Investing for Peace: The Private Sector and the Challenges of Peacebuilding

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The potential contribution of the private sector to post-conflict recovery and peacebuilding has long been contentious. Discussion of the role of economic incentives has often centred on the ways they prolong conflict, obstruct peacemaking and lead to an exploitation of natural resources to the detriment of peace, development and social progress. This has been the argument both in respect of aid flows, but also the role of the private sector, and even more so where it involves multinational companies involved in the extractive industries. While there has been some acknowledgment of the ability of economic instruments to provide incentives for peace,[1] the prevailing interpretation among both scholars and development actors and donors, at least with regard to the foreign private sector, has been one of suspicion and disapproval.

Two sharply differing viewpoints, each with powerful ideological overtones, have to an unhelpful degree framed public debate. At one extreme, 'market fundamentalists' have proceeded from the 'belief that there is a market solution to any question about the nature of society'.[2] In the 1990s, the so-called Washington Consensus was widely seen to embody that belief – a consensus, as Joseph Stiglitz put it, 'about the "right" policies for the developing world' built around three key pillars: fiscal discipline; privatisation; and liberalisation of trade, capital and financial markets.[3] He associated this

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Survival | vol. 52 no. 2 | April–May 2010 | pp. 37–58 DOI 10.1080/00396331003764595

'new orthodoxy' above all with the policies of the International Monetary Fund (IMF) and highlighted their politically destabilising and socially disruptive effects in fragile and conflict-strewn societies. While Stiglitz's critique of the IMF was sometimes too crude and applied with an overly broad brush, there is no doubt that one-size-fits-all neo-liberal prescriptions powerfully shaped IMF policies, especially in the 1990s.

With nearly two decades of peacebuilding experience to draw upon, there are now few practitioners who contend that the fundamentalist position, including the exclusive role it envisages for the private sector, is appropriate to fragile and complex post-conflict environments.[4] Indeed, where it has been pursued, in wilful ignorance of political, social and historical contexts, the results have been disastrous. This has been nowhere more evident than in Iraq in 2003, when Paul Bremer's Coalition Provisional Authority subjected Iraq, as IISS Senior Consulting Fellow Toby Dodge put it, 'to the most thoroughgoing form of neo-liberal shock treatment of any country in the world'.[5]

The failure and perverse consequences of that treatment strengthened the convictions of those who hold to the alternative extreme, that there can be *no* role for the private sector in post-conflict settings. In this view, the drivers and motivations for initial involvement, specifically the search for quick profits and markets, are bound to fuel rather than mitigate conflict. Private business activity and the interests of peace and conflict-resolution are deemed incompatible, because private enterprise will of necessity feed into and reinforce exploitative and predatory war economies that have evolved in the course of conflict.

Neither extreme view is accurate, nor can they be juxtaposed as simple and clear-cut alternatives. There are, to be sure, many well-documented examples of businesses acquiring vested interests in the perpetuation of violent conflict, with the on-going war in the eastern part of the Democratic Republic of the Congo offering a particularly striking example of the way in which both foreign and domestic private economic actors can become integral to predatory and violence-reproducing war economies.[6] At the same time, however, there are also many examples of the domestic private sector playing a positive and stability-enhancing role in post-conflict settings, assisting in the delivery of basic services, rebuilding local infrastructure, lending direct and indirect support to peace processes and helping build confidence across conflict divides.[7] There is broad recognition that small and medium-sized enterprises, in particular, can play a crucial role in encouraging sustainable development and strengthening local communities.[8] The challenge lies in identifying an appropriate role for the private sector, both foreign and domestic, in building sustainable peace, not as a silver bullet or magic solution to the multiple challenges of conflict-affected societies but as a potential ally in efforts to consolidate peace through stimulating entrepreneurship, attracting significant investment, facilitating local economic activity and reinforcing incentives for peaceful behaviour.

There is a growing preference for trade instead of aid

The domestic or foreign private sector traditionally has been viewed as having a limited role in peacebuilding situations relative to donor-designed, public-sector-directed aid programmes. Beyond this, two assumptions need to be revisited. Firstly, efforts directed at the private sector have been seen as best focused on fostering small businesses through micro-finance programmes. Secondly, private-sector engagement, particularly on the part of multinationals, has been seen primarily (or only) as having a beneficial impact through corporate social responsibility programmes.[9] But three broad shifts require an examination of the new economic options available to societies emerging from war and seeking sustainable development. There is a growing preference for trade instead of aid on the part of post-conflict developing countries. There is a movement towards what might be termed foreign state-backed 'macro-finance' investments instead of aid-funded micro-finance. Finally, there is an increasing understanding of the fundamental developmental benefits of having foreign investors enter these markets on openly commercial terms freely entered into by both sides within a robust, transparent and accountable legal and regulatory framework.[10]

These shifts should not be seen as either temporary or peripheral to the question at hand, given the magnitude of overlapping changes in the global environment for peacebuilding. The number of civil wars in Africa and elsewhere has declined. There has been a global boom in demand for commodities driven by growth among the BRIC countries of Brazil, Russia, India and China, and particularly the latter. The efficacy of traditional Western aid programmes has been questioned. The financial wherewithal of traditional donors has been reduced as a consequence of the global financial crisis. Finally, there is a new appreciation of the place and potential of the state and state-backed entities to drive development within and between developing countries. Hybrid models of state and capital are increasingly gaining favour through close partnerships with other developing countries (such as Brazil, China, India and Turkey) now emerging as investors and partners on a par with Western donors. As our understanding of the political and economic drivers of conflict evolves, so must the analysis of the changing nature of foreign and domestic private-sector involvement in these countries.

The peacebuilding environment

Any consideration of the role of the private sector must, however, proceed from an understanding of the ways in which zones of conflict and peacebuilding environments pose challenges very different from those of more traditional development. Each post-conflict or peacebuilding setting is, of course, unique. The traumatic and multifaceted effects of protracted conflict on different societies' economies and capacity for recovery are not uniform. Wars end in different ways and levels of destruction (of physical stock, social and human capital) vary, often greatly. The balance of regional and geopolitical influences bearing on a conflict as well as the coping mechanisms and patterns of informal and extra-legal economic activity that crystallise in the course of conflict all leave distinctive legacies and challenges. One-size-fits-all prescriptions of the kind advocated by either market or public-sector fundamentalists will, therefore, always be inappropriate.

Peacebuilding environments nonetheless share some features that distinguish them as a broad category from 'normal' or more traditional development challenges. Three stand out as critical to the consideration of the role of the private sector. The first relates to the underlying political fragility of post-conflict environments; the second relates to the multiple costs of protracted conflict and its legacies; and the third relates to ways in which conflict can transform economic and social structures, sometimes creating new and even unexpected opportunities for recovery and peacebuilding.

All post-conflict societies are characterised by political fragility and continued violence, even though the intensity of overt violence is likely to have dropped from wartime levels. In Cambodia, Mozambique, Guatemala, El Salvador and Bosnia, formal peace accords provided the starting point for peacebuilding and reconstruction efforts. In each case, however, the political settlement reached remained just that: a starting point, reflecting awkward political realities and war weariness as much as any grand settlement satisfying the interests of all parties. As a result, peace processes do not come to an end; they continue after agreement has been reached and they remain susceptible to breakdown and sudden reversals, often for many years. In cases where the political end-state is unsettled, where war and peace are blurred and final-status questions unresolved, the susceptibility to breakdown is still more acute. Where political uncertainty and ambient levels of violence are especially high, as in present-day Afghanistan, the space for the private sector to flourish will be severely restricted and the prime concern of local businesses may well be simply to survive.[11]

There is, however, a further and more important implication of these considerations for the operations of the private sector in post-conflict settings: their involvement must be guided by an overriding and continuing concern with the requirements of political stabilisation and confidence building. This, as del Castillo has persuasively argued, is one of the chief lessons from post-Cold War economic reconstruction efforts and should be a 'basic premise for policymaking'.[12] From this primacy of political objectives other implications flow, one of which is that, in the words of analyst Jessica Banfield and colleagues, the 'nature of economic growth is more important in conflict contexts than its speed'.[13]

Wars are costly. Protracted conflicts, especially civil wars, result in reductions of both savings and investment (save for the defence and security sectors) and are often deeply destructive of capital and infrastructure.[14] These include physical assets such as manufacturing plant, government institutions, communications and transport systems as well as less tangible (though no less critical) categories such as human and social capital. Additionally, countries experiencing conflict typically suffer from poor to non-existent legal and regulatory frameworks of the sort necessary to attract long-term and socially beneficial investment. Fiscal resources, including the ability both to generate and collect revenue, are often severely limited.[15] Unemployment and underemployment, especially of youth, are also distinguishing features of many peacebuilding settings. This is notably the case where large-scale disarmament, demobilisation and reintegration programmes have formed an integral part of peacebuilding efforts, as they now do in nearly all major peace operations.

In the interests of political stabilisation and as a precondition for long-term and balanced growth, addressing these negative consequences ought to be a priority for outsiders, including the private sector. The critical challenge lies in finding the appropriate point of entry. Too often, the way in which these challenges have been met has proved destabilising. The reason has to do with the third feature of post-war environments.

> *Local businesses are both innovative and enterprising*

Armed conflict, however destructive, does not bring economic activity to an end; individuals and households do not remain passive in the face of the breakdown of formal institutions. Alternative systems emerge in response to the exigencies of war and the new opportunity structures created by conflict. Economic activity and networks are disrupted and transformed rather than destroyed. Economic activity shifts to the informal sector, and 'patterns of accumulation, exchange and distribution' are altered rather than destroyed.[16] These often predatory, violent and criminal patterns persist in post-conflict environments, especially with regard to natural-resource extraction. But the informal and extra-legal activity that characterises post-conflict settings (especially in the immediate aftermath of war) also reflects innovative adaptations to extreme circumstances and may therefore enjoy a measure of local legitimacy, as it meets demands for services not provided by the state.[17] People often display considerable resourcefulness, skill and ingenuity in their response to conflict and its aftermath, and local businesses of necessity are both innovative and enterprising.[18] Encouraging and building on such local ingenuity in a way that avoids the reproduction of violent political economies is the most promising route to economic recovery and both the domestic and foreign private sector can play an important role. Too often, outsiders, including private investors, have failed to recognise or capitalise on such opportunities.

The role of the private sector

Among local actors and governments, recognition of the magnitude of the challenges is matched by a growing conviction that without a central private-sector role in providing employment, growth and the prospect of a better future no amount of aid can break the cycle of conflict.[19] In the case of the decades-long Israeli–Palestinian conflict, for example, which has seen unique levels of international aid and attention, public-sector employment has long been a source of social protection. But it has reached saturation point and, going forward, the domestic private sector needs to play a more central role in providing durable job creation and incomes.[20] Small and medium-sized enterprises (which account for more than 80% of all business activity in some places[21]) necessarily have a key role to play. Job creation is a critical task in the immediate aftermath of violent conflict, where large numbers of ex-combatants are often released from military service and centrally designed reintegration programmes all too often fall short of meeting local needs. A crucial gap can be filled by the activity of small and medium-sized enterprises, whose entrepreneurship and economic growth are often more responsive to local post-war needs.[22] The domestic private sector can also play constructive political roles in conflict zones and war-to-peace transitions. As the cases of El Salvador, Colombia and Mozambique show, it can help forge peace constituencies, mobilise business-sector support and provide specific types of assistance to peace processes through mediation, confidence building or by making use of its 'convening powers'.[23] In rare cases, when circumstances permit, business community actors can play more direct and catalytic roles on the road to peace, as in the case of Mozambique in the early 1990s.[24] As these different cases suggest, it is not merely a matter of a private sector inherently focused on economic opportunity and thus on resolving conflict to enable commercial activity, though that is a factor. As two analysts from International Alert's Peacebuilding Issues Programme put it, 'in view of their outwardly apolitical nature, businesses are, in theory, able to act where others sometimes cannot. At times when the two sides have reached a political deadlock, business, which does not have a direct stake in the outcome, is able to play a crucial role.'[25]

The chief reason, however, for focussing on and supporting small to medium-sized enterprises in peacebuilding situations is that growth and stability are built from the ground up, starting with family-owned businesses provided with the environment necessary for viable economic activity, and then companies able to provide jobs as part of a growing economy. According to an analysis from the Portland Trust, for these businesses, 'high on the list of their concerns is improved physical infrastructure and mobility, but they also want better enforceability of contracts especially in the area of property rights, and a business-friendly, accountable bureaucracy. … And they do not want charity.'[26]

Aid is necessary, but not sufficient. A foundation of a strong regulatory and legal structure combined with sustained investment in infrastructure is required to break the cycle of conflict and dependency. Post-Dayton Bosnia and Herzegovina (BiH) provides an object lesson in misplaced priorities: the focus was on rapid privatisation, dismantling of state firms, and development of small and medium-sized enterprises. But, according to a recent study, 'without a strong state and a national economic policy, the reforms did not have the desired effect and a weak market economy was created'.[27] The places where foreign direct investment (FDI) was ultimately achieved are instructive: 'due to the microfinancing of businesses, the lack of FDI inflow and an incoherent strategy for industrial and technological development and export promotion, BiH's micro-businesses disappeared in the informal economy … Recent surges in FDI in 2007 can be attributed to the privatization of the Republic Srpska's telecom and oil industries.'[28]

Four factors are thus common to challenges of economic regeneration in post-conflict and peacebuilding environments: the limits of aid alone; the value of an enabling environment for small and medium-sized businesses; the importance of adequate infrastructure; and the potentially catalytic effect of large-scale FDI tied to sovereign sectors such as financial services, energy and telecoms. Recent changes in the global investment environment suggest the possibility that each of these priorities could be addressed in a new way, more attuned to the needs of the governments in question and their long-term development objectives.

Terms and challenges of private-sector engagement

For investors and businesses anywhere, economic opportunity is weighed against financial, political and reputational risk, all of which are naturally elevated in countries experiencing or emerging from conflict. Severely damaged infrastructure, distorted markets, uncertainty of property rights and limited access to high-quality capital create a highly challenging environment for business and commerce. As noted above, in the aftermath of war, local private-sector business will be dominated by what has been termed informal and predatory forms of commerce. The former is legitimate but unregulated and inconsequential as a matter of the national economy, while the latter is illicit, often involving the illegal trade in minerals, drugs and weapons. Moreover, in a number of these markets, the most innovative and successful private-sector entrepreneurs are often, in the words of Yale law professor Amy Chua, 'market-dominant minorities'[29] functioning in a parallel economy of trading and commerce deliberately kept at arm's length from the national economy. In each of these forms of domestic private-sector activity – informal, predatory and minority controlled – the overall economy enjoys limited benefit, whether in the form of broader development, tax revenues or, most crucially, employment.

The overall economy enjoys limited benefit

This is problematic from the perspective of creating growth in the aftermath of conflict, where both domestic and international investment tends to be slower than is needed, particularly for employment-intensive reconstruction projects essential to providing recently demobilised soldiers with alternative sources of income and occupation.[30] In addition, a major problem for infrastructure projects is one of funding cycles. Funding peaks in the early post-conflict phases when the skilled labour and organisational ability to carry our major infrastructure work is usually lacking.[31]

Foreign private-sector players have historically been wary of investments in peacebuilding situations due to the prevailing risk–reward estimates. Given the marginal nature of local private-sector activity in such contexts, the scale of (re)construction investment necessary from both the economic and social points of view, and the structural and cyclical gaps in donor funding even in times of abundant aid, it is unsurprising that leaders of countries emerging from conflict, and developing countries generally, are looking for new kinds of investments that are both impactful in the short term and sustainable over the long term. An active universe of state-backed BRIC investors in pursuit of natural resources located disproportionally in developing countries (many of which have recently emerged from periods of conflict) presents new options for leaders seeking to trade their way to sustainable peace and development instead of relying on aid.

Natural resources as a development trigger

The principal private-sector opportunities in many (although not all) post-conflict societies are associated with the natural-resource sector and require long-term investment, a high tolerance of political and financial risk, and the ability to mitigate that risk through state-backed preferential financing and political support (as in the case of China's investments in Africa). If the role of the private sector in peacebuilding has been viewed with scepticism in donor and policy circles, it is not least because of its association with the exploitation of natural resources, long considered both a source of conflict as well as deeply corrosive of good governance, leading to state weakness, corruption and reduced accountability.[32] Variously described as a 'curse', a 'trap' – even, in the case of oil, the 'devil's excrement'[33] – natural resources have rarely been seen, or experienced, as a blessing or a trigger for development.[34]

Indeed, the backdrop of conflict associated with natural resources is sobering. According to research by the United Nations Environment Programme, since 1990 at least 18 violent conflicts have been fuelled by the exploitation of natural resources.[35] Over the last 60 years at least 40% of all intra-state conflicts have had a link to natural resources. But fewer than one-quarter of peace negotiations aiming to resolve conflicts linked to natural resources have addressed resource-management mechanisms. The risks associated with natural-resource exploitation, as well as the lessons learned from instances in which the prospect of natural-resource revenues have been employed in advancing peace processes, remain relevant.[36] But the new environment for state-backed 'macro-finance' investments in natural-resource sectors complicates the prevailing consensus, and suggests that the natural-resource curse need not become destiny.[37]

An important starting point in re-examining the role of natural resources in peacebuilding is to recognise that, for a number of developing countries, minerals and petroleum offer the biggest and most accessible source of income.[38] The key is how to capture these revenues effectively and ensure that they are managed to benefit the broader society. While foreign investment and expertise, provided increasingly with a long-term perspective as part of a broader development partnership, as in the case of Chinese and other BRIC investors, are necessary to develop these resources, it is essential that they fit into a broader framework of sustainable resource management.

Four factors appear to be of particular importance in creating the conditions for successful resource development in countries emerging from conflict. Firstly, irrespective of which ownership model – private title, communal or customary title, state ownership or a mix[39] – is chosen for the natural resources, transparent and equitable revenue management has a significant impact on whether development of the assets deepens fissures within a society or creates a common basis for economic progress. This may involve allowing resource-rich regions to collect revenues directly and then forward a portion to the central government, or having revenues accrue to the central government for distribution according to a formula which recognises disproportionate contributions by region while ensuring that basic services are provided for all regions equally. Secondly, it is important that upstream development takes place alongside downstream development in processing, production and distribution of related products that are more employment-intensive at the local level and can serve as wider growth-multipliers for the economy. Thirdly, for developing countries to claim the full benefits of refining and processing-sector development, OECD trade restrictions need to be lifted on these value-added industries, allowing competition on a fair basis.[40] This, in turn, would advance the fourth priority: diversifying the economy. While the disproportionate economic value of natural resources in post-conflict economies necessarily results in a degree of resource dependency, ensuring a trade in refined product from minerals and oil-and-gas industries from these countries free of tariffs and non-tariff barriers would provide a significant boost to efforts to create more balanced economies over time.

Making natural-resource endowments work effectively for development – allowing them to become a part of the solution rather than the problem – requires, as a first condition, an investment climate characterised by transparent and accountable resource management. But, as a number of recent champions of good governance in West Africa and elsewhere have recently discovered, this is not enough.[41] Without large-scale, long-term macro-finance investment commitments by partners for developing the natural-resource sectors, there will be little tangible benefit from improving governance within a timeframe that is politically relevant. This is where the new wave of state-backed investments from the BRIC countries and others can help make natural resources a trigger for sustainable development rather than a trap.

Macro-finance and the private sector

A broad new wave of state-backed macro-finance private-sector investments in countries emerging from conflict involves companies from a range of emerging-market investors, including Brazil, India and China. (Some Western countries, such as France, are continuing the long-standing practice of acting through their own state-owned companies in these markets.) But this trend is often misrepresented or misunderstood. The caricature of Asian (and in particular Chinese) investors in Africa, for example, rests on a three-fold misperception as well as a broader underlying myth. The first misperception concerns the nature of the still-developing and complex relationship between select African countries and China. The second involves the interests and objectives of African governments, and the third, the interests and objectives of the Chinese state-backed investors. The myth is of an idyllic past, a half-century when Western investors and states acted as open, transparent, non-exploitative partners for African countries after their independence from colonial rule. This myth, unsurprisingly, has little purchase among Africans themselves.[42]

The principal Western charge against the new wave of state-backed Chinese investments, that they are pursued as a matter of commercial, as opposed to charitable, interest, has the ironic quality of being both true and entirely unobjectionable to many African governments. This is perhaps the greatest misperception, and one that demonstrates the biggest gap between conventional aid-driven peacebuilding policies and what those countries now seek. Simple though it may appear, the relatively new experience of being engaged as commercial and trade partners in a business context, where each side seeks to negotiate economically advantageous outcomes, is an important element of African countries' embrace of the opportunity provided by China's willingness to pay for needed natural resources through a mix of financial payments and infrastructure investments. Seeking to gain market entry against entrenched Western interests, Chinese companies are able to offer state-backed forms of grant aid, interest-free loans, and concessional loans (as well as non-monetary forms of aid such as technical assistance and training) alongside their investment capital.[43] Chinese government officials and investors also explicitly engage African partners as fellow developing-country leaders who have only recently emerged from poverty and under-development and value the importance of growing the state's capacity as well as that of the private sector.[44] The caricature of a no-strings-attached, no-questions-asked relationship is untenable.

For African governments, the prospect of a new kind of partnership (if not of equals, at least not one of coloniser and colonised) driven by deep and long-term natural resource needs in BRIC economies coincides with a serious re-examination of the benefits of Western aid policies. One does not have to be an opponent of aid in all its forms to question its record of providing the basis for long-term large-scale economic growth and self-sufficiency.[45] The need to 'secure development', in the words of World Bank President Robert Zoellick, through 'more innovative models for leveraging public and private capital to build basic infrastructure, such as power plants, ports and communications, transport and energy systems', is also recognised in the West. As Zoellick also noted, 'the average developing country hosts 260 visits from donors a year. Cambodia has 22 different donors in the health sector, with 109 separate projects. In 2006, across all developing countries, donors directed 70,000 aid transactions, with an average project size of only $1.7 millon.'[46] For those societies able to attract multibillion-dollar commitments to infrastructure and agricultural development in return for access to their natural resources, the availability of macro-finance as part of a commercial transaction is compelling as a matter of economics, politics and national dignity.

None of this is to suggest that the new wave of macro-finance is without its problems or pitfalls, or that commercial transactions free of the complications of donor politics do not carry their own substantial risks, both politically and economically.[47] But these risks are openly recognised, and insofar as possible mitigated, by African governments as part of learning to trade their way to development. One need look no further than to the contrasting cases of Nigeria and Angola, and their experience of Chinese investment engagement, to appreciate the inherent complexity of judging success as well as responsibility for failure. A recent exhaustive analysis from Chatham House of the difference between the Chinese experience in Angola and Nigeria underlines three key lessons.[48] Where, as in Nigeria, African leadership allows non-transparent politics and personal corruption to drive the process, few of the benefits advertised by the Chinese are provided. Where, as in Angola, business ties are enforced by diplomatic alliances with a responsible, authoritative, African government machinery, infrastructure projects are launched and completed.[49] Where investors (whether from China, elsewhere in Asia, or even Europe) are willing to provide foreign direct investment based on credit lines and commerce to compete with conventional Western offers of cooperation based on conditional aid, African governments from Angola to Uganda will embrace the prospect of new development models.

One path for the future of private-sector investing in peacebuilding situations is dramatically outlined by the fate of a giant copper deposit in Afghanistan.[50] In 2007, the China Metallurgical Group Corporation, a Chinese state-owned conglomerate, bid $3.4 billion (according to one account, $1bn more than any of its competitors from Canada, Europe, Russia, the United States and Kazakhstan) for the rights to mine deposits holding some 11m tonnes of copper to be extracted over the next 25 years. More important than the value differential in the bid, however, were other aspects of the Chinese offer, including associated infrastructure investments, substantial Afghan training and employment plans, and the construction of a 400-megawatt generating plant to power both the copper mine and the capital city of Kabul. In a single move, as the *New York Times* put it, 'Beijing strengthened its hold on a vital resource, engineered the single largest investment in Afghan history, promised to create thousands of new Afghan jobs and established itself as the Afghan government's preeminent business partner and single largest source of tax payments'.[51] This in a country in the middle of a civil war, with hundreds of thousands of Western troops and aid workers deployed at a cumulative cost of more than $1.5 trillion.

The Chinese model has broader applicability

Without overstating the importance of one particular investment (or ignoring the myriad risks and complexities for both the Chinese and Afghan parties), it is evident that this transaction is a significant extension of a broader state-backed macro-finance trend in countries experiencing or emerging from conflict. It suggests that the Chinese model has broader applicability than simply to Africa. But the bid prevailed not because it was Chinese per se, but because it offered macro-finance of a kind any state can put on the table. Rwanda's President Paul Kagame's statement that Africa welcomes investment 'from the east and the west, north and south'[52] reflects this reality, presenting both an opening and a challenge to Western and other non-Chinese investors. If anything, it is clear from cases as diverse as Angola and Myanmar that, much as the local governments have embraced the offers of long-term, favourable financing of their development needs as part of a commercial natural-resource relationship, they wish to avoid going merely from one form of dependency (Western aid) to another (Chinese investment). If Western or other BRIC or Asian state-backed investors are willing to invest on similar terms, there is likely to be a strong interest.

Implications for policy

For countries emerging from war and protracted conflict, one is never dealing with a clean slate or the resumption of business as usual. While this seems self-evident, internalising the implications for policy has proved slow and difficult, for international financial institutions as well as for some of the most ardent and unreflective advocates of private-sector involvement in conflict zones. Reflecting on more than a decade of growing international financial institution involvement in post-conflict activities, Jim Boyce observed in 2004 that the Bretton Woods institutions simply 'cannot stick to the same policies they would follow if a country has never had a civil war'.[53]

Six broad conclusions, forward looking but also cautionary, can be drawn regarding the role of the private sector in peacebuilding and post-conflict transitions. Firstly, involving the private sector in post-conflict recovery efforts is not a panacea to the multiple challenges facing war-torn societies, and the belief that economic activity and cooperation among former adversaries will itself automatically or magically translate into sustainable peace is both naive and ahistorical. Indeed, private-sector involvement that proceeds in ignorance of the political economy of a conflict risks perverse and politically destabilising consequences.

Secondly, the underlying political fragility of all societies emerging from conflict means that private-sector involvement cannot simply be guided by what will give a profitable return on investment. It also needs to reinforce and work in tandem with the broader aim of political stabilisation, something that requires more than lip service to corporate social responsibility and human rights. In the short term, tensions may arise between what makes narrow economic sense and the political requirements of a peace process. If, however, a longer-term perspective is adopted, the interests of private sector and those of peacebuilding are fundamentally complementary.

Thirdly, while war and conflict economies are often violent and exploitative, the trauma and socio-economic dislocations of war also force households, communities and businesses to adapt in innovative ways to meet the needs of local populations for basic services. The coping mechanisms and entrepreneurial skills thus exhibited often provide a more promising starting point for stimulating and supporting domestic private-sector activity than externally designed and templated solutions. Doing this places a premium on what has been called 'local context analysis'[54] to identify local partners and create, in LSE professor David Keen's words, 'disincentives for violence and positive incentives for peace'.[55]

Fourthly, analysis of the role of the private sector in peacebuilding needs to address the shift toward foreign state-backed macro-finance investments where natural resources are not only the dominant (and often only) source of revenue, but also represent the most promising catalyst for essential national infrastructure construction or reconstruction, as well as for local private-sector development and employment in natural-resource processing and manufacturing sectors.

Fifthly, the caricature of no-strings-attached, no-questions-asked macro-finance investments is divorced from the reality of, in particular, Chinese investors seeking long-term commercially and politically viable relationships that require lasting benefits to both sides, and the ongoing re-examination on the part of African governments of the benefits and risks of decades of aid dependency on the West.

Finally, while the early period of macro-finance investments in natural-resource sectors in peacebuilding situations coupled with broader infrastructure and agricultural development packages has been dominated by Asian, and in particular, Chinese state-backed companies, there is no reason why other investors and states cannot compete on the same terms. While many African governments are attracted to the Chinese development model to ensure a strong state alongside private-sector development, there is also a desire to avoid going from one form of dependency to another. This is an opportunity for Western and other investors willing to engage African governments as economic partners with valuable assets to offer in return for long-term sustainable investments.

The new environment for peacebuilding is defined by new approaches to aid, a redefinition of the private sector to include hybrid forms of state and market activity, a new balance of emphasis between corporate social responsibility activities on the part of private-sector actors and the foundational importance of robust legal and regulatory frameworks, a structural boom in demand for natural resources, and the opportunity to have essential small and medium-sized private-sector activity catalysed by macro-finance investment in natural-resources sectors. It presents new risks as well as new opportunities and requires, above all, a new compact between the international donor community and governments in countries experiencing or emerging from conflict that seek to trade their way to sustainable development.

Notes

1 Nikolas Emmanuel and Donald Rothchild, 'Economic Aid and Peace Implementation: The African Experience', *Journal of Intervention and Statebuilding*, vol. 1, no. 2, June 2007, pp. 171–88.

2 John Kay, *The Truth about Markets* (London: Penguin, 2004), p. 364.

3 Joseph Stiglitz, *Globalisation and its Discontents* (London: Penguin Books, 2002), p. 16.

4 As Christopher Cramer has aptly put it, 'the developmental outcomes of peace settlements depend on whether economic policy is a product of ideological fantasy or of a realistic acknowledgement of particular economies and of historical experience'. Christopher Cramer, *Civil War is Not a Stupid Thing* (London: Hurst, 2006), p. 245.

5 Toby Dodge, 'The Changing Political Economy of Iraq: Sanctions, Invasion, Regime Change, Civil War and Beyond', paper delivered at the 'Power after Peace: The Political Economy of Post-Conflict State Building' Workshop, King's College London, 10 December 2009, p. 12. For the effects of the shock treatment see also Ali A. Allawi, *The Occupation of Iraq: Winning the War, Losing the Peace* (New Haven, CT: Yale University Press, 2007).

6 See 'Final Report of the Group of Experts on the Democratic Republic of the Congo', UN document S/2009/603, 23 November 2009. See also Stephen Ellis, *The Mask of Anarchy: The Destruction of Liberia and the Religious Dimensions of an African Civil War* (London: Hurst, 1999), pp. 164–80.

7 See Jessica Banfield, Canan Gündüz and Nick Killick (eds), *Local Business, Local Peace: The Peacebuilding Potential of the Domestic Private Sector* (London: International Alert, 2006).

8 *Sustaining Business and Peace: A Resource Pack on Corporate Responsibility for Small and Medium Enterprises* (London: International Alert, 2009), http://www.international-alert.org/pdf/Sustaining_Business_and_Peace.pdf, p. 4.

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16 *Post-Conflict Economic Recovery: Enabling Local Ingenuity*, Crisis Prevention and Recovery Report 2008, United Nations Development Programme, p. 15.

17 James Cockayne and Daniel Pfister, *Peace Operations and Organised Crime*, Geneva Centre for Security Policy/ International Peace Institute Report, 2008, pp. 18, 24, available at http://www.reliefweb.int/rw/lib.nsf/db900sid/OCHA-7P6HYV/$file/IPI-May2008.pdf.

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21 *Sustaining Business and Peace*, p. 4.

22 According to Susan Woodward, 'the most obvious but most neglected lesson' from the experience of implementing peace settlements in the 1990s was the need to tackle 'high levels of unemployment in the first years after war'. Susan Woodward, 'Economic Priorities for Peace Implementation', IPA Policy Paper on Peace Implementation, International Peace Academy, October 2002, p. 5.

23 Salili Tripathi and Canan Gündüz, *A Role for the Private Sector in Peace Processes? Examples, and Implications for Third-party Mediation*, background paper, The Oslo Forum Network of Mediators, 2008, p. 20, available at http://www.hdcentre.org/files/Salil Tripathi Mediation Business WEB.pdf. See also case studies in Banfield et al., *Local Business, Local Peace*.

24 Alex Vines, 'The Business of Peace: "Tiny" Rowland, Financial Incentives and the Mozambican Settlement', *Accord*, no. 3, 1998, available at http://www.c-r.org/our-work/accord/mozambique/business-peace.php.

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26 *Beyond Conflict: The Economic Impact of Peace on Palestinians and Israelis*, p. 9.

27 *Economics in Peacemaking: Lessons from Bosnia and Herzegovina* (London: The Portland Trust, 2009), p. 12.

28 *Ibid.*, p. 19.

29 Examples of such market-dominant minorities include the Lebanese business communities in West Africa. Authors' Interviews. See also Amy Chua, *World on Fire: How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability* (New York: Doubleday, 2003).

30 Remarks by Achimm Wennmann at 'The Role of Economic Instruments in Ending Conflict: Priorities and Constraints', IISS Seminar, Washington DC, 6 May 2009.

31 Naoise Mac Sweeney, *Private Sector Development in Post-Conflict Countries: A Review of Current Literature and Practice* (Cambridge: The Donor Committee for Enterprise Development, 2008), p. 64.

32 See chapters in Mats Berdal and David Malone (eds), *Greed and Grievance: Economic Agendas in Civil War* (Boulder, CO: Lynne Rienner, 2000) and Karen Ballentine and Jake Sherman (eds), *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder, CO: Lynne Rienner, 2003).

33 Moises Naim, 'The Devil's Excrement: Can Oil-Rich Countries Avoid the Resource Curse?', *Foreign Policy*, September–October 2009, pp. 159–60.

34 See, among others, *Eliminating World Poverty: Building Our Common Future*, UK Department for International Development White Paper, July 2009, Cm 7656; and Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth* (Cambridge, Center for International Development, 1997).

35 United Nations Environment Programme, *From Conflict to Peacebuilding: The Role of Natural Resources and the Environment* (Nairobi: UNEP, 2009).

36 See Alyson J.K. Bailes and Isabel Frommelt (eds), *Business and Security: Public–Private Sector Relationships in a New Security Environment* (Oxford: Oxford University Press, 2004).

37 See Paul Collier, *The Bottom Billion*: *Why the Poorest Countries are Failing and What Can be Done About It* (Oxford: Oxford University Press, 2007).

38 John Bray, 'The Role of Private-Sector Actors in Post-Conflict Recovery', Conflict, Security and Development, vol. 9, no. 1, April 2009, pp. 1–26; UNEP, *From Conflict to Peacebuilding,* p. 22.

39 For a broader discussion of ownership options, see Nicholas Haysom and Sean Kane, *Negotiating Natural Resources for Peace: Ownership, Control and Wealth-Sharing* (Geneva: Center for Humanitarian Dialogue, 2009).

40 See, among others, Michael Ross, 'The Natural Resource Curse: How Wealth Can Make You Poor', in Ian Bannon and Paul Collier (eds), *Natural Resources and Violent Conflict: Options and Actions* (Washington DC: The World Bank, 2003).

41 Author's interviews with senior government representatives in various West African post-conflict countries.

[42] Rwandan President Paul Kagame has been the most vocal (though by no means the only) African leader addressing this particular aspect of the continent's relationship with the West.

[43] Sarah Raine, *China's African Challenges*, Adelphi 404–05 (Abingdon: Routledge for the International Institute for Strategic Studies, 2009).

[44] Jeffrey D. Sachs has pointed to Chinese officials' emphasis on the crucial role of public investments, especially in agriculture and infrastructure (including roads and electricity), to lay the basis for private-sector-led growth. See Jeffrey D. Sachs, 'China's Lessons for the World Bank', Project Syndicate, 23 May 2007, http://www.project-syndicate.org/commentary/sachs129.

[45] See William Easterly, *The White Man's Burden* (Oxford: Oxford University Press, 2006); and Dambisa Moyo, *Dead Aid* (London: Allen Lane, 2009).

[46] Robert B. Zoellick, '*Fragile States: Securing Development*', *Survival*, vol. 50, no. 6, December 2008–January 2009, pp. 67–84.

[47] Raine, among others, has enumerated a number of the more serious allegations that have accompanied the increased presence of Chinese state-backed investors: an unreasonable preference for Chinese labour and materials; poor employment practices; bribery and lack of transparency; lack of care for the environment; unfair competition enabled by excessive state support. While each of these allegations needs to be addressed, they are of course not unique to Chinese investments in Africa, nor to the natural-resource sectors.

[48] Alex Vines, Lillian Wong, Markus Weimer and Indira Campos, *Thirst for African Oil: Asian National Oil Companies in Nigeria and Angola* (London: Chatham House, 2009).

[49] A largely implicit, but unmistakeable, element of the new investments is Chinese willingness to extend its partnership offer to include political and diplomatic support in multilateral organisations such as the United Nations, no different of course from the kinds of support Western P5 countries have provided their allies in similar forums for many decades.

[50] Michael Wines, 'Uneasy Engagement: China Willing to Spend Big on Afghan Commerce', *New York Times*, 29 December 2009.

[51] *Ibid*.

[52] Paul Kagame, 'Why Africa Welcomes the Chinese: Africa Must Attract Broad Investment, Not Rely on Handouts, If We Are To Sustain Development', *Guardian*, 2 November 2009.

[53] See James K. Boyce, 'The International Financial Institutions: Postconflict Reconstruction and Peacebuilding Capacities', paper prepared for a Center for International Cooperation seminar, 'Strengthening the UN's Capacity on Civilian Crisis Management', Copenhagen, 8–9 June 2004, p. 7.

[54] Luc Zandvliet, 'Assessing Company Behaviour in Conflict Environments: A Field Perspective', in Karen Ballentine and Heiko Nitzschke (eds), *Profiting from Peace: Managing the Resource Dimensions of Civil War* (Boulder, CO: Lynne Rienner, 2005), p. 198.

[55] David Keen, 'Incentives and Disincentives for Violence', in Berdal and Malone, *Greed and Grievance*, p. 37.