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THE ECONOMIC DIMENSION TO SECURITY: NEW CHALLENGES AND NEW APPROACHES

Note by the Executive Secretary

The present note is prepared by the secretariats of the UNECE and OSCE. It focuses on the new challenges and threats to security that have emerged as a result of the attacks of September 11, 2001. The paper:

- Takes stock of the growing cooperation which the two organizations have enjoyed over a long period;
- Identifies some ways in which it can be strengthened;
- Assesses some new areas of cooperation in light of the new threats that have emerged since September 11.

One area where cooperation might be helpful is in fostering partnerships between governments and civil society, particularly with the business community on conflict prevention.

INTRODUCTION

1. Following the tragedy of September 11, Europe and the rest of the world has entered into a new era of insecurity. What a few years before were figments of an imaginative mind – the use by international terrorists of chemical weapons and weapons of mass destruction, and the overthrow of states by terrorist groups - have become post September 11, real and genuine fears. The economic dimension in this new era will be important. Terrorist success depends on financing raised often from illegal activities and the means of doing this through the banking and financial systems will come under greater scrutiny. New controls will also have to be explored for the transport, communications and energy infrastructures so that they are less vulnerable to attack from terrorists. In addition, the root causes of terrorism will also have to receive closer attention.

2. Dealing with these challenges successfully will require new approaches and thinking. International and regional bodies including the economic dimension of the Organization for Security and Cooperation in Europe (OSCE) and the United Nations Economic Commission for Europe (UNECE), along with national governments will have to respond to these challenges effectively. The challenge is both an analytical and also an operational one. To date, while the relations between the OSCE and the UNECE have been close, there is now a willingness to undertake programmes with follow-up and more effective implementation. The mechanism however, within the relations between the OSCE and the UNECE, by which analysis and discussions lead to actions, still needs to be defined. A start in this direction was made by both organizations in Villars, Switzerland in November 2001.¹

3. This paper thus examines the new threats and new approaches required and the role of the UNECE and OSCE in addressing the needs and implementing the urgent priorities.²

I. ROLE OF THE OSCE ECONOMIC DIMENSION AND UNECE IN SECURITY AND CONFLICT PREVENTION IN EUROPE

4. The OSCE is the main pan European body that promotes security and conflict prevention through multilateral cooperation. The economic dimension is the most recently established within the OSCE. It has played a significant role in ensuring that the economic issues are given the necessary attention in OSCE's comprehensive approach to security. The UNECE has a clear mandate to cooperate on security and conflict prevention with the OSCE economic dimension. Member states urge UNECE to develop close cooperation. The close cooperation between the OSCE and UNECE is logical. Because of its common membership, the multi-sectoral nature of its activities, which are closely linked to security, the nature of many its conventions, which are important instruments for avoiding disputes, and enhancing security, UNECE and OSCE are natural partners. Recently, the UNECE and the economic dimension of the OSCE held a joint international colloquium in Switzerland on the economic aspects to conflict prevention that further examined their relations and the ways to strengthen their cooperation to respond to the new threats to security.

5. In the early years of the economic dimension of the OSCE, the critical challenge for security in Europe was to ensure the commitment of all European states, including the transition economies of central and Eastern Europe, to the principles of free markets and liberal democracy. These principles were set out in the Declaration of the Bonn Conference of 1990 and are

¹ The UNECE and OSCE organized jointly an international colloquium on the economic aspects to conflict prevention with the participation of experts from NATO and the EU with over 60 international experts on security issues in Villars, Switzerland. Participants demonstrated a strong eagerness to address the new threats to security with practical and concrete recommendations with definable results than can be measured on the ground and within a framework where progress could be monitored.

² The relationship between the economic dimension of the OSCE and UNECE is close: both share the same membership and operate under the same neutral framework in which issues are addressed. For its part the OSCE economic dimension plays an important role in awareness raising in its annual economic forums and in preparatory seminars and in delivering practical results in the links with local OSCE missions some of which are situated in conflict prone regions. The UNECE is active in arguing for a strengthening of the economic dimension, a new focus on early warning as a way of conflict prevention aspects, training of government officials in security issues. In addition, the UNECE attends preparatory seminars and prepares papers. It also regularly reviews the commitments of OSCE participating states in the economic dimensions such as the Bonn declaration of 1990.

regularly reviewed by the OSCE along with the earlier OSCE commitments, including the Helsinki Final Act of 1975. Generally speaking, the participating states in OSCE whose economies are in transition have made enormous progress in implementing the commitments to free trade, macroeconomic stabilization and liberalization, which were made at the Bonn Conference. While the enforcement of laws has proved more difficult, there is no doubt that the commitment of states in the region to these principles is complete, making a possible return to the old conflicts of the post second world war era, virtually unthinkable. In this regard, European integration and accession to the EU has played a major role in securing the commitments of these states to the principles of market economies.

6. However, as the issue of commitments to free markets has receded, new issues in the economic dimension have emerged. The collapse of former unitary states has unleashed ethnic tensions and led to civil wars in southeast Europe. The poor state of these economies and their lack of progress in economic reforms exacerbated these tensions in the region. In post conflict societies the emphasis have shifted to the need to promote good governance and to integrate countries into the global economy. The main issues which have been highlighted most recently has been the threats to security from rising poverty and the difficulties of transition economies to catch up with the advanced industrial economies.

7. The contribution of UNECE to the work of the OSCE consists of analyses, reports and papers for the OSCE annual economic Forums and its preparatory seminars. In addition, several of the UNECE's conventions are highly relevant to OSCE's work. For example the UNECE Aarhus Convention in environmental matters with its focus on transparency, public participation, accountability of governments to its citizens and dialogue constitutes a 'blueprint' for good governance which if applied can defuse tensions between governments and their citizens and enhance security.³

8. Both bodies recognize that the role of economic factors in conflict has become increasingly important and that within OSCE, the economic dimension, currently the weakest of the dimensions, should be strengthened. In this connection and given the desire to avoid a repetition of the wars of the 1990s in south east Europe when international institutional bodies failed to act on early warning signs, the UNECE has argued that conflict prevention should be given more emphasis. It has encouraged consideration of new approaches to develop early warning systems in the economic dimension, the promotion of public private partnerships and the training of government officials in the use of instruments for conflict prevention. Improved economic monitoring of citizens' economic security will be academic if it does not lead to mobilization of effort to deal with problems before they escalate into conflict. It has thus furthermore recommended to OSCE that consideration could be given to the formulation of new commitments in the economic dimension that address the new threats to security - economic disparities, difficulties in convergence, poor governance, etc. and the new approaches, e. g. Public-private partnerships, etc. and ways of ensuring stronger support for such commitments.⁴

9. Both organizations support the growth of sub-regional activities such as the Stability Pact, SECI and Central European Initiative (CEI) and encourage the involvement of NGOs and the business community. These factors have enhanced the roles of both in this work and contributed

³ Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters done at Aarhus, Denmark on 25 June 1998.

⁴ It has organized with the UN Staff college a training programme for government officials on conflict prevention in Villars on November 21-24, 2001

to the success and achievement of the OSCE. Thus, overall the cooperation between the OSCE and the UNECE has been heading in the right direction with an emphasis on developing a more equitable globalization and better-governed states. More however needs to be done. New ways can be envisaged in which both bodies can cooperate to address the new era of insecurity.

II. THE ECONOMIC DIMENSION TO SECURITY AFTER 'SEPTEMBER 11'

10. The tragedy of the September 11 attack on the United States brought to the fore a number of the vulnerabilities that had been already apparent. In particular, it highlighted the fact that security requires a broad approval in terms of "coalitions" and cross-cutting policies, and that the relationship between security and development is complex and critical. Most notably while globalization has undoubtedly brought great advantages to economies and contributed to their prosperity, it has, at the same time widened the gap between rich nations and poor nations, and between rich and poor within nations.⁵ Amongst those countries, which are most at risk, are a number of the transition economies. Many have still not benefited from economic transformation, liberalization and privatization. They are consequently much less able to withstand external shocks that have tended to occur more frequently with globalization and liberalization of the capital markets. Despite opening up their economies, the gaps in income between them and the western advanced economies appear to have grown rather than become smaller.

11. Even though these threats were not 'new' and were apparent prior to September 11, the terrorist attacks have nonetheless emphasized the vulnerability of countries to such attacks if these tensions are not properly addressed. Threats to security, it appears likely, will continue to come from countries and regions, which are falling economically and socially further and further behind the advanced economies.

12. As the disparities in income increase in transition economies, so does poverty. Poverty is directly linked to conflict.⁶ The current international fight against terrorism and its root causes has focused attention, amongst many other causes, on the potential for weak states to provide profits from illegal trade and sanctuary to terrorist and criminal gangs. It appears that there is a trend for civil wars to breed the conditions that make fresh conflict likely.⁷ Once a nation descends into violence its people tend to focus on immediate survival, rather than on the longer term. Savings, investments and wealth creation decline. Government officials rather than designing policies for

⁵ According to United Nations data, the richest 20 per cent in the world accounted for about 70 per cent of total income in 1960. In 2000 that figure reached 8.5 per cent over the same period. The fraction of income accruing to the poorest 20 per cent fell from 2.3 per cent to 1.1 per cent over the same period.

⁶ According to the World Bank estimates, between 1988 and 1998, the average absolute poverty rate (below US\$2 per day) in the ECE countries in transition increased from 2 to 21 percent of the population. Levels of income poverty are the highest in Central Asia and the South Caucasus. Poverty has also acquired the ethnic and regional dimensions in many countries.

The incidence of poverty is higher among the people living in rural areas, small towns, especially one-company towns, and economically declining regions. The increase of poverty is accompanied by a sharp increase in inequalities. They relate not only to income, but also to opportunities, which have been affected by the increasingly uneven access to health and education. Inequalities have increased across all social groups, between men and women, the urban and rural population, and between ethnic groups. In some transition countries, income inequalities are now comparable to those of countries of Latin America, which have the highest income inequalities in the world.

⁷ Cited in the 'The Reluctant imperialist : terrorism, failed states and the case for American empire' Sebastian Mallaby *Foreign affairs* March/April 2002.

long-term prosperity seek short terms spoils for their own supporters and factions. A cycle of poverty, instability and violence emerges.

13. Poverty thus can be directly and indirectly only linked to conflict, it ‘weakens’ states as well. A weak state is one that finds it difficult to undertake its various administrative, legal, financial and economic functions that protect citizens. The security challenge is to prevent weak states from becoming ‘failed ‘ states, which can nourish and enrich the terrorists and organized crime.

14. In summary, there needs to be greater emphasis placed on improving the conditions of the poor and on policies that can reduce poverty and at the same time more efforts to strengthen states and improve their capacity to nurture and protect the rule of law.

15. At the same time, while these threats are real, the potential for success and the opportunities for developing a more effective and humane globalization are also apparent. ‘September 11’ can be a catalyst for positive change. It can promote cooperation between governments and foster partnership with civil society and the business community to address the security agenda. In addition, although we are facing a new era of insecurity, the experiences of Europe’s success in the 1990s in creating the conditions for an economically securer future are grounds for hope. The effect of European integration over the last decade for example, has presented a systemic solution to many – even if not all – existing economic and social differences and tensions.⁸

III. WAYS TO ADDRESS THE NEW THREATS IN THE ECONOMIC DIMENSION

16. The main responses to poverty, state failure and the conditions which can lead to terrorism is for governments to introduce policies that can promote sustained economic growth. These measures include macroeconomic stabilization and trade liberalization. However in addition Governments needs to strengthen the institutions of the market economy and will have to adopt a more active role in controlling poverty and income distribution.

(i) Institutional building and the reduction of the informal economy

17. The institutional weakness in transition economies, the so-called ‘institutional hiatus’, has been a constraint on prosperity and growth. Institutional uncertainties, administrative rigidities and barriers have driven a large segment of economic activity in the transition economies into the informal sector or black economy. In response governments will need to improve the governance of their economies, lifting administrative barriers that force the private sector to work extra-legally.

⁸ A good demonstration is southeast Europe where the threat has receded due to regional cooperation in a context of EU integration. Few states now wish to break off, cause difficulties or problems in this new environment. The EU has through its integration programme defused many of the risks and threats in the economic dimension. The success of the Stability Pact has showed the importance of regional cooperation and regional economic integration as a framework for stability and peace. Thus, in the new era of insecurity it is important to use these positive lessons in addressing the key security challenges. H.E. Ambassador Pavel Hrmo (Slovakia), Statement: “The role of the Economic Dimension in Conflict Prevention in Europe”; UNECE/OSCE International Colloquium, Villars, Switzerland, 19 November 2001.

18. Some economists have praised the informal economy as a cash economy, liquid and fast where the future entrepreneurs will emerge. But where the formal economy is weak as in many transition economies its existence can be a drain on the economy as a whole. Without registered businesses and property institutions, states are depriving themselves of revenues from taxation. The informal economy also holds back the development of the banks and insurance companies.

(ii) Partnership with the private sector and NGOs

19. Given the scale of the resources required and the limited size of state budgets and official aid, it is important that governments consider partnerships with the private sector and with civil society to prevent conflict and create prosperity.⁹ Public and private partnerships are becoming an increasingly important means of policy innovation throughout the world to achieve efficiency in public services. With regards to the role of conflict prevention and poverty alleviation the following points are important to emphasize:

- Private sector investment is an important means of bringing stability, growth and prosperity to conflict prone regions;
- The private sector has a strong incentive to play a mediating role. Conflict and instability is bad for business. The estimated economic damage of the war in Bosnia for example was US \$ 60 Billion.¹⁰
- The private sector loses huge amounts of revenue because of illegal trade, weak customs procedures, smuggling, counterfeiting and piracy. They have strong reasons for improving the power of states to administer the economy efficiently
- The private sector involvement in the delivery of public services - through public private partnerships - can defuse tensions caused in countries where there is ethnic conflict and where access to services or employment in these public services has been restricted because of membership of a particular ethnic group.
- The private sector can also be interested in poverty alleviation not just for reasons of good corporate responsibility but also through commercial interest: the low income groups are new markets, which have not been properly exploited.¹¹
- There is evidence of a new and stronger orientation of business leaders towards development, stakeholder interests and global good citizenship

⁹ In 1999 private capital flows to emerging markets outstripped official development assistance by factor of 5:1, having grown six fold since 1990 to a level of over 250 billions. "Business in Difficult Places: Risky Returns", The Economist May 20, 2000

¹⁰By the end of 1995 conflict had destroyed 45 % of all industrial plants and 75 % of oil refineries. Electric generating capacity was 20 % of its pre-war level. The negative impact on businesses was therefore huge. Exports were also 10% of their pre-war level by 1995 " The Cost of Conflict: Prevention and Cure in the Global Arena" M. Brown & R. Rosencrance, Rowan and Littlefield 1999

¹¹ For example, the Grameen Bank offered loans as low as 20 USD. By removing the need for collateral and creating a system based on mutual trust accountability participation and creativity this bank has grown to serve 2.3 million borrowers, 98 per cent of who are women. Others have copied the example of the Grameen bank and it is growing world wide According to a 2001 World Bank study, retail banking services for low income customers are becoming the most competitive and fastest growing mass markets.

Examples of the private sector role in conflict prone or post conflict regions:

- In south east Europe, the Swiss- Swedish power generating company, has encouraged diversity and improved ethnic relations in the workforce by bringing Serbs, Kosovars and Bosnians together to work on re-building electricity infrastructure;
- In Kosovo, a private provider helped to re-establish distribution of mail and parcels and put in place the necessary logistics for continued service;
- In Azerbaijan an Italian oil company has provided resources for resettlement of refugees.

20. At the same time there are challenges to forging new types of partnership between governments, Civil society and business. For business, many countries are not commercially attractive, either because of poor governance or because the populations are too poor and their markets too small. Without a framework or a conduit for such partnerships to develop, the poor record of transition economies in attracting FDI looks likely to continue.¹²

21. The challenge is also to encourage the governments to enter into partnerships that can defuse tensions and generate beneficial, worthwhile investments. In many countries there is a lack of a culture and capacity to cooperate with private investors. Some private sector led projects have taken place in south east Europe but without the participation of the governments themselves. This leads to disappointing results. NGOs and civil society should also play an important role in partnerships.

Risks of not involving the business community

Poor countries need investments. Official aid and governments support and work of NGOs will assist- yet the resources from official sources will be inevitably limited.

“Left alone there is a risk that these countries are likely to collapse or relapse into conflict and as the events of September 11 showed so brutally, become a global security challenge.”¹³

Kofi Annan, Davos Symposium, New York February 2002

¹² Recent attention has focused on their role in extractive industries in fomenting conflict and contribution to destabilization, through the use of revenues allegedly to finance repression of the internal opposition and for corruption rather than for badly needed social and economic development. Accordingly, a number of NGOs have called for codes of conduct to encourage companies to respect human rights, the independent monitoring of company's compliance and even, the withdrawal of companies from countries whose governments are violating human rights. In some cases companies have hired security guards to protect their facilities against protesters objecting at the distribution of income from the natural resources, which has brought further criticism. The US and UK Governments accordingly have in 2000 signed an agreement of Voluntary Principles on Security and Human Rights which have been endorsed by NGOs some of whom have been critical of the companies as well as many of the leading corporations involved in extractive industries.

¹³ Speech of Mr. Kofi Annan, Secretary General, United Nations to Davos Forum, New York February 2002.

IV. ROLE OF AN ECONOMIC AND SECURITY COMPACT

22. In view of the benefits from partnership and the need for mobilizing support particularly to countries which are suffering economically and are conflict prone, it may be advisable to consider establishing a new type of mechanism - an 'economic and security compact' - to bring partners together, that would take forward the work of business advisory councils and other bodies which are associated with Stability Pact, SECI, the Black Sea Economic Cooperation etc..

23. Such a compact might bring together governments in a region, the private sector and NGOs to build a common commitment to peace and prosperity. Governments would commit to create a sound enabling environment for investments while companies would support government policies for bringing different groups together and for resolving tensions. The partners to the compact for example, might work together to create a common investment space that would remove the barriers to trade and investment on the one hand and on the other implement a social strategy for alleviating poverty and creating well-governed states.

24. A compact could be an innovative form of investment mobilization. It could allow companies to come together to engage in collective action. This can be especially valuable in addressing sensitive issues or where a strong resource push is required. Governments too can come together and engage in collective action to improve conditions for investment and work together to deal with security threats.

25. The government should however lead the Compact. The business community's role would be to support government actions. There is also a need for all partners to demonstrate commitment to peace and prosperity. The private sector will be looking to see this commitment from governments before they will devote time and resources. Governments too need to be assured that companies are interested in building longer-term relationships.

26. Key objectives and focus of the compact could be to:

- Build peace and prevent or resolve conflict;
- Identify projects that can defuse tensions e.g. pro-poor growth policies etc.,
- Improve the capacity of governments to identify conflict prevention instruments and, in some appropriate cases, offer mediation
- Organize pilot consultative meetings in Central Asia, and south Caucuses and some south east European countries
- Use OSCE networks and local offices and UNECE's networks of private and public sector experts
- Out reach through use of media, websites and publications illustrating targets and objectives and results desired
- Cooperation with key partners, EU, Council of Europe, NATO and with sub regional programmers, such as the Stability Pact, SECI and the CEI.

- Support the inclusion of SMEs
- Establish political insurance and guarantee schemes to protect investors' interests
- Improve all kinds of governance - from implementing sounder accounting to protecting investors.¹⁴

27. It should be recognized that such a compact would assist governments' own policies on conflict prevention. It is the responsibility of governments to establish better governance systems and effective trade and investment policies that can generate growth and prosperity. Foreign assistance has also a key role to play which links assistance with the achievement of reform and regional integration.

V. IMPLEMENTING THE AGENDA

28. The Villars colloquium underlined the need for new approaches to address the new threats. The need to explore mechanisms for mobilizing private sector support to address the security challenges of the twenty first century, post- September 11, was high on the agenda. The Compact is one idea that could be developed.

29. Given the experience of the UNECE in establishing public private partnerships to achieve social development goals, the work of various private and public sector groups that are strengthening the enforcement capacities of governments, particularly in the work of WP 5, UNECE and the economic dimension of the OSCE can work closely with member states to:

- (i) Mobilize private sector support and to identify key business partners to support the programme financially;
- (ii) Cooperate with the EU and other bodies including NGOs using their expertise in the area of conflict prevention;

30. Based on these initial actions it is envisaged that a number of actions can be undertaken;

- (i) To hold a second expert colloquium to follow up the one held in Villars in November 2001 and to continue the consultation with member states on the direction of this agenda;
- (ii) To establish a task force, composed of interested government representatives and members of the two secretariats which brings together a small group of representatives of the private sector, NGOs, bilateral donors to identify the regions and projects in which strategic partnerships could be established
- (iii) To elaborate a set of principles identifying the new security challenge and the role of partnerships to address it, to be prepared as a discussion paper by the task force and to be presented to member states. The principles are intended to encourage the

¹⁴ Proposals for political risk insurance schemes and for better corporate and public governance as a mechanism for addressing risk and facilitating investment were tabled at the UN Monterrey Conference on Financing for Development in March 2002.

support of leading companies and donors for this initiative. This would not be a code of conduct but rather a benchmark to encourage and mobilize support from the private sector and from governments.¹⁵

- (iv) to organize a Conference on enhancing the role of partnerships with the business community in responding to the new security challenges, (to be held in 2003).¹⁶

VI. CONCLUSION

31. The era of insecurity that was ushered in after September 11 requires new approaches. The main threats - poverty alleviation and preventing weak states from becoming failed states - must be clearly on our agenda. Many of the actions required are beyond the resources of governments and aid agencies alone. It is necessary therefore to look at new approaches to achieve conflict prevention and peace building.

32. One such approach is establishing partnerships with the business community, governments and NGOs. The idea of a compact mentioned in the paper is not new. It is used by the UN in its Global compact to commit the business community to uphold the highest standards of corporate citizenship in environment, human rights and employment. Likewise an Economic and Security Compact could be a new instrument to bring together the private sector, governments and NGOs to enhance security in countries in Europe where poverty is rife and is a destabilizing factor.

33. Security is a broad notion and bringing the private sector into a stronger role in close partnership with governments to make the economy more secure, is part of a moral, social and political agenda of the highest importance. OSCE and UNECE need to work together if these public-private partnerships are to be implemented successfully.

¹⁵ The history of codes of conduct is somewhat disappointing. As 'compromises' by their very nature it is impossible that they please all sides. Companies have a tendency to ignore them purposely because they fear that their critics can use them as a means of attack. Enforceable codes also are not feasible or desirable. The new approach however contained in the Global Compact, which gives incentives to companies to follow, is more satisfactory in achieving results and overcoming corporate concerns. When considering a new code to foster the cooperation of the banking community against money laundering, the authors are adopting a similar formula: not a 'black list' against non-compliers but a 'white list' as an incentive mechanism to encourage compliance.

¹⁶ The UNECE Working Party on International Legal and Commercial practice (WP5) has proposed this as a topic for its annual Forum to be held in March 2003, Palais des Nations Geneva.