways of building business connections that would gather acceptance by the societies.

5. *The larger context* in which a conflict is embedded may limit or create incentives for the domestic private sector to contribute to peacebuilding through economic cooperation. In the absence of the possibility to cooperate in a bi-lateral format special attention needs to be paid to various regional formats, platforms and institutions that may engage with private enterprises or sectors of the states and entities in conflict with each other. The Europe of Regions concept, for instance, may be an attractive model to learn from. In addition, the positive appeal of regional economic unions, such as ASEAN plus China, presents a real opportunity for countries like Taiwan to reassess the costs of isolation and regard the proposal to make its way into a new market and a new economic club via the liberalization and greater openness to the foreign (in this case Chinese) capital. Thus new openings in the larger economic context lead to a more nuanced self-understanding of the polity: “the security and political consequences of marginalization for Taiwan under the current, abnormal conditions are at least as deleterious to

⁷ Boris Divjak (2008) Bosnia and Herzegovina: doing business to cement peace. In: Banfield, J., Gündüz, C., and Killick N., eds. *Local Business, Local Peace: the Peacebuilding potential of the Domestic Private Sector*, international Alert, London

⁸ A Joint European Vision: Free Movement of Goods and People in Kosovo and Serbia. Freedom House, European Movement in Serbia and KIPRED

the island's core interests as normalizing economic relations would be"⁹. Access to diverse markets, including the EU, was an important stimulus for many Transnistrian industrial enterprises to get registered in Chisinau. Relatively novel and successful kiwi growing sectors in Georgia and in Abkhazia may find their way to the markets in close proximity if the private producing companies across the divide market find ways to market and distribute their produce together.

6. A particularly challenging question for the proponents of the view that economic peace may lead to real peace is what if there is *no case for economic cooperation*? What if the sides have nothing to offer each other and are better off doing business with others? A revealing report on the actual volumes of trade between Israel and Palestinian Autonomy indicates that neither entity needs the other for trade and that their markets are elsewhere, but not across the conflict line¹⁰. Should donors and interveners continue encouraging economic cooperation in this case? The answer is "yes", domestic private sectors that currently do not interact ought to be involved in the professional exchanges, participate in exhibitions together, in short it is important to keep the communication channels between private sectors open. Economic cooperation that is not relevant or politically restrained at present may become a very relevant and profitable exercise a decade from now due to changes in the market or appearance of new products that require new markets, or changes in the geopolitical context, or an environmental change. In the conflict situations it is wise to keep options open and avoid permanently boarding up doors that are not in use. However the private sector in question should be an interlocutor and expert in this longer-term planning, otherwise well meaning peacemakers may end up with another strategy that misses the point.

Caucasus Business and Development Network: domestic private sector imaging and modeling peace

The regional business-for-peace initiative called Caucasus Business and Development Network¹¹ was launched in 2005 by a group of entrepreneurs, economists, and civil society activists from all the entities in the South Caucasus and Turkey with support from International Alert. This initiative was born out of the research on the economy of war and peace in the South Caucasus that was carried out by the International Alert in 2002-2004. A new set of actors and a new format in the conflict-ridden South Caucasus was introduced and put into action, namely 3+3+1 meaning three states (Georgia, Armenia and Azerbaijan), three non-recognized entities (Abkhazia, South Ossetia and Nagorno-Karabakh) and Turkey. The above mentioned gaps between business incentives and strength/weakness constellations and peacemaking tasks were consciously addressed in the design of this network. It is institutionalized as a network of regional offices in Tbilisi, Kutaisi, Tskhinval/i, Sukhum/i, Yerevan, Gyumri, Baku, in Stepanakert/Khankendi and in Istanbul. All have their individual work plans based on the needs and realities of their regions. The scope of their work ranges from training, consultations for local entrepreneurs, sponsorship of business initiatives, research, to advocacy. The network is an effective information exchange mechanism and ensures coordinated work of the individual centers, timely assistance and decision making. It aims at supporting domestic private sector, mainly small and medium enterprises¹² as an active pro-peace force.

⁹ Daniel H. Rosen and Zhi Wang (2010) Deepening China-Taiwan Relations through the Economic Cooperation Framework Agreement, Peterson Institute for International Economics, Number PB10-16, June 2010, p.2

¹⁰ Raja Khalidi, Trading beyond the Green Line: the real deal for Palestine, guardian.co.uk, Tuesday 26 October 2010

¹¹ <http://www.caucasusbusiness.net>

¹² Research carried out by International Alert in 2004, unpublished, demonstrated that SMEs have the greatest interest and proclivity to become a peacebuilding actor

South Caucasus is plagued by three state-formation conflicts (Georgia-Abkhazia, Georgia-South Ossetia and Azerbaijan-Nagorno-Karabakh), two inter-state conflicts (Armenia-Azerbaijan and Georgia-Russia) and protracted diplomatic stand off between Armenia and Turkey. As a result every entity in the South Caucasus has at least one sealed and at least one open border. On the one hand, this means that business has found ways to either 'ignore' or to profit from the sealed borders. New 'conflict reality' equilibrium of movement of goods and people has come into existence. This new 'conflict reality' has particularly affected business activities in the partially recognized and non-recognized entities since their capacity to attract any substantial legal external investments is limited. In the entities that are heavily dependent on transit, like South Ossetia, this situation is suffocating for the business. In the entities that have relatively problem-free borders that open access to large markets, entrepreneurs re-orientated their economic activities towards these away from the sealed borders (Abkhazia), yet in Nagorno-Karabakh that has only one immediate exit to the external world entrepreneurs concentrated on internal investments and self-sufficient development.

The states seem to be less affected by the sealed borders. However, SMEs especially at the periphery and in the borderlands in Georgia, Armenia and Azerbaijan experience the existing border restrictions and blocks, and do their risk/benefit calculations with regard to the hypothetical opening of the closed borders.

Even though a economy-driven imperative for opening the borders is there, conformism as a survival mechanism dictates to the domestic private sector to either ignore the missed business opportunities or operate in the illicit cross-conflict schemes below the radar. As in any protracted conflict that is about perceptions of existential and non-negotiable needs the collective and political conscience tempers the economic and needs-based drive to endorse border opening. There are variations in the views entrepreneurs take on the appropriate timing for a border opening for trade and movement: Some say that they would rally behind the opening once a just settlement of the conflict will have been reached, while others are willing to start with incremental development of cross-conflict economic relationships, including proposals on the provisional recognition of the sides as economic entities, and believe that the settlement would follow. There is a third category that rejects any cooperation with the enemy side ever or sets an inacceptably high price for the possibility of economic relationships with the other side: acceptance of one's own positionⁱ.

Against this background CBDN and International Alert *images*ⁱⁱ the economic future of the post-conflict South Caucasus and its parts through research and inclusive dialogue with business communities across the region and *models* this future through advocacy and concrete activities on the ground that address the populations' needs, empower the private sector and create a precedent of cooperation.

OSCE support for economic cooperation as peacebuilding

Support to this role requires efforts within each conflict side as well as assistance with economic cooperation across conflict divide. Both tasks fit into the OSCE policies.

Given the above listed opportunities and limitations of peacebuilding through economic cooperation, the following areas of support on behalf of OSCE could be identified:

1. Private sector development

Importance of the domestic private sector as an *actor* in peacebuilding goes beyond its economic role. It has a less obvious, but significant political guise: entrepreneurs are or may develop into a class of free citizens that earn their independence, on the one hand, and constitute an indispensable component of public well-being.

Assistance with private sector development is usually not a priority in the peace process assisted by third parties. Growth and diversification of the domestic private sector is an important alternative to the externally-sponsored economic development in the societies that live in the situation of an unresolved conflict. In a certain way the latter undermines the former. External economic assistance overshadows incentives to create conditions for internal investments that domestic private sector should be leading on. Striking a proper balance between external assistance and internal development incentives is a challenging task. It is no surprise then that most of the states coming out of protracted violent conflicts are characterized by a disproportionately big public and security sector. The economic future of Tajikistan and Bosnia-Herzegovina, for instance, were at the margins of attention of the international peace brokers that had been under pressure to put an end to atrocious wars. Fifteen years after the agreements an overgrown public sector mired in corruption and economic dependency on aid and loans may aggravate dormant grievances.

Economically, politically and socially insignificant private sector vis-à-vis the mighty public sector that is the utter supplier of jobs and benefits is the destiny of the aspiring states that are heavily dependent on the external aid and political support. The examples include the unrecognized Turkish Republic of Northern Cyprus (TRNC) and South Ossetia. Patronage politics resists strengthening of the private sector in the client society not least because it may overgrow the patronage system economically and challenge it politically.

Therefore strengthening the weight of the private sector within the societies in conflict is an important political task that if carried out strategically may expand 'peace constituencies' within each side.

Institutionalization of the socio-political component of the domestic private sector through the creation and, most importantly, effective operation of business associations may serve as an important mechanism for the consolidation of business. These institutions will serve as an advocacy platform, including for widening opportunities and creative approach to normative context formation across the conflict divide.

Assistance with the enabling environment for business operation is an integral component of the support for domestic private sector. Micro-credits, affordable loans, cooperative schemes of business operation within each society, professional training and other measures that are within the scope of OCEEA ought to be applied even in the fragile conflict contexts.

2. Improve context where domestic private sector operates

OSCE work on good governance and rule of law positively affects the potential of the domestic private sector to grow into a constructive social force. This work creates enabling environment through lower corruption and, especially SMEs into the position to demand their rights and solidarize if individual appeals are not heard. However the issue of how the breakaway entities should be involved in this work remains unresolved. For economic cooperation to serve confidence building and eventually peacebuilding the conditions and the self-understanding of the domestic private sectors across the conflict divide should be compatible even in the situation of incompatible legal frameworks. Asymmetry in the level of economic development and access to economic opportunities hinders equitable cross-conflict business cooperation. OSCE should adopt an approach that opens opportunities for fostering domestic private sector in the unrecognized entities. This is a challenge, but few examples of how the issue of non-recognition was circumvented may be useful for the design of such models of the involvement of OSCE.

3. Facilitate cross-conflict economic cooperation

Border management is an important part of the OSCE mandate, including in conflict zones. Incremental success of the border management task in the zone of Transnistrian conflict

demonstrates that there are ways to enhance creativity in balancing between security of borders and permeability of frontiers for people, goods and capital, which is a necessary condition for cross-divide economic cooperation to take place. Synergies with non-governmental peacebuilding organizations need to be fostered in order to overcome certain limitations pertinent to inter-governmental organizations, including OSCE, in dealing with state formation conflicts where access to breakaway entities seeking independent statehood is problematic. OSCE has its strengths that NGOs do not in terms of political access and the capacity to sponsor political talks and discussions on the matter.

Regulated border-crossing also supports the development of the peacebuilding capacity of the private sector through the emergence of legal opportunities to cooperate across the conflict divide. Thus illicit hence vulnerable hence voiceless business can turn into a vocal pro-peace actor. International Alert works on the question of how regulated cross-Inguri economic activities of significant scale, but considered illegal by both sides, could benefit micro-economic and macro-economic cooperation, on the one hand, and peacebuilding, on the other¹³. This is work in progress that requires further testing of the conclusions, but the impetus to contemplate models for the facilitation of trade and other economic transaction by means of a regulatory framework of some sort was created.

4. Where OSCE participates in peacemaking at the official level (Minsk process, for example) it should encourage the parties to delineate economic aspects of the future peace agreement or of economic strategies to lead to a peace agreement.

Business designing and testing economic and regulatory frameworks that would enable economic activities to bear fruit and bring conflict parties closer. 'Imaging peace'¹⁴ allows going beyond the negative peace as a minimal desired condition for business towards envisioning a peace dividend. It is also very important for business to engage in the design of the path towards the imagined peace dividend. How to get there and what business itself could propose with regard to the business-friendly frameworks, components of a prospective peace agreement, temporary transitional regulations, consolidation of the solidarity across the conflict line, etc.?

Leading by example is also a vital role the domestic private sector can play in modeling peace. Domestic private sector in a conflict setting can not be apolitical because it is a part of its identity group, its nation, its people and its community. It is people in conflict who also happen to be businesspeople. However they may propose a new way of being political that is not based on confrontation, but rather on mutual interest, and demonstrate how this approach may help cope with conflict consequences.

Consultations with the domestic private sector within the framework of official negotiations may be tried as a way to get a creative input into political talks.

¹³ Regulation of cross-Inguri/i economic relations: views from both banks, 2011, International Alert, in print

¹⁴ Boulding, Elise. "The Challenge of Imaging Peace in Wartime." *Conflict Resolution Notes*. April 1991. V. 8, No. 4, pp. 34-36