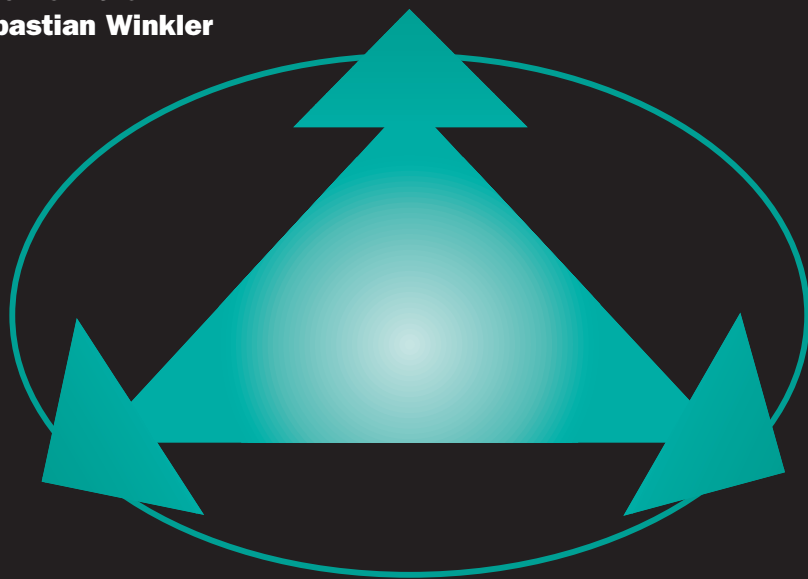


Trade, Aid and Security: Elements of a Positive Paradigm

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EXECUTIVE SUMMARY

Security is an essential precondition for sustainable development. Under the threat of widespread violence, social institutions cannot function, people cannot plan for the future and financiers cannot invest. While security—we mean prevention of violent conflict—is a policy goal to which both trade and aid are intended to contribute, the reality is that trade and aid can instead undermine security and contribute to violence.

Security is an essential precondition for sustainable development.

Trade and peace are mutually supportive in theory. Growth in economic and social exchange between groups, combined with adoption of international social and governance standards and balanced by transfer payments from winners to losers, should lead to more harmonious and equitable societies.

The reality is too often the converse. The globalization of weakly-governed markets for natural resources, coupled with the decline and misuse of international development assistance, and with aggressive promotion of unbalanced trade and macroeconomic management rules:

- drive environmental degradation;
- exacerbate social tensions;
- create a space for sub-state actors to enrich themselves through the propagation of conflict;
- fuel tensions within and among countries; and
- strain traditional international and sub-national mechanisms for keeping the peace.

To date, there is no comprehensive strategy for tackling interactions between these pol-

icy spheres. In order to address what we see as a significant policy gap, IUCN – The World Conservation Union and the International Institute for Sustainable Development (IISD) have launched an initiative to:

- define the relationships between trade, aid and natural resources management as they affect the presence or absence of violent conflict;
- identify those interactions that appear to be the most significant and tractable;
- specify what further activities should be pursued to address these interactions; and
- deliver the results in a compelling fashion to the appropriate actors in the international community, with particular emphasis on the third World Conservation Congress in November 2004 and other relevant fora.

Our initiative focuses on the way in which the exploitation of natural resources for international commerce can contribute to violent conflict at the sub-state and international level, and on the role of development assistance and trade liberalization—in tandem or in isolation—in fuelling or alleviating this downward spiral.

The paper that follows is an initial foray into a complex subject. It offers a framework for discussion of the linkages and identifies relevant trends, preliminary insights and promising angles for future action. It draws on insights from research and workshops held in 2002 at the United Nations Finance for Development Conference, and at the World Summit for Sustainable Development. Through this brief sketch of the dark sides of commerce and development assistance, it lays the foundation for this project's next phase—targeted regional, global and thematic

research aimed at reframing our understanding of how to make trade and aid serve the cause of peace and human security.

Though we do not claim to have uncovered any great mysteries, we are convinced that the need for this project is clear. We are in a unique moment in time, when the governance of aid, trade and natural resource management are “in play” simultaneously, challenged at their roots by the emerging threats of terrorism, failed states and health epidemics. It follows that these regimes are capable of substantial—if not radical—change. And such change is needed, both for the billions who are left behind by development in the present generation, and by those who may bear the costs of our mistakes in the future.

LINKAGES BETWEEN TRADE IN NATURAL RESOURCES, AID AND SECURITY

Natural Resources – Security

- Resource scarcity and environmental problems can contribute to the outbreak or aggravation of conflict.
- Environmental problems may pose a threat to security not resolvable by military means.
- Grievances related to resource access can lead to conflict.
- Resource trade can be used to fund government oppression or finance armed opposition.
- Control of valuable resources can be motive for conflict.

Trade – Security

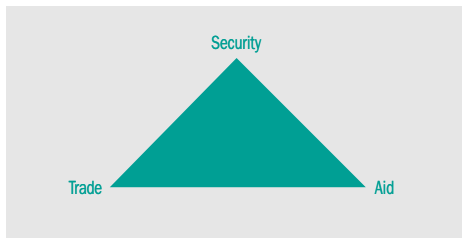
- Loss of trade can be economic disincentive for conflict.
- Trade rules can provide non-military dispute resolution option.

- Trade sanctions can be used as non-military signal of opposition to foreign activity.
- Trade rules can lead to improved governance through adoption of international norms.
- Trade liberalization can increase vulnerability to global commodity price swings.
- Trade liberalization can increase economic inequality, dislocation and migration/urbanization.
- Trade rules can diminish government revenue streams and place constraints on domestic subsidies, weakening state legitimacy.

Aid – Security

- Aid can finance government oppression or violent opposition.
- Political and economic conditionality on aid can undermine government capacity and legitimacy.
- Aid can substitute for concerted political intervention to promote peace.
- Uneven aid flows can increase macroeconomic volatility.
- Aid, allocated according to priorities defined by donor agencies without consultation with local authorities and communities, can deepen inequities.

Figure 1. Trade in natural resources, aid and security—elements of a complex interactive system.



SUMMARY OF RECOMMENDATIONS:

Trade, Aid and Security

- Incorporate security as the overall goal of aid and trade, against which policy interventions can be assessed.
- Integrate the key elements of good governance—transparency, participation, accountability and dispute resolution—into the key institutions governing trade, bilateral and multilateral aid, natural resource management and security.
- Create a space for dialogue, in which negotiations on security, trade, aid, debt and common standards for environmental and social issues can be balanced and trade-offs made more objectively and transparently.

Trade and Security

- Seek collaboration between WTO, UNEP and key Multilateral Environmental Agreements (e.g., CITES) targeting trade in natural resources that leads to or aggravates conflict.
- Elaborate product certification systems for conflict diamonds, illegally harvested timber and the like, reflecting on the Forest Stewardship Council and Kimberley Process. Further elaboration of the process, elements, verification tools and key factors for mobilizing support are needed, as are technical assistance to ensure that developing countries can represent their interests and implement the required infrastructure.

Trade and Aid

- Reinvigorate the debate on measures for commodity price stabilization, beginning with the IMF's Compensatory and Contingency Financing Facility; and with the voluntary schemes being developed by the fair trade movement.
- Consider the use of both trade measures and aid resources to compensate for revenue losses and to dampen inequalities that result from the lowering of trade taxes, and to support the costs of adjustment to liberalized trade.
- Consider raising aid issues in the context of the WTO Committee on Trade and Development, or the Working Group on Trade, Debt and Finance.

Aid and Security

- Seek tools and approaches to communicate to aid professionals the factors that motivate and fuel conflict, particularly, the underlying economic governance issues. Identify and review work on conflict risk assessment.
- Investigate the potential to build aid on binding rules, with a dispute settlement mechanism and enforced compliance—as is the case for trade—so as to make aid flows more predictable and stable.
- Consider criteria for determining appropriate aid levels, and the governance and other conditions that would have to be met for those levels to be secured.

1. INTRODUCTION

1.1 Rationale

All sectors of society are today seeking to understand how best to contribute to security, and the sustainable development community is no exception. We have targeted the relationships between trade in natural resources, aid and security because we feel they are important, significant for sustainable development, and their interactions incompletely understood.

Though the aims of economic development, of environmental sustainability and of security are incompatible in certain areas we believe they are strongly bound together in others. Achieving sustainable development means building bridges and breaking down barriers between professions, cultures, regions, and attitudes, a key role of our institutions. Expanding dialogue among the three communities would, we hold, lead to positive synergies for sustainability.

We approach this task with humility. We do not claim full understanding of these complex issues and their interactions. Simply, we have stumbled across some compelling ideas and are convinced there is merit in their further exploration.

Written to reflect on a unique moment in time and launch a dialogue between policy spheres, this paper offers a framework for discussion of the linkages, identifies relevant trends, and suggests promising angles for further activity, concluding with the follow-up work plan for this initiative. It draws on insights from research and workshops held in 2002 at the UN Financing for Development Conference and at the World Summit for Sustainable Development. Through this brief sketch of the dark sides of commerce and development assistance, the paper lays the foundation for this project's next phase—targeted regional, global and thematic research aimed at reframing



Women at market stall in Lagos, Nigeria – Iain Guest, Nigeria, 2000

The regimes governing international security, aid, trade and natural resource management are all in flux.

our understanding of how to make trade and aid serve the cause of peace.

1.2 A Unique Moment in Time

Today the regimes governing international security, aid, trade and natural resource management are all in flux at the same time. This is an opportunity for change that comes around once in a generation.

Security. The complex of power relations and alliances governing international security are being reordered in the wake of acts of terrorism in the United States and Europe, and the “War on Terror” initiated in response, as well as by the war and nation-building undertaken in Iraq. In broader terms, while inter-state conflict (between sovereign nation-states) has declined since the end to the Cold War, intra-state conflict (within nation-states) has intensified and has become increasingly tied to economics. And given the accelerating transboundary flow of ideas and people, it may be that “the time is past when any nation can safely ignore large-scale regional instability elsewhere.”¹

Aid. Several recent events herald a potential turning point in political support of public finance for international development. First was the mass mobilization of civil society in support of the Jubilee 2000 debt relief campaign and the subsequent donor government—and rock star—response.² Second was the uptick in funds for international development assistance coming out of the UN Financing for Development conference in Monterrey in March of 2002, and by G-8 support for the ‘New Partnership for African Development’. This was confirmed by the most recent figures from the OECD, indicating that aid has risen by 11 per cent in the last two years, with existing pledges suggesting a further rise of some 25 per cent.³ Development assistance has reversed its long decline since 1992.

Trade. Delegates emerged from the Ministerial talks in Qatar in November 2001 with an agreement to launch a new round of negotiations on trade liberalization. The new trade talks are proceeding under the banner of a “development round.” While the GATT itself has a “national security exception” (Art. XXI),⁴ there has been little attempt within the international trade community to systematically address the tightly-woven issues of conflict and trade. On May 15, 2003, the World Trade Organization’s General Council approved the granting of a waiver to those countries implementing the Kimberley Process Certification Scheme to prevent traffic in “conflict diamonds.”⁵ While an important measure, it leaves the door open for other “conflict commodities.”

Natural Resources. The World Summit on Sustainable Development (WSSD) offered a moment of reflection on progress since 1992 towards making the patterns of economic growth more equitable and consistent with environmental limits. WSSD demonstrated the difficulty of finding ways to effectively link the three pillars of sustainable development. Critics of the

Summit contended that social and economic concerns dominated, to the detriment of the environmental agenda. The upcoming third World Conservation Congress offers an opportunity to balance the scales, reviewing progress towards the achievement of global conservation goals in a world overwhelmed by security concerns.

1.3 A Framework for Analysis

Conflict represents a dynamic state of human interaction, where contending interests and values are ultimately reconciled, often by force of arms. It is well known that, since the end of the Cold War, violent conflict is increasingly waged within, rather than between, nations and affects the poor most of all. Development is set back by decades, natural resource management systems are disrupted and investors are reluctant to return. The peaceful and productive resolution of conflicts is thus a vital foundation for development, sustainable or otherwise.

Security has long been recognized as a legitimate goal for trade and aid, and is an essential precondition for sustainable development.

Trade and aid are both means to an end—economic and social development. On the other hand, security—like sustainable development—is an end in itself. The development effectiveness of measures to promote trade or deliver aid, ultimately, can only be judged against the ends they purport to serve. In what follows, we shall argue that security has long been recognized as a legitimate goal for both trade and aid, and is an essential precondition for sustainable development.

We are well aware that trade, and in particular the range of issues surrounding trade liberalization, covers a broader spectrum of issues. Similarly, aid is only one of the many tools that govern relations between states, or between development actors in different countries. And the link between natural

resources and security can be defined very broadly (in terms of human security) or very narrowly (the impact of environmental factors on national frontiers or on the institutions of the state), and embraces escalating degrees of hostility, from legal challenge to open war.

In looking at trade, we will focus principally on the international commerce in goods, and in particular on trade in living and non-living natural resources. We do not confine ourselves to either legal or illegal trade, recognizing that either the good or the means by which it is harvested or exchanged can be within legal norms set by states but still contribute to conflict, and vice versa. We also consider in passing the role of Foreign Direct Investment.

In looking at aid, we focus on Official Development Assistance (ODA)—both multilateral and bilateral—and on development assistance from non-governmental sources.

When we talk of security, we are speaking very broadly of the social, economic, environmental and political conditions that permit people to pursue sustainable livelihoods. We are most interested in the prevention and resolution of violent conflict, though aware that too narrow a focus may pick up the problem too late for anything except firefighting.

In sum, for this initiative we focus on the way in which the use or misuse of natural resources and life support systems for commerce can contribute to violent conflict at the sub-state and international level, and at the role of development assistance and trade liberalization—in tandem or in isolation—in fuelling or alleviating this downward spiral. Through this prism, achieving security can be seen as a critical foothold towards achieving our longer-term goal—more equitable and ecologically sustainable development.

2. SECURITY

2.1 Definition and Trends

The nature and means for achieving security have been the source of much conflict—albeit of the academic kind—in recent years. Who is being secured? From what and to what end? And how much security is enough? The analysis of security has evolved from one solely concerned with the protection of one nation from invasion by another, to one which embraces a range of threats, and which seeks the protection of the individual from harm, physical and otherwise.

Security has evolved from... the protection of one nation from invasion by another, to one... which seeks the protection of the individual from harm.

As a consequence, trends in security depend on the focus of the magnifying glass. On one hand, the world is in many ways more peaceful in 2004 than it was a half-century ago. The prospect of devastating the planet or at least a good-sized portion in your neighbourhood has made a no-win prospect out of international nuclear confrontation.⁶ A Third World War pitting one axis of nations against another seems increasingly unlikely. This is reflected in the decline in military expenditure as a portion of GNP among high-income countries, from 3.1 per cent in 1992 to 2.4 per cent in 1997.⁷ Nevertheless, since 1998, global military spending has been growing in real terms, even if it remains below its Cold War high.

On the other hand, “of the more than a hundred wars that have followed 1945 (defined as violent conflicts with more than 1,000 battle deaths per year), over 80 per cent have been between non-state groups, either fighting each other or fighting established states.”⁸ Over 1,400 people died each day throughout the 1990s as a result of such conflicts.⁹

Box 1. An Overview of the Causes of Conflict

Scholars distinguish between the underlying causes of conflict, and the triggers that can turn tension into violence. These factors can be both external and internal to the area in conflict. Underlying causes are inter-related political, social and economic factors “which create a potential climate for violent conflict without...making its eruption inevitable.”¹⁵ These motivating forces include:¹⁶

- **Resources**, due to competition for economic power and access to natural resources;
- **Identity**, based on competition between rival ethnic, religious or other communal identity groups for access to power and social justice;
- **Ideology**, based on competition between rival ideologies and value systems;
- **Governance and Authority**, based on competition for political power and participation in political processes.

Triggering factors are “the events, actions and decisions which result in the escalation of disputes into violent conflict.”¹⁷ Among others, these might include economic shocks, changes in internal political cohesion and power distribution, influx of arms, actions of political leaders including use of identity politics, opening of borders, or large movements of people or capital.

In 1993, 65 of the 79 countries experiencing such civil violence were in the developing world.¹⁰ Africa, with many of the world’s poorest and least-developed nations, was particularly affected. In 1999, 14 of the continent’s 53 countries were embroiled in armed conflicts, resulting in more than eight million refugees and displaced peo-

ples.¹¹ Conversely, “peace is most commonly found, where economic growth and opportunities to share in that growth are broadly distributed.”¹²

Many of today’s conflicts seem to have little to do with issues of justice, and more with armed groups exploiting the rural poor in weak or failed states. The evidence shows that “from 1945 on, the vast majority of the larger guerrilla or terrorist campaigns in particular have been waged in third-world countries—where people were either trying to form states on their own or where established states had failed to assert monopolies over violence.”¹³

All in all, while international conflict has declined, subnational conflict has intensified and has become evermore tied to economics. Moreover, “it is now recognized that... the potential spread of chemical, biological and nuclear weapons to subnational groups or a few rogue nations is now seen as a severe danger to all.”¹⁴

2.2 Links Between Natural Resources and Conflict

A major source of conflict may be environmental. The twentieth century saw a four-fold increase in human population to six billion people, with an additional three billion anticipated in the next three decades. It also witnessed the 20-fold growth in the use of fossil fuels,¹⁸ and the altering of 46 per cent of the world’s primary watersheds by dams¹⁹ to meet the needs and wants of that expanding population.

This unprecedented growth in resource use has coincided with increasing evidence of environmental degradation²⁰—the reduction of resource productivity. While ecosystems have often been modified to increase their production of particular goods and services, significant modifications can diminish their long-term viability. Some allege that as much as 40 to 50 per cent of

Erosion or inequitable distribution of natural resources may be a key ingredient in the conflicts.

land, and two-thirds of major fisheries have been degraded or overexploited by human activity.²¹ Human activities—application of fertilizers, hydromodification, cultivation of certain crops and fossil fuel combustion—now in many cases vie with or exceed natural sources of key nutrients such as nitrogen and phosphorous, with uncertain implications for the delicate chemical cycles that maintain life on Earth.

The erosion or inequitable distribution of natural resources may be a key ingredient in the conflicts of today and tomorrow. Many believe that “scarcity conflicts” will become increasingly pervasive as the vital resources upon which people depend upon for their livelihoods—freshwater, fuelwood, agricultural land and fisheries—become scarce owing to the continued growth in population and in per capita consumption, and to persistent structural inequities in resource access and benefit-sharing.²²

This link is particularly relevant at the community level in the developing world, where such environmental degradation means “loss of environmental quality that forces hungry people to go farther for fuelwood and water, to graze their cattle over a wider area, to grow their crops on more impoverished soils, and to face chronic ill health and poor nutrition.”²³

The poor are most dependent on natural resources for their livelihoods, and thus most vulnerable to environmental degradation. At the macro level, scarcity of critical resources—land and water in particular—is likely to constrain many countries’ efforts to increase economic productivity. Competing emergencies may well outstrip the capacity of governments to cope.²⁴



Chixoy dam – Peter Lippman, Guatemala, March 2000

Societies have evolved a range of means to deal with resource competition, and with the allocation of scarce resources. So a degrading environment, alone, is usually an insufficient trigger for conflict, though it may trigger violence or aggravate existing tensions. Acute conflict can result when the mechanisms for cooperation break down, and livelihoods—the activities people do in order to survive and thrive—become unsustainable or are lost.

If so, improved management of resources, and the conservation of a sound and productive environment can dispel tension, restore social stability, and avert conflicts that are costly in their human toll, in the aid that they divert, and in the trade they render impossible.

Force is of course not the only means that societies have evolved to overcome local resource constraints. Why take something by force, if you have something to trade?

3. INTERNATIONAL TRADE

3.1 Definition and Trends

International security was at the heart of the establishment of the rules governing the international trading and financial system in 1947 in Bretton Woods. The basic goal of the World Trade Organization, and of

Box 2. The “Washington Consensus” on Market-Friendly Policies

- Fiscal discipline
- Direction of public expenditure towards education, health and infrastructure
- Tax reform
- Market-determined interest rates
- Competitive exchange rates
- Trade liberalization
- Openness to Foreign Direct Investment
- Privatization of state enterprises
- Deregulation to promote market entry and competition
- Legal security for property rights

the GATT²⁵ which preceded it, is to reduce existing barriers to trade, and prevent new ones from developing, through fair and equal competitive conditions for market access, and predictability of access for all traded goods and services.

The postwar period saw dramatic economic growth among the countries of Western Europe, Japan and the U.S., who sought to maximize their export of goods and services to other nations. While agricultural and industrial production grew rapidly in all three, exports increased even faster than output throughout the 1950s and 1960s, by more than eight per cent a year in Europe, by more than 16 per cent in Japan, and by more than five per cent in the U.S.

By contrast with the industrialized economies, most developing countries in the early post-war period sought economic growth through increasing domestic production and consumption, essentially seeking to minimize imports—a policy of

International security was at the heart of the establishment of the rules governing the international trading and financial system.

import substitution. In the 1950s these countries began a shift towards export promotion.²⁶ Once this shift had begun, their exports grew 5.9 per cent a year through the 1960s, and they began to engage actively in international trade and development negotiations with the industrialized countries.²⁷

In the face of rapid growth of (mainly developing country) competition in the late 1980s, the U.S., Europe and Japan pushed “voluntary” trade restraints on certain exports—agriculture, steel and textiles in particular—to protect their domestic industries.²⁸ As a consequence, tariff rates levied by high-income countries on manufactured goods from developing countries are today four to five times those levied on similar products from other high-income countries.²⁹ The continued maintenance of these trade barriers are believed to cause annual welfare losses of US\$19.8 billion per year to developing countries.³⁰

These countries, by contrast, reduced barriers to trade to an even greater extent than their industrialized cousins, many as a requirement for international aid in response to macroeconomic crises in the 1980s and 1990s. The World Bank reports that in Latin America, average tariffs fell from 50 per cent of value in 1985 to 10 per cent in 1996, and non-tariff barriers which had affected 38 per cent of goods imported before reform, affected only six per cent by 1996.³¹ These reforms generally reflected the elements of the “Washington Consensus” (see Box 2).

In spite of the reforms carried out in the 1980s and 1990s, growth in many developing countries was offset by external shocks: rising interest rates creating a crisis of debt service obligations, declining growth rates

in industrialized countries shrinking the markets for exports, and large currency exchange rate fluctuations resulting from speculative financial flows.

Some countries saw their post-war economic progress reversed. Developing country debt exploded by a factor of ten in the wake of the “oil shock,” from \$130 billion in 1973, to \$1,284 billion in 1991.³² The UN Human Development Report of 1999 noted that per capita GNP had declined in 59 countries in the 1980–1996 period.³³

In spite of setbacks, the importance of international trade to developing country economies has continued to rise. In 1970, trade represented 25 per cent of GDP of low and medium-income countries, and 29 per cent of high-income countries. By 1999, trade represented 43 per cent of high-income country GDP, and 54 per cent of low-income country GDP.³⁴

As important as the rise in overall goods and services traded, is the composition of that trade. Today, the annual global trade in living natural resources—animals, plants and their byproducts is conservatively estimated at between US\$160–240 billion per year, over two-thirds of which is for timber and non-wood forest products (excluding agricultural products).³⁵

Not all trade, by any means, is subject to agreed multilateral rules. In particular, the formal trading system has paid little attention to illegal trade and to legal trade with illegitimate outcomes, whether in commodities, drugs, or weapons.

Illegal trade in endangered animals—monkeys, birds and reptiles—brings in some \$5 billion annually.³⁶ According to the WWF, the combination of high profits (up to 800 per cent) combined with low risks of detection and lack of serious punishment makes the illegal wildlife trade an attractive commercial prospect.³⁷

For its part, international trade in illegally-harvested timber may be even greater than the legal trade from many countries. A group of NGOs assert that approximately 50 per cent of tropical timber imports and 20 per cent of boreal forest imports into the EU are illegally-sourced.³⁸

Table 1. Estimated proportion of timber production illegally-sourced (FERN) ³⁹

Country of origin	Portion of timber production believed illegally sourced
Indonesia	73%
Cameroon	50%
Brazil	80%
Russia	20–50%
Estonia	50%

Perhaps the largest international market for illegal goods is the drug trade. Traffic in narcotics generates between US\$150–500 billion per year, making it one of the largest components of international trade (–eight per cent), larger even than even the oil and gas or automobile trade. If so, the drug trade may have reached proportions “capable of tainting or destabilizing global financial markets.”⁴⁰ In Bolivia in the late 1980s, for example, coca producers were estimated to have earned US\$316 million from their crops, exceeding the value of all Bolivia’s legal exports.⁴¹

An increasing percentage of trade is in arms intended for use rather than display or deterrence.

Hardly regulated and rarely debated politically even in democracies, the international arms trade generates some \$40 billion per year in export revenues for producing countries, while accounting for nearly half of all bribes.⁴² While military spending in developing countries fell from 4.9 per cent of



Legacy of the Khmer Rouge – Iain Guest, Cambodia, 1981

GDP in 1990 to 2.4 per cent in 1995, trade in small arms—both legal and illegal—grew, accelerated by the end of the Cold War and the dumping of military surpluses onto world markets. The United States alone made \$31.5 billion in arms transfer agreements with developing countries from 1997–2000, and in 2000 exported almost \$9 billion dollars in weapons to developing country buyers.⁴³ Moreover, “with Cold War restraints stripped away, it is a safe assumption that an increasing percentage of trade is in arms intended for use rather than display or deterrence...[resulting in] more killing power per dollar spent.”⁴⁴

Recent figures estimate that there are around 639 million small arms worldwide, with many more in production.⁴⁵ Accumulation and trade in small arms is closely related to social unrest, to rising levels of violent crime, and to displacement of people.⁴⁶ Perniciously, these weapons outlast peace agreements, to be used again many years later. “Even if primary flows fall temporarily below the rate of physical depreciation, there will be plenty of secondary stock to fuel conflicts until well into the new millennium.”⁴⁷

3.2 Links Between Trade and Conflict

International trade in natural resources can reduce the likelihood of conflict through

economic development and global integration. On the other hand, exploitation of natural resources for trade may contribute to conflict by creating grievances—through inequitable distribution of impacts and benefits, or through loss of economic advantages among powerful factions within the elite—that contribute to violent uprising and opposition. Moreover, it may provide a source of funds to sustain oppression and co-opt the opposition, to attract armed bandits seeking easy riches or finances for their rebellion, or to line the foreign bank accounts of key public officials.

Peacebuilding...

Trade has proved a powerful engine of the pattern of global integration known as globalization. Trade links not only provide for a multitude of exchanges, leading to a better mutual understanding between trading countries, they create a situation of mutual dependence that the outbreak of conflict could menace.

Trade provides a strong incentive to maintain stability, and to stress cooperation over confrontation, as it strengthens mutual dependence. Participation in multilateral trading arrangements offers non-military mechanisms for resolving disputes. This is reinforced by new theories of development that identify openness, transparency and respect for rights as preconditions for successful development.⁴⁸ Trade liberalization can induce innovation, curb corruption, improve institutions and dismantle unfair privileges and rent-seeking by elites, and in this way contribute to more equality and stability.

Many conflicts escalate as a consequence of incomplete communication between key actors in opposing states. Trade sanctions can be used by these actors “to signal resolve and commitment in an interstate conflict,” giving them an intermediate reaction between diplomacy and armed intervention

to communicate firm opposition to a chosen policy.⁴⁹

Skeptics would point to examples in history where trade rules contributed to interstate conflict—the secession of the Thirteen Colonies from England, for example. Strong regional trade agreements in North America and Europe may have benefited those countries on the inside, but harm outsiders by drawing investment and trade away. Indeed many regional blocs have compounded their “splendid isolation” by hardening their borders to immigrants in the last decade. Countries already marginalized as a result of years of conflict and instability may be further marginalized as those a few steps ahead pull the doors shut behind them.

But what about the role of international trade in enhancing security within states? The economic prosperity that can emerge from international trade can in itself be a powerful driver for domestic peace. Resource wealth can in the right circumstances be translated into capital for more broadly based development and distribution. Finances can be harnessed to improve protection of the natural resource base and compensate those disadvantaged or disenfranchised as a consequence of trade liberalization or of particular development interventions. The reality is too often the converse.

...or Peacebreaking?

An increasingly convincing body of evidence suggests that “countries which have a substantial share of their income (GDP) coming from the export of primary commodities are dramatically more at risk of conflict,” in particular during periods of economic decline brought on by fluctuations in international market prices.⁵⁰ Moreover, “in some cases, average per capita growth rates actually have been lower [in resource rich] than in resource poor developing countries, and some resource-rich developing countries remain among the world’s poorest.”⁵¹

Box 3. Commodity Price Vulnerability and Conflict in Rwanda

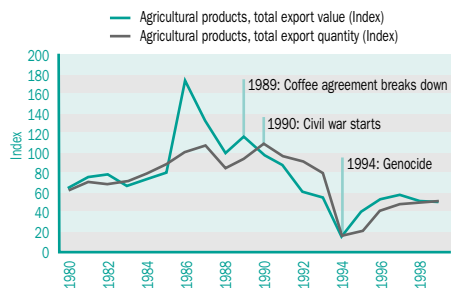
*Christian Friis Bach,
Trade, Aid and Security, IISD/IUCN,
2002*

Stabilization of revenues from natural resource-based products was a central goal of the network of international commodity price agreements, many of which collapsed in the 1980s.

In 1989 the export quota system in the International Coffee Agreement broke down. This was followed by a major decline in coffee prices worldwide, with the most significant decline striking Robusta coffee—a major portion of the coffee produced in Rwanda. In short order, the export revenue for Rwanda was cut in half, and the livelihoods of the rural population eroded.

In 1990 the Rwandan Patriotic Front (RPF) began its incursion from Uganda into Rwanda. The war, along with a series of political and economic upheavals—including the collapse of coffee prices—exacerbated ethnic tensions, culminating in April 1994 in genocide.

Figure 2. Rwanda total exports of agricultural products by value index and quantity index, showing how a sudden collapse in coffee prices may have contributed to the onset of civil violence.



Source: FAOSTAT, FAO, 2002.



A young man in at a market stall in Lagos, Nigeria – Iain Guest, Nigeria, 2000

What can explain the poor track record of international trade in contributing to security within resource-rich countries?

Whether positive or negative, adapting to the multilateral trading system often entails a massive economic, social and environmental dislocation. Even when the overall benefits are positive, trade liberalization raises many challenges to governments during the period of transition. These may include loss of government revenues, increased price competition on domestic markets, economic shocks and “windfall” winners and losers, sometimes decided by force.

In many cases, the wealth generated by the sale of resources on international markets has been funneled to domestic elites rather than invested in development. Trade liberalization unaccompanied by measures to equitably address the attendant social and environmental consequences and compensate the losers can deepen societal divisions and reinforce existing inequities. Such competition can be transformed into conflict through a mix of local environmental stress, ethnic rivalry and political manipulation.⁵²

In developing countries, the pressures of trade liberalization can force the trimming of the public sector, eliminating subsidies or

Displaced people move to the urban areas and provide ready material for recruitment by rebel armies.

protections for home industry. Liberalization can lead to a strong focus on production of commodities for export, and undermine rural livelihoods. Displaced people move to the urban areas and provide ready material for recruitment by rebel armies or extremist factions, thus undermining stability and posing a threat to security.⁵³

Some groups have a powerful interest in sustaining conflict in order to maintain their control of territory, resources and means of production, making war “the continuation of economics by other means.”⁵⁴ According to a special report to the UN Security Council (April 2001), “The conflict in the democratic Republic of the Congo has become mainly about access, control and trade of five key mineral resources... Business has superseded security concerns. The only loser in this huge business venture is the Congolese people.”

A critical problem in translating natural resource wealth into economic development is the illegal harvest of natural resources for the purchase of weaponry, the use of which further destabilizes a society. The profits from unregulated or illegal logging, mining and hunting have often driven and financed conflicts around the globe, from Nicaragua⁵⁵ to Liberia⁵⁶ and Indonesia,⁵⁷ even while depleting forests, decimating endangered species and threatening traditional communities—who then respond with violence.

Perversely, the same supply lines that move natural resources and narcotics out of zones of conflict often carry back small arms, and create the resources needed to buy them.⁵⁸ In the words of one analyst, “Much of the world’s traffic in diamonds, rubies, emeralds, lapis lazuli, jade, ivory, and teakwood... is currently, if not actually con-

trolled at source by this or that insurgent group, then at least taxed by them.”⁵⁹

Trade in illicit narcotics and violent conflict are intimate partners. It is alleged for example that factions in the IRA rely extensively on drug smuggling to finance their politically-motivated terrorism.⁶⁰ In Colombia, many of the characteristics of post-Cold War world insecurity are present: great imbalances in welfare for large sectors of the population, violent competition among contending sub national groups, powerful economic incentives to maintain insecurity, and insufficient central government capacity to maintain order. “Private paramilitary armies exist alongside the Colombian military, violent drug cartels, and left-wing insurgents...”⁶¹

Citing the threat posed by Southern Africa’s rising tide of illegal trade in narcotics, arms and endangered species, Thabo Mbeki, President of South Africa, stressed in a recent statement “experience has shown us that countries that become conduits also end up being major destinations of this trade with horrifying consequences for the economy, as well as for the moral and social fibre of society.”⁶²

3.3 Observations

Developing countries have little choice but to go along with trade liberalization. It is the condition of their WTO membership, it is required if they wish to attract investment, and it conditions their access to the markets they need to sell their own goods.

As a consequence of the often-ignored relationships between trade and social unrest, the economic benefits of trade are frequently overstated. Yet the political and security benefits generated through trade, by forging international cooperation and interdependence and generating funds for development, are seemingly remembered only when commercially convenient.

If international trade were to be managed with international security as a principal goal, the systems governing it and the implementation of those systems on the ground would have to be evaluated on the basis of the contribution they make to security. A cursory view of the existing system shows this is not the case.

The richer countries were hasty, at the time of the Rio summit in 1992, to suggest that trade would provide countries with the means to grow themselves out of poverty, and that the need for official development assistance would continue to shrink. With trade liberalization now a non-negotiable condition of entry to the global economy, and with the walls between developing countries exports and the markets of rich countries showing few signs of thaw, the need for aid has never been greater, even if arguments for reorientation of that aid are ever more cogent.

4. AID

4.1 Definition and Trends

Development assistance is often caught by its internal contradictions; between its use for political benefits (to reward “friends”), its use for subsidizing domestic industries (so-called “tied aid”), and its foremost purpose of eliminating poverty.

ODA peaked in real terms in 1992 at about \$60 billion and has been in decline until recently.⁶³ In aggregate, it never got close to the 0.7 per cent GNP “target,” though the Scandinavian countries have for several years given in excess of 1.0 per cent GNP. In 1997, it reached an all time low of 0.22 per cent GNP, with only four OECD member countries exceeding the UN target.⁶⁴

Official Development Assistance (ODA) has increased significantly in the wake of the Monterrey consensus. This was confirmed by the most recent figures from the OECD,

Box 4.

The Millennium Development Goals

The Millennium Development Goals were agreed at the world conferences of the 1990s, and commit the 191 member-states of the United Nations by 2015 to:

- Goal 1:** Eradicate extreme poverty and hunger by halving the proportion of people whose income is less than \$1 a day, and the proportion who suffer from hunger
- Goal 2:** Achieve universal primary education by ensuring that all children will be able to complete primary schooling
- Goal 3:** Promote gender equality and empower women by eliminating gender disparity in all levels of education
- Goal 4:** Reduce child mortality by reducing by two-thirds the under-five mortality rate
- Goal 5:** Improve maternal health by reducing by three-quarters the maternal mortality ratio
- Goal 6:** Halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases
- Goal 7:** Ensure environmental sustainability by
- Integrating the principles of sustainable development into country policies and programmes,
 - Reversing the loss of environmental resources;
 - Halving the proportion of people without sustainable access to safe drinking water and
 - Significantly improving the lives of at least 100 million slum dwellers by 2020
- Goal 8:** Develop a global partnership to deliver these goals thru shared commitments on development assistance, international trade, good governance, debt, poverty reduction and addressing the special needs of the least developed countries, landlocked countries and small island developing states. Additional commitments are made on providing work for youth, and on cooperating with the private sector to make available essential medicines and new technologies

Source: <http://www.un.org/millenniumgoals/>

indicating that aid has risen by 11 per cent in the last two years, with existing pledges suggesting a further rise of some 25 per cent.⁶⁵

Several observations should temper this optimistic outlook. First, aid is often channeled towards reactive, humanitarian needs in the wake of catastrophe and war. Emergency assistance was the largest component (12.91 per cent) of aid to least-developed countries in 1995.⁶⁶

Second, the distribution of aid reflects a growing effort by donors to focus on a smaller set of countries with the aim of conflict prevention and post-conflict reconstruction. While in 1990, Low Income Countries received 62 per cent of ODA, by 1995 these countries received barely half of the total,⁶⁷ with an increasing amount of aid flowing to transition economies in the former Soviet bloc.⁶⁸

Third, conflict itself is impeding development assistance, with flows steadily decreasing to sub-Saharan Africa.⁶⁹

Last, aid itself can be a source of conflict, or can be appropriated by combatants.

4.2 Links Between Aid and Conflict

Aid has been accused of contributing to the conflict dynamic in Sudan,⁷⁰ of propping up the repressive Mobutu regime in Zaire and Marcos regime in the Philippines,⁷¹ and of financing socially-divisive resettlement and transmigration schemes across Asia and Latin America.⁷² Certainly, aid-financed projects can create winners and losers, and spur competition between groups, leading to conflict.

Likewise, aid represents a potential revenue stream for insurgent groups. Rebels in Sudan have allegedly harvested humanitarian aid in support of their activities (benign and otherwise) through direct looting, taxing of aid deliveries and establishment of “humanitarian” wings to interface directly with the aid community.⁷³

Donor conditionality—the combination of political and economic reforms tied to receipt of aid packages and based on implementation of the “Washington Consensus” reforms—has intensified since the end of the Cold War. These conditions can inadvertently damage weak governments and cause a re-emergence of conflict. “Often critically short of expertise in macro-economic management, domestic authorities have to wrestle with the competing demands of economic stabilization (fiscal austerity) and war-related or peace-building costs” as well as political conditions including democratization, and respect for fundamental human rights.⁷⁴ Salary cuts in the public and military sector can increase incentives for corruption and looting, while people turn increasingly to the informal or “extra-legal” market to meet their



At the World Bank meetings in DC, activists staged a protest against World Bank-sponsored dams including the dam in Rio Negro, Guatemala, that led to the massacres in Pacux – Iain Guest, Washington DC, March 2000

needs, accelerating the descent into lawlessness.

Aid can also be substituted for a lack of political action towards peacekeeping. As a Danish evaluation of Emergency Assistance to Rwanda concluded in 1997, “people within... the broader international community ignored, discounted or misinterpreted the significance of [warning] signs... The essential failures of the response of the international community to the genocide in Rwanda were... political.”⁷⁵

The very volatility of aid fund disbursements, in countries where aid represents a substantial portion of government revenue, can contribute to economic and political instability. In some countries, particularly in Africa, foreign aid gave rulers enough wealth to distribute to their clients and thus maintain their ruling position. It also

allowed them to marginalize the potential opposition. “By intervening in markets, rulers could accumulate wealth directly, and then convert this wealth into political resources to be distributed at their discretion. In the process, their personal fortunes could come to exceed the recorded annual economic output of the countries which they governed.”⁷⁶ In less than two months in 1998–99, for example, Malawi received US\$150 million in balance-of-payment support, more than twice the total aid disbursements of the preceding 18 months, and equivalent to 11 per cent of GDP.⁷⁷

As bad as too much aid, is none at all. Aid can be cut off just when it is needed most—after an unforeseen shock. As one study concludes, “when donors are unable to monitor the recipient country’s reform effort... aid disbursements [can be] tied to economic performance.... A country hit by an external shock may have its aid flows temporarily suspended because it has delayed the necessary adjustment, for example, owing to domestic politics.”⁷⁸ Compliance with political and economic conditionality may be prevented, and aid withheld, with long-lasting macroeconomic consequences.

4.3 Observations

Debate around aid has centered on mobilizing more, on targeting it better, on removing political constraints and on whether to abolish it entirely. Yet for many of the most indebted countries, aid continues to be the primary source of funding for social investment.

After four decades of development assistance on a large scale, a great deal has been learned about what works, what does not, and why. Indeed, this understanding has now been honed into an art that covers not only topics and issues but aid delivery mechanisms as well. If aid responded only to its formal objectives (e.g., the promotion of economic development and human wel-

If aid responded only to its formal objectives... its positive impact on development and peacebuilding could be a great deal more pronounced.

fare in the target country), its positive impact on development and peacebuilding could be a great deal more pronounced.

Unfortunately, development assistance remains to a considerable extent tied to the purchase of goods and services in the aid-giving countries, and to rewarding political allies rather than addressing development priorities. It is frequently directed towards large infrastructure projects with political visibility, rather than the patient, small-scale actions whose long-term impact could be much greater. Important domestically-led efforts at policy and governance reform are often invalidated by the imposition of economic models that do not respond to national political realities and development priorities. Aid programming is still plagued by short-term budget allocations and the rapid fluctuation of political signals and parliamentary instructions.

Popular support for aid remains high in OECD countries, but this does not always translate into political support, and aid is often the chosen victim when budget austerity is on the horizon.

There still remains a fundamental debate on aid programming. Should aid funds go to reforming government practice, or should they be devoted to offering alternatives to often predatory government behaviour? Should aid build capacity to participate in global economic rule making, or should it help deal with the consequences when the rules turn out to be unbalanced, too costly to implement, or lead to economic volatility? Should aid be part of a coherent set of policies governing a country’s dealings with the rest of the world, or should it be reserved to mitigate the consequences of the inevitable failure to make all policy coherent?

These debates will never fully be resolved, but it is becoming increasingly clear that we cannot continue to channel aid to deal with the consequences of development failure and away from measures that will prevent such failures from occurring in the first place.

5. CONCLUSION

5.1 Towards a Positive Paradigm

It is increasingly clear that the rising tide of international trade in natural resources does not automatically reinforce stability. Nor is aid as currently constructed successfully achieving its aim of poverty alleviation. Our contention here is that failure on both fronts reflects an inadequate appreciation of the systemic links between these policy spheres.

When the Uruguay Round of Multilateral Trade Negotiations concluded in 1994, it was confidently stated that all countries would benefit from new market openings that resulted. Now, ten years down the road, pundits seem less sure. Some developing countries have certainly benefited; most have benefited somewhat. But we now understand much better that, for trade liberalization to support more equitable and sustainable development, a number of conditions need to be in place.

Where a country has the preconditions in place—a functioning banking and insurance system, capacity for law enforcement, an effective and independent judiciary, trade-friendly customs and administrative procedures, transparency and lack of corruption, sufficient indigenous capacity to identify, articulate and advance national development and environment interests in the trade context, etc.—trade liberalization will lead to economic growth and will support social and environmental goals. When these governance conditions are absent, trade liberalization can lead to social marginalization and environmental stress, with-



Young boys mug for the camera in Lagos, Nigeria – Iain Guest, Nigeria, 2000

At the outset of the EU, it was realized that trade reforms may increase the need for development aid.

out providing the growth in income needed to address these problems.

And those preconditions cost money. In spite of the international commitments to capacity building and special and differential treatment embodied in key trade agreements, as one World Bank study admitted, “in effect, the developing countries have taken on bound commitments to implement in exchange for unbound commitments of assistance to implement.”⁷⁹

Trade liberalization, unaccompanied by measures to address the resulting social and environmental impacts, risks aggravating stress factors that can lead to conflict. The dogmatic pursuit of liberalized trade should therefore give way to a more comprehensive strategy, where trade is embedded in a wider development strategy; and trade liberalization is accompanied by aid transfers to mitigate or offset its more negative impacts. This would yield a true “development round,” rather than the diet variety currently on offer.

There is extensive precedent for taking an integrated approach to trade, aid and secu-

ity. Stabilization of export revenues from natural resource based products was a central goal in the establishment of the European Union and the cementing of peace in Europe. Even at the outset of the EU, it was realized that trade reforms may increase the need for development aid and will nearly always, in the short-term, increase the need for redistribution and compensation schemes.⁸⁰

This may be explanation in part for the paradox that many of the countries mired in poverty have ample valuable natural resources. Global commodity price agreements collapsed in the 1980s as a consequence of lack of political will both in developed and developing countries, disputes over the distribution of costs and benefits and difficulties with regard to the chosen market stabilization mechanisms.⁸¹ Yet they are no less needed today than they were decades ago. Perhaps the time has come to reinvigorate the debate on these macroeconomic tools.

No export revenue stabilization scheme could entirely prevent the violent implosion of a country like Rwanda, yet it is clear that some form of compensatory mechanism might usefully moderate the extremes. Likewise, development aid, carefully timed and targeted, could play a more direct role in avoiding or minimizing conflict and enhancing reconstruction and rebuilding.

Unpredictable and fluctuating aid flows may by themselves contribute to economic instability and conflict. Therefore, aid flows must become more predictable and stable, and be built upon a contractual framework. Aid is likely to work best when it is an instrument for leveling the playing field, rather than creating new distortions; and when it is bound in multi-year packages, targeting particular countries, sectors, environmental problems or social objectives.

Different objective means can be brought to bear for identifying the level of aid “needed”

by a particular country, e.g., in terms of the costs of solving their basic problems and their contribution to “global housekeeping” (combating global bads and promoting global goods). A halting step towards binding aid in relation to a trade agreement was taken at the fourth WTO ministerial in Doha when the rich countries promised to provide technical assistance “at an overall level no lower than that of the current year.” Likewise, the creation of a mechanism for dispute settlement over development cooperation would enhance accountability between donors and recipients.

Much of the substance of the trade that fuels conflict is illegal, outside the purview of the multilateral trading system. Ad hoc international standards are emerging on trade in several such commodities. These standards are exemplified by the Kimberly Certification Process Scheme aimed at controlling trade in diamonds used to finance conflict, and by the rapid spread of the Forest Stewardship Council timber certification system. Both are civil society initiated processes that have mobilized positive responses within industry. Governments have often been a reluctant third partner.

Development agencies can play a more-proactive role in financing watchdog NGOs, implementing the certification infrastructure and assisting developing countries in effectively representing their interests in the negotiation of such standards. According to a leading proponent, however, commodity certification will only work if governments and industry are willing to expose recalcitrant members, and if it covers the entire industry sector and all producing and trading countries.⁸² There can be no loopholes.

Consequentially, perhaps the time has come to launch an initiative in the WTO for increased cooperation to control illegal trade in natural resources, particularly where such

Perhaps it is time to begin regarding WTO as a security institution.

trade leads or contributes to conflict. More provocatively, perhaps it is time to begin regarding WTO as a security institution.

Of particular interest is the elaboration of production-based trade restrictions on security grounds, permissible under GATT Articles XX (a) and XXI (c)—“conflict exclusions.” Special attention might be paid to introducing conflict prevention measures into the negotiations under the WTO framework. Teaming up with other institutions to address illegal trade which finances conflict might be an area where the WTO could visibly help to promote peace and development.

If trade liberalization and the increased flow of natural resources across borders is unavoidable and indeed desirable, there is a critical role for aid in helping countries put into place the conditions needed for them to benefit from this process.

5.2 Mapping the Way Forward

We have sought here to establish that the links between trade, aid and security deserve further investigation. We believe that at the centre of the triangle formed by the three policy spheres of trade, aid and security lies fertile ground for new ideas:

- that might allow trade liberalization to release real development benefits and to increase social stability and environmental sustainability;
- that might allow aid to be deployed in such a way as to permit countries to benefit from economic openness and to accelerate positive policy reform; and
- that might re-channel aid resources so that they reinforce the sustainable use and trade in environmental resources and promote peace.

Below we propose a framework for considering how policies in these three areas can

be directed towards facilitating, rather than impeding, the achievement of sustainable development.⁸³

First, we believe that humanity aspires to security as a goal, and that this aspiration is equally compelling for individuals, communities, nations and for society as a whole. Achieving security is not only a widely-shared goal, it is very often a precondition for achieving other goals, including that of sustainable development. Indeed, a broad concept of human security may be understood as offering a compelling foothold towards sustainable development.

Second, it is important to understand that both trade and aid are policy “means,” whose value must be measured in terms of the policy “goals” they serve. Both trade and aid can advance security and sustainable development, but they do not do so invariably. They can in fact contribute to deepening insecurity. It is time that the unspoken contradictions behind these tools be faced head on.

Third, whether or not trade and aid do in fact contribute to security is determined essentially by considerations of governance. Where trade risks undermining governance structures, aid must be deployed to ensure that insecurities are not built. Governance reform—both within states and at the interstices between them where commodities, drugs and arms are exchanged—is a key vehicle to achieve both security and sustainable development. Governance reform should include measures to improve transparency, participation and accountability—in short integrity and legitimacy—in the institutions responsible for trade, aid and security. Both nations and corporations must rise to this challenge.

We intend to carry our exploration forward through the following activities:

- Commission research on:
 - ▶ The links between conflict, aid and trade in key commodities, e.g., oil,

minerals, sturgeon, toothfish, jute, timber, coltan, narcotics, wildlife

- ▶ The application of key trade and aid tools towards peace-building, e.g.,
 - ▶ Regional integration agreements that include both preferential trade and aid transfers
 - ▶ Commodity price stabilization schemes
 - ▶ International sustainable development product standards
 - ▶ Kimberley Process to regulate conflict diamonds
 - ▶ Use of Article XX and XXI exceptions in GATT
 - ▶ Ivory ban
- Through a series of regional workshops in South-East Asia, Sub-Saharan Africa and South America, draw targeted policy recommendations for International Trade Policy, Official Development Assistance, Peace Building and Natural Resource Management;
- Present our research and emerging conclusions for discussion at the third World Conservation Congress and relevant environment, conflict prevention and WTO-related fora;

Distill the research into a compelling plan of action for policy reform;

- Publish the research and conclusions in a book and on the IISD Environment, Security and Development Cooperation website (www.iisd.org/natres/security/esdc.asp) in Spring 2005 and link it to the IUCN Biodiversity and Trade Web site.

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