A UNECE-OCSE Colloquium with the participation of experts from NATO

The Role of Economic Dimension in Conflict Prevention

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Prepared by:
Coordinating Unit for Operational Activities
The United Nations Economic Commission for Europe (UNECE)

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Abbreviations

CEITs	Countries with economies in transition
CIS	Commonwealth of Independent States
EED	The economic and environmental dimension
EU	European Union
FATF	Financial Action Task Force on Money Laundering
FRY	Former Republic of Yugoslavia
NATO	North Atlantic Treaty Organisation
NFDI	Net Foreign Direct Investment
NGOs	Non Government Organizations
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Cooperation in Europe
UNDP	United Nations Development Programme
CFSP	Common Foreign and Security Policy
ESDP	European Security and Defence Policy

1. Executive Summary

The proliferation of conflicts in Europe following the end of the Cold War has created new challenges and opportunities - of great complexity - for intergovernmental and national institutions dealing with the economic and environmental aspects of security.

During the 1990s, a rebalancing of the bilateral and multilateral relationships between European states, the US and the states of the former Soviet Union, have ensured an unpredictable and ever-changing political and socio-economic context. Most recently, the terrorist attacks on 11 September and the geo-political developments which have followed those events have deepened the challenges and have also broadened the geographic scope of security concerns.

The need for effective conflict prevention and conflict resolution initiatives, as well as peace building and peacemaking efforts, grew during the last decade of the 20th century and this need continues to grow. In south east Europe, notably the Balkans and the Former Republic of Yugoslavia, international cooperation forged workable peace settlements although in some areas these remain fragile.

Institutions and alliances such as the European Union, OSCE, NATO, and UNECE have taken the lead to define the nature and scope of the new security environment and the shifting economic and environmental dynamics contributing to it. These organisations and unions have also been instrumental in engineering the type of constructive dialogue which allows new strategies, policies, responses and instruments for conflict prevention and resolution to be developed. The various institutions agree that the time is right to further refine approaches to conflict prevention and resolution and enhance their effectiveness.

The Villars Colloquium, hosted by UNECE-OSCE with input from NATO experts and the participation of a broad spectrum of governmental, business and civil society specialists, is a critical contribution to the renewed efforts to develop more effective responses both to developing and actual conflicts. Furthermore, the meeting agreed that conflict prevention, based on effective use of early warning indicators and detailed analysis of the causes of individual conflicts, is the most politically and economically preferential approach.

The participants identified three primary causes of conflict in Europe, namely: economic decline and rising poverty; growing inequality between and within states; and weak and uncertain state institutions. Key secondary causes, which can act to sustain conflicts, include: high unemployment, notably amongst youth; and the abuse of ethnicity as a form of political strategy.

The role of parallel structures (terrorist and organized crime groups) and their ability to access international financing, from both seemingly legitimate and illegal sources, are also key destabilizing factors. Consistent and well resourced efforts, based on

international cooperation, will be required to effectively subdue and dismantle these parallel structures.

Macro-economic challenges linked to the processes of globalisation and the transition to market economies create additional stresses for those states where the key focus remains state building and establishing the integrity of their borders.

The Villars Colloquium has laid the foundation for a continuing Villars Group which, if realised, will have the aim of establishing a comprehensive framework to facilitate more effective preventive responses to conflict and emerging security issues.

2. The Economic Aspects of Conflict Prevention in Europe

2.1 A brief overview of the economic aspects of conflict prevention in Europe

During the first part of the colloquium, four speakers addressed the theme of the Economic Aspects of Conflict Prevention in Europe. A UNECE Secretariat background paper (See Annex 1) provided initial direction for the presentations and discussion. A summary of the speakers concluding comments follows.

The session was opened by Mr Daniel Daianu, National Coordinator for the Economic and Environmental Dimension of the OSCE Romania/OSCE Chairmanship-in-Office. Mr Daianu concluded his comments stressing that the principle that needs to guide efforts is **convergence**. The OSCE, he said, should aim at creating a convergent area of stability, economic performance, good governance and social and regional cohesion. This could be achieved through a joint and focused action of organizations and states. Mr Daianu said the focus of the Romanian Chairmanship had been on good governance and transparency (also the theme of this year's OSCE Economic Forum), which it considered central to developing well functioning economies. Dysfunctional, unresponsive non-transparent institutions generated incoherent and governmental policies, and opened the way for corruption and abuses, underdevelopment, and economic and social polarization. Mr Daianu suggested that the OCSE could play a catalytic role in the following ways: bringing together international donors and recipients; stimulating the political will to develop and implement legislation; promoting institutional reforms to enhance stability; and contributing to the fight against corruption at all levels.

Dr Patrick Hardouin, Director, NATO Economics Directorate and Chairman of the NATO Economics Committee, said his concluding comments reflected his personal opinions. He stressed that the security challenges confronting Europe today require the adoption of sound and efficient policies that will build upon the foundations previously erected in developing an economic and security framework for Europe. The process of economic integration among and within European states must be continued but in a way that would not undermine political and social cohesion. The building of cooperation, said Dr Hardouin, would require greater focus upon microeconomic elements such as privatisation, competition policy and structural reforms that could overcome impediments to trade across and within states. These policies, he added, must be rooted in the rule of law and the implementation of democracy. However, the potential for disillusionment within electorates must be countered by appropriate measures that would strengthen the economic basis for freedom while offering the means to reconcile peacefully conflicting interests and ambitions among groups and individuals. Dr Hardouin said the alienation of minorities must be addressed and the means to preserve non-violent discourse as opposed to violent action must be discovered. The monitoring, management and reform of military and security forces had to be extended and the flashpoints for conflict had to be identified. The application of policy in building a more prosperous and secure Europe, said Dr Hardouin, must be credible and consistent.

Mr Adrian Kendry, Senior Defence Economist, Economics Directorate, NATO, presented personal views to the colloquium. In closing, Mr Kendry said that the economic consequences of terrorism have profound implications for the economic and political stability of Europe. In promoting a greater understanding of the economic and political benefits to be derived from cooperation, in strategy and commitment, in seeking to counter terrorism, the following issues, said Mr Kendry, were paramount: firstly, the monitoring and evaluation of the security aspects of anti-terrorist financial regulation; secondly, an assessment of the vulnerability of the economic infrastructure of existing and potential members of e.g. NATO when attacks are directed upon communications, energy, trade and transportation facilities; thirdly, an evaluation of the economic impact of counter-terrorist measures on defence expenditures and budgets - it is conceivable that such a diversion of resources might increase the difficulties of prospective NATO members meeting the requirements for membership; fourthly, the impact of macroeconomic deterioration on tax revenues and public expenditure as economic recession will increase pressures on fragile democratic structures; and, finally, the analysis and explanation of the economic benefits and costs of cooperative arrangements among NATO and partner countries.

Ambassador Pavel Hrmo, of the Slovak delegation, said that the experience of Central European countries seemed to confirm that widening income gaps can create conflicts which undermine stability. In the transition economies, he stressed, a small upper class with extraordinary disposable income, a socially weaker class with low income and a growing middle class were being seen to emerge. These income and class disparities could generate social and political pressures which, if in place for an extended period of time, could contribute to insufficient political stability. Equally, said the Ambassador, corruption slowed social processes, undermined dignity and diluted political acceptance of a democratic system. This was particularly the case for the former socialist countries. The fight against poverty and corruption, in which the economic dimension of the OSCE has a role, he said, was critical.

2.2 Summary extract of address by Mr Daniel Daianu (OSCE)

From the address by **Mr Daniel Daianu**, National Coordinator for the Economic and Environmental Dimension of the OSCE Romania/OSCE Chairmanship-in-Office.

A re-examination of the economic and environmental dimension (EED) of security has marked the Romanian Chairmanship of the EED/OSCE work. This focus, in itself, came as a direct response to the opinions of many participating states. For those working on the issues in the OCSE context a "unanimous mindset" has been marked by a belief that:

- More has to be done in identifying security risks;
- More steps have to be taken to tackle these risks in terms of early warning and conflict prevention.

The tragedy of 11 September has reconfirmed that in the post Cold War world there are new security threats, including international terrorism, to be confronted. This calls for new responses to deflect or contain the new threats.

- Economy and security

For some countries with economies in transition (CEITs), notably in Southeast Europe and in the Commonwealth of Independent States (CIS), specific circumstances exist which increase the challenges and complexities of the situation. These circumstances include: fragile institutions; depressed levels of output; and low savings and interest ratios. These countries are crisis prone and their worsening social indicators will undermine capabilities to deal with future pressures. The importance of existing conditions, geography, and institutional change has come to the fore. Policy, although important, depends on "propitious context" and on preconditions.

Box 1: What focus for policy-makers and analysts

Most of these countries, in South East Europe and the CIS, reveal steadily worsening social indicators (life expectancy, death rates, infant mortality, spread of new diseases, income inequality etc.) which is a bad omen for their ability to cope with future pressures. Moreover, weak public governance and a weak state are recognised traits of transition, which adds to the belief that prospects for these countries are unfavourable. From this bleak description of transition there emerges an interesting question: is not this state of affairs unsurprising in view of the challenges of transformation, which had remained largely unheeded for many years? And if this is the case, what should be the nature and the order of concerns to policy-makers and analysts?......What is worrying for these countries is, in my view, the steady worsening of the "good" indicators, which may undermine what appear now as factors of strength.

There is a special category of CEITs which can be called "distress economies" which are found in the Balkans. These distress economies, resulting from a

decade of war and inter-ethnic strife, are characterised by huge unemployment, aid-addiction, severely depressed levels of output, export stagnation and rising criminal activity.

The "Bad News" is that the political map of the Balkans remains "fuzzy" and this is due, in large part, to the presence of outsiders, including OSCE missions, providing hard and soft protectorates. The "Good News" is that European Union (EU) integration and the Stability Pact do exert a positive influence in the Balkans.

The high vulnerability of most CEITs is not linked necessarily with financial markets but rather with large disequilibria which, ultimately, exhibit themselves as high inflation or banking crises.

The vulnerability of CEITs can be viewed in both the narrow and the broad sense:

- **Narrow Sense:** refers to the economic dimension and the inability to cope with domestic and external shocks.
- **Broad Sense:** refers to the failures of society (state) to deliver public goods and to provide a liveable and empowering environment for its citizens. Furthermore, it signals that the probability of considerable internal strife, fragmentation and the "upper hand of centrifugal forces" is high, creating real threats to national security.

- Security and economy

Security failures and concerns can interfere with and strangle economic advance. When borders are questioned or when state formation becomes the overriding task of policy-makers, then the difficulties of formulating and implementing sensible economic policies combines with the "pains of implementing reforms" to create an overwhelming strain. Shaky institutional foundations and a weak state are fertile ground for the expansion of underground parallel structures. In many CEITs, parallel structures are so powerful that they determine social and economic dynamics. Would such organisations (networks) submit themselves to the rules of a well functioning market economy and democratic polity? The victory of good over evil cannot be taken for granted. For historical breakthroughs to occur there is a need to combine the actions of domestic factors with external anchors. However, for bigger countries the efficacy of external anchors can be questioned.

-The World Context

Globalisation is linked to growing income gaps both inside countries and between them. Increasing discrepancies between knowledge "haves" and "have nots" will strain social structures and create tensions against the back drop of new information technologies. Comparisons allow people to form new expectations. In

the Balkans, it can be argued, that economic strain has fuelled the dynamics of fragmentation.

Box 2: Criminal activity is getting a global thrust

Globalisation is meant, usually, to cover financial and trade-related matters. But there is another segment of globalisation, less visible but highly threatening. Let us think of arms and drug trafficking, money-laundering, illegal immigration, etc. Criminal activity is getting a global thrust and it uses increasingly sophisticated means in order to outsmart state authorities. Many transition economies have become "congenial" environments for such activities. One should acknowledge, however, that western countries, too, as very open societies, are host to such activities on a significant (threatening) scale; the revelations following the tragedy of September 11th should be a stern reminder in this respect. As to the arms race, the latter is no longer an exclusive affair of governments; groups inside countries can drive it, whether they vie to take over state power, or are engaged in international illegal activities. This dynamic blurs images and hinders the capacity to deal effectively with threats.

- Why doesn't cooperation work?

Regional cooperation remains, deep down, an elusive goal and, thereby, security is impaired. Factors which are presumed to enhance regional cooperation include economic incentives such as trade, as well as overseas investment and production. Post 1989, however, a series of worrying factors could be observed which make up a gloomy "balance sheet". They include:

- the powerful forces of fragmentation;
- financial and economic crises;
- rising income inequality;
- the digital divide;
- bogged down reforms in many transition economies;
- rising poverty in parts of Europe and the former Soviet Union;
- weak institutional structures;
- questionable business ethics
- organised crime operations spreading internationally.

Furthermore, a move to trading and currency blocks, a process promoted by economic and financial crises, although favouring regional cooperation, will not support an open world system. Against the backdrop of the emergence of such blocks, the political and security implications are easy to imagine

In Europe, both NATO and the EU are facing enlargement challenges which would redefine the security and economic map of Europe. For smaller countries, enlargement is an overriding concern, shaping popular perceptions and psychology, and likely to make the difference between successful reforms and a further falling behind.

The emergence of a "New West", an enlarged EU with a few CEITs, and a "New East", a poor area made up of former communist countries, is becoming more

obvious and is creating new uncertainties. There are several issues upon which cooperation can be tested, including: environmental concerns; massive illegal immigration; health hazards; organized crime and drug trafficking; and the vulnerability of highly complex systems (software) at a time of high technological change. Military and economic cooperation issues need to be "trial tested."

If cooperation is to work, common interests and areas where actors can compromise in a better way must be defined. The ideological divide is being replaced by economic and institutional cleavage and we cannot, therefore, be "complacent" about gaps when "weak state" syndrome is very intense.

Box 3: Migration on a massive scale

Weak institutions, rising poverty, wars and inter-ethnic strife, are driving people to migrate on a massive scale; these phenomena also favour illegal activities (organised crime). They are compounded by state rivalries and inter-ethnic animosities, and identity crises. Using the logic of the economy-security nexus, what then are the big test threats to security in Europe?

- economic decline and rising poverty in many transition countries, which is likely to breed internal strife;
- huge unemployment (such as in some Balkan countries where it reaches 30-35% of active population;
- massive migration, owing to domestic economic hardships and huge income differentials in Europe;
- failed or faltering states, incapable of providing basic services to an increasingly poor population. This is conspicuous in several Balkan and Central Asia countries;
- decaying educational and health-care systems;
- environmental damage and negligence, due to a lack of resources management by transition countries (budget retrenchment) and poor standards;
- growing networks of organised crime which "acknowledge no frontiers";
- drug and weapons trafficking;
- growing conflicts over scarce resources (water resources);

If these threats are seen for what they represent as security menaces, the economic dimension of the OSCE would have to consider them on a regular basis and in a systematic manner. It is true that these threats, sometimes, do not provoke immediate crisis. But negative developments accumulate in time and, often, their effects can be devastating and cause damage to spill over and affects their neighbours. We should therefore keep the right balance between immediate responses to acute crises and ongoing efforts to address the roots of long-term menaces.

The goals of the Romanian Chairmanship have been to strengthen the EED of the OSCE and to make these activities more effective, involving the enhancement of the organisation's early warning and conflict prevention capacity. The debate to date within the OSCE has reinforced the view that there are three tiers to bolstering the EED. These are:

- Existence of a common denominator of understanding by OSCE actors of security threats which have an economic origin;
- Need for an "OSCE Thinking Component" to be institutionalised.
- Need to boost OSCE's operational component and ability to follow up.

The means to achieving these goals include:

- Strengthening the office of the OSCE Co-ordinator of economic and environmental activities (OCEEA). Revisit Bonn document in light of new international environment and threats.
- Boost analytical capabilities of the OSCE by a) building up in-house thinking and; b) creating an informal regular committee of the "friends of the economic dimension."
- Boost dynamism of OSCE missions.
- Organise regional events that broaden the scope of the annual economic forum.

- The OSCE Role

The OSCE needs to both support inter-institutional cooperation (UN, the World Bank, the OECD, The Council of Europe, EU), and act as a catalyst to bring together international donors and recipient countries. The OSCE can create a framework for dialogue by identifying needs and gaps in communication and information. Furthermore, the OSCE can play an important part in stimulating the political will to develop and implement adequate legislation, in promoting international legislation and regional co-operation, in engendering a wide public debate, in strengthening civil society and increasing civil participation in the governmental decision-making process. In the public sector the OSCE can promote institutional reforms and, at the same time, work to support the development of a strong and performing private sector.

Corruption, illegal activities, such as money laundering, trafficking and organized crime, are serious threats to OSCE values. They endanger not only economic growth and sound development but also our security.

Along with other international organizations, we can consider what specific contribution the OSCE can make in the fight against terrorism. Aware of the direct influence economic and social factors can have in providing fertile ground for extremist ideologies and terrorist activities, the OCSE contribution would include addressing the root causes, such as economic and social marginalisation, and fighting the "grey zones" of organized crime, including trafficking in people and arms.

The OSCE should aim at creating a convergent area of stability, economic performance, good governance and social and regional cohesion.

2.3 Summary extract of address by Dr Patrick Hardouin (NATO)

From the address by **Dr Patrick Hardouin**, Director, NATO Economics Directorate, and Chairman of the NATO Economics Committee. (Please note that Dr Hardouin stated his paper reflected his personal opinions rather than the official opinion of the NATO Economics Committee).

A fundamental question is raised in the paper: "Does economic prosperity reduce or raise the probability of conflict?"

The Colloquium is of profound significance for the future enlargement of both NATO and the EU. The economic dimension is critical in the formation of policy to tackle the causes, consequences and prevention of terrorism. Terrorism:

- requires concentrated and consistent international action;
- provokes global economic stability and possesses the capacity to disrupt the economic and social cohesion of European States;
- could create conditions to undermine "the ultimate realisation of European economic and security integration";
- poses a threat to economic co-operation and the pursuit of global economic well-being.

Post-September 11 we see a redefinition of the transatlantic relationships as well as those between the West and the Middle East. Europe's interests and security are inextricably linked in resolution to Afghanistan, Israel-Palestine and Middle-East stability. New challenges are arising as witnessed by the EU's changing relationships with Russia, the Ukraine and the Caucasus.

- Changing Security Challenges

Post cold war, new regional and ethnic tensions were set to emerge. The beginning of the 1990s saw the contrast of great hope and the descent into savagery.

The Soviet ratification of German Unification and the signing of the Treaty of Maastricht created a framework to achieve the dream of Europe's founding fathers. Furthermore, the arrival of the Euro in early 2002 cemented a key step in the aspiration to achieve monetary union. However, the disintegration of the Former Republic of Yugoslavia (FRY) and the bloody conflict in the Balkans was the dark side of the European experience. Despite the resolution of the Kosovo crisis and the collapse of the Milosevic regime, renewed hope in the region is fragile.

Despite the numerous challenges, the institutional response in Europe has been vigorous and constructive. UNECE's work, inter alia, has created greater understanding of the framework and instruments that can enhance economic security and prevent conflict. OSCE's work has developed linkages between

economic development, democracy and social stability in CEITs and has deepened knowledge of the direct and indirect economic causes of conflict.

Box 4: Promoting the case of conflict prevention

NATO has made vital and long-term commitments to promoting the cause of conflict prevention in Europe. NATO's commitment to fostering peace, democracy and economic improvement in Bosnia-Herzegovina, Kosovo and Macedonia is well established and is complimented by the work of the *Partnership for Peace* (....is there a web reference/link for this....?) in promoting the greater accountability, management, reform and transparency of military forces among European states. In addition, the NATO-Russia Permanent Joint Council and the NATO-Ukraine Commission are also engaged in a dialogue that will foster a more co-operative relationship in not only defence reform and the restructuring of the armed forces but also in terms of civil emergency planning, environmental protection, defence conversion, the non-proliferation of weapons of mass destruction, crisis management and peacekeeping in the Balkans.

The importance of the work of the NATO Economic Directorate is growing. Current examples of the directorate's micro-economic policy-oriented work include:

- development of an officer retraining centre in Moscow;
- promotion of workshops and conferences on the economic aspects of defence and security under the framework of the NATO Ukraine Commission;
- and the direct and expert involvement in programs for the economic conversion of military bases under the NATO South East Europe Initiative and the Stability Pact.

- The Economic dimension of conflict prevention

Research into the economics of conflict prevention has witnessed a notable increase during the last decade. Despite the distillation of contributions from economic analysis, international relations theory and modern game theory, many of the propositions are still derived from the "classical conundrum regarding the relationship between war, conflict and prosperity." Thinking on the conundrum has evolved and the type of economic inquiry highlighted below is finding contemporary echoes. Various models have suggested that:

- World War 1 demonstrated that the economic imperative for war could be triggered by precisely the economic prosperity that many observers at the time felt would have to be preserved and would work, therefore, to preclude a drawn out and disastrous conflict;
- War can be a rational strategy when the long-term benefits from conflict are correctly perceived and calculated, overwhelming the short-term costs of war, however destructive;
- The regionalisation of conflict works to reduce the "Peace Dividend" while the emergence of a "threatening and anarchic" world, will provide greater incentives to create larger and expanded political unions and alliances.

Conversely, if such incentives are diminished through a perception of reduced international tension and greater political stability, the resulting political fragmentation will engender different forms of international tension.

- The Economic and Social Consequences of External and Internal Conflict Recent terrorist events may manifest themselves in a greater commitment to EU and NATO enlargement. The formation of larger alliances and unions, however, is "no panacea" for states striving for the optimal balance between raising taxes, enforcement of property rights and liberty derived from defence and security expenditures. The issue of "free riders" and a potential under provision of resources to counter intrastate conflict are classical problems which arise when measures are taken to protect European states from the enemy within (terrorists, organized crime, as well as ethnic suppression and secession).

In NATO, we believe that there is a link between poverty, instability and the risk of war. If, from a practical point of view, we are right then we are also right to be concerned about significant income differentials both within societies, across regions, between ethnic groups, and between nation states. In NATO, therefore, we make an assumption that there is a link between prosperity and security and we support the creation of political, social and legal environments that foster economic development and will enhance the social pact between nations. Increasing attention to environmental degradation and ecological imbalance and their link to conflict is needed also.

Box 5: The growing democracy deficit

These causes (above) of alienation illuminate some of the most serious challenges to security in Europe at present. Among the most conspicuous of these is the growing democracy deficit evident in the disaffection among different societal groups in failing to validate the economic decisions of the governing elite. Prominent among these groups is the one that contains young adults between the age of 18 and 25. The voluntary disenfranchisement of this cohort of the population in many European states threatens to weaken the political and social framework in which economic policy is constructed and implemented. It also, as a concomitant, threatens to increase civil action that will be non-violent in the first instance but ultimately triggers a violent reaction to the disaffection displayed. A further serious and highly contemporary problem of disaffection concerns those members of the population who by virtue of race, religion or values feel the absence of "voice" (a theme memorably introduced by Albert Hirshman in his seminal work "Exit, Voice and Loyalty"). The disentanglement of the genuinely dispossessed from the menacingly anarchic elements of society requires great pressure from all relevant European organisations. This pressure will seek compliance from the member states in not only protecting the rights of minorities but in also enhancing their incentives to become fully integrated with the economic and political milieu.

- Europe, Economic and the Future of Conflict Prevention

The introduction of the real Euro, a defining moment in European economic history, may foster a deeper sense of economic and political identity throughout Europe. Furthermore, the Euro may add confidence in the EU in the context of discussions for the European Security and Defence Initiative and its contribution to the Euro-Atlantic Partnership. Despite the reaffirmation of the strong relationship between the European Allies and the US, NATO's traditional role – if it is to continue – needs a "vision of the complementarities of security roles within the Europe of the 21st Century". This vision is also needed for both NATO and EU enlargement. In addition, consistency of dialogue and action of NATO and the EU with respect to relations with Russia, Ukraine and former states of the Soviet Union, will make an immense contribution to the widening of European Collective Security. The construction of instruments and policies that will mediate ethnic, religious and regional conflicts will strengthen economic prosperity and enhance collective security.

2.4 Summary extract of address by Mr Adrian Kendry (Nato)

From the address by **Mr Adrian Kendry**, Senior Defence Economist, Economics Directorate, NATO (The views expressed in Mr Kendry's paper were personal and reflect the official position of neither the NATO Economics Committee nor NATO itself).

The economic linkages that underpin the production and consumption of terrorism must be defined clearly in order to formulate appropriate policy for the international regulation of terrorism.

Box 6: Reverse money laundering

Drug and human trafficking, diamond smuggling, the piracy of intellectual property, and extortion can all be linked to the global funding of terrorist attacks. However, the tragic events of September 11 have demonstrated that the siphoning of funds from legal activities (ranging from business entities to charities) greatly complicate the identification and monitoring of the resource base of terrorism. The channelling of funds from legal business activities to terrorist networks via intermediary organizations can be viewed as a form of "reverse money laundering." For example, it is suspected that the resource base for the Bin Laden and Al-Qaeda organisation is contained within over fifty countries and is derived from an extensive network of legitimate business activities such as investment, construction and agriculture.

The problems caused for national and international law enforcement agencies by the global interaction of terrorist, criminal and legitimate business networks, is compounded and complicated by the "slow pace of being able to undertake legal investigation in various countries compared to the almost instantaneous transference of funds from one international account to another."

In October 2001, the Financial Action Task Force on Money Laundering (FATF), under the auspices of the OECD, adopted a wide ranging mandate. In addition to strengthening legislation to criminalise the financing of terrorism and underlying organisations, FATF agreed on:

- reporting suspicious transactions within financial markets;
- extending anti-money laundering requirements to the full range of international remittance systems;
- increasing international cooperation among financial regulatory authorities and law enforcement agencies;
- identifying all customers engaged in domestic and international wire transfers;
- monitoring the potential abuses of questionable non-profit organizations.

Legislation introduced in the US in 1995 and 1996 to confiscate assets of groups engaged in terrorism or sponsoring its activities is being tightened as is the responsibility of financial institutions and business agencies to freeze and report suspicious transactions.

-The Macroeconomic and microeconomic dimensions of terrorism

The economic consequences of 11 September are far reaching. Studies have shown that Net Foreign Direct Investment (NFDI) in specific NATO countries between1975 and 1991 was reduced by more than 10% as a result of terrorist activity. A decline in NFDI reduces Gross National Product (GNP) and increases potential for economic stability and vulnerability to economic shocks and recession. Such vulnerability and instability have the potential to spill over into neighbouring states and reveals the economic interdependencies that result from terrorism or the threat of terrorism.

Although not the direct recipient of the 11 September terrorism, Europe is clearly affected by the economic fall out. The additional supply-side costs connected to the greater transaction costs of undertaking business, together with costly insurance and additional security, impose substantial constraints upon the growth of output. The European response is constrained both by the absence of a direct attack upon Europe and by the less flexible response of uncoordinated national fiscal policy measures across European states. The prospects for the world economy in 2002 remain unclear. The course of the conflict in Afghanistan and the interval between the September 11 and any subsequent attacks, are pivotal in shaping international economic confidence.

Box 7: The long-term economic impact of terror attacks

The long-term economic impact of the terror attacks upon the USA may prove to be modest. This will depend greatly upon whether the attacks can be characterised as "one shot." We can, however, identify the economic consequences of the attacks in a number of ways:

- the impact upon private insurance markets and the coverage of additional risks;
- the improvement in the security infrastructure that will underpin the lowering of transaction costs in supply and the loss of economic efficiency in adaptation to the new uncertain economic and security environment;
- the avoidance of duplicative security activities by multiple agencies and the coordinated prevention of an oversupply of security that would otherwise flow into more productive investments;
- the continuing maintenance of the smooth functioning of securities markets and financial institutions.

From a microeconomic perspective, "markets" for terrorism and counter-terrorism can be identified. The regulation of such markets and products will be vital. For example:

- regulation of air pilot training and airport security;
- product innovations that are a response to the new environment e.g. detection equipment;
- monitoring of terrorist organisations capitalising on their attacks in financial and stock markets.

- A Conceptual framework for the economics of terrorism

International criminal and terrorist networks may cooperate and reap "non zero sum" benefits as the prize whereas states and NGOs may see the benefits of cooperation as "zero sum." The embryonic foundations of the economic dimensions of terrorism are taking shape. From the perspective of NATO, the Alliance has a strong and vested interest in the consequences of terrorism as highlighted below:

- 1. Terrorist groups acting independently of, or in concert with state sponsors could acquire weapons of mass destruction.
- 2. The cost of engendering instability in newly or potentially democratic states is comparatively low under terrorism.
- 3. Terrorism imposes a greater resource burden on the budgets of targeted countries than upon the perpetrators of terrorism.
- Externally or internally imposed constraints on defence budgets can increase the attractiveness of State sponsorship of relatively low cost terrorist activities.

The new circumstances following the September 11 attacks may create the expectation that the US will not only fund its "homeland security" but will be prepared to contribute substantially to the funding of counter-terrorism in many states. In these circumstances, the under supply of counter-terrorism expenditure will originate within the non-US members of the Alliance. Effective measures to ensure co-ordination and commitment in strategy and financial contributions are therefore essential. Unilateral action followed by all Alliance members will create too much expenditure on counter-terrorism.

- The Economics of Networks and Hierarchies and the New Terrorism

A common emerging theme, in the proliferation of terrorism and organised crime, is the superiority of network-based organisations in competing with hierarchical organisations. Networks draw upon the benefits of organic as opposed to mechanistic organisation and through their decentralized structure drive the benefits of dispersion and swarming. Hierarchical organisations (e.g. NATO) must draw upon the lessons of both the technology and economics of networks in order to be able to produce radical organisational innovations that will foster interagency and multi-jurisdictional cooperation.

2.5 Summary Extract of address by Ambassador Pavel Hrmo (Slovak Delegation)

From the statement of Ambassador Pavel Hrmo, member of the Slovak Delegation at UNECE-OCSE _ NATO Colloquium.

Box 8: New Threats of Conflict

It comes as a surprise that, despite the end of the Cold War, the number of conflicts in Europe is growing not decreasing. In South East Europe, we have witnessed many casualties, a great deal of property damage and waves of mass migration. A young generation has suffered a psychological loss that that will complicate the situation in the region for a long time. Although the situation in South East Europe is stabilising gradually a question still remains over Macedonia. However, new threats of conflict are forming. The economic transition process in the former socialist countries is associated with a higher number of lower intensity conflicts which, unless solved, or preventive courses found, may slow the regions economic and socio-political development. The on-going process of European integration presents a systematic solution for some but not all of the challenges in South and Eastern Europe. Within the EU countries themselves some sources of conflicts have not been resolved. The leading issues include:

- high unemployment;
- discrimination in the labour market, notably against the young;
- pressures associated with the poorest classes;
- organised crime, terrorism, and drugs;
- migration and issues associated with Romany populations;
- discrimination against minorities, separatist and extremist movements.

The destructive potential of these challenges outweighs short term solutions even if the course of European integration is successful. The Slovak Republic, therefore, fully supports the OSCE in its mandate to explore the economic dimension of conflict prevention and is keen to look for instruments and methods which can boost security and stability in Europe. The Romanian Chairmanship can be assured of our full support in the process to heighten the importance of the economic dimension in the OSCE agenda. Helpful instruments and approaches to face the various challenges and threats for the transition economies include: peace building; monitoring and methods of early warning; training (courses, study stays, research fellowships, excursions) for civil servants, government officials and company employees; and capacity building exercises for NGOs, various civil initiatives, minorities and church organisations.

The experience of Central European countries seem to confirm that widening income gaps can create conflicts which undermine stability. In the transition economies we are seeing emerge a small upper class with extraordinary disposable income, a socially weaker class with low income and a growing middle class. These income and class disparities can generate social and political pressures which, if in place for an extended period of time, can contribute to insufficient political stability. Equally, corruption slows

social processes, undermines dignity and dilutes political acceptance of a democratic system. This is particularly the case for the former socialist countries. The fight against poverty and corruption, in which the economic dimension of the OSCE has a role, is critical.

Analysis of the qualitative indicators related to human security, with the cooperation of UNDP, can be a powerful counter balance to the factors which threaten to destabilise society. Strong conflict prevention programmes, can also sensitise personnel to identify potential conflicts at a stage when it remains possible to act against them. When considering the various issues, two possible mechanisms – including difficulties of implementation - should be highlighted:

- implementation of programmes of financial and material help, including grants
 and scholarships, to roll back poverty and boost social self sufficiency. For
 example, the Stability Pact for South Eastern Europe was originally accepted by
 the region's countries with great expectations for balancing social differences and
 to dampen political pressures. Weaknesses in the implementation of the Stability
 Pact have been caused by insufficient resources from the richer parts of Europe.
- Cooperation within the context of the OSCE's economic dimension has existed for some time. Furthermore, cooperation in this respect with a broader grouping of international organisations is also important as it will build further efficiencies.

The cooperation of countries within the Euro-Atlantic space has to exist in a context of growing world population, heightened competition for basic resources, growing civil and regional conflicts and mass migration from the developing world. Will conflicts remain isolated in remote countries such as Angola, Mozambique, Afghanistan or Tajikistan? From economic, environmental, social and political trends we must suppose that the importance of the economic dimension of conflict prevention in Europe will probably grow.

3. Role of the Regional and International Bodies in Conflict Prevention

3.1 A brief overview of the role of the regional and international bodies in conflict prevention

The Commission is playing its full part in the EU efforts to develop an effective crisis management and conflict prevention capability. Reforms of Community instruments have been initiated to introduce more flexibility and reduce response times. The reform of the external aid system through the establishment of EuropAid and the de-concentration to EC delegations, as well as the amendment of the financial regulation, are already leading to significant improvements in speed of delivery on the project side and to improved co-operation with international organisations.

Moreover, a new Rapid Reaction Mechanism (RRM) was created, explicitly designed for urgent interventions in crisis situations providing the necessary speed and flexibility to mobilise any Community instruments to be deployed in a crisis. The Regulation which established the RR.VI was adopted in February 2001. The RRM can be used both to conduct once-off actions arising out of a crisis situation, and to 'kick start' projects or programmes which will require longer-term follow-up through other assistance instruments.

Mark Baltes, Coordinator of OSCE Economic and Environmental Activities, described a comprehensive approach in which the environmental and economic dimensions of conflict and conflict prevention have gained increasing importance within the OSCE during the past decade. Mr Baltes described a four step action-oriented approach based on the « four C's » namely: cataloguing and identifying, catalyzing, convening, and consciousness-raising. He also called for the strengthening of the role of the OSCE office for the coordinator of economic and environmental affairs.

3.2 Summary extract of address by Dr Kyriakos Revelas (EC)

From the address by **Dr Kyriakos Revelas**, European Commission, on "Conflict Prevention: economic aspects and the EU approach".

The outbreak of conflicts in Europe in the 1990s heightened public awareness of the suffering, economic losses and environmental destruction linked to violent conflict. The discussion of conflict prevention also gained greater prominence on the political agenda.

Although each conflict is unique, experience seems to support that certain general insights can be gained. These include:

- early warning and conflict indicators are important but must be supplemented by more detailed analysis of the nature of the potential conflict;
- a combination of instruments will be needed to respond better to a particular crisis;
- a concerted effort by external actors will enhance the chances for the effective prevention or resolution of conflicts and for the lasting success of any post conflict rehabilitation strategy.

Given the inherent difficulties of measuring costs and benefits linked to conflict prevention, it is necessary to resort to experience and "common sense". This tells us that preventive action is likely to be cheaper than responding to open conflict. Examination of the socio-economic and environmental factors which are associated with conflict potential is a core standard approach. The EU has contributed to the OSCE's comprehensive concept of security. It should be remembered that EU, in itself, is a successful project of peace building and that through the process of enlargement, bilateral agreements, and development cooperation, it is seeking to project stability beyond its borders.

The European Commission, building on earlier experience, presented a comprehensive Communication on Conflict Prevention in April 2000 (NEED TO CHECK DATE). The communication, welcomed by the European Parliament and member states, had four key messages:

- 1. A more systematic/coordinated use of community external cooperation in addressing the root causes of conflict.
- 2. Developing initiatives aimed at tackling cross-cutting issues which often cause or contribute to conflict (e.g. organised crime, trafficking)
- 3. Developing rapid response capacities to focus on situations where tensions are growing.
- 4. Promoting cooperation, coordination and information sharing with main partners such as the UN and the OSCE and with the many NGOs which are crucial operators in the field.

In practical terms, the instrument for "mainstreaming" conflict prevention is the country strategy paper. The paper will become systemised for all countries receiving country assistance. An eight point check list will be used by Commission delegations to design the country strategy paper. The points range from state legitimacy, the rule of law and respect for fundamental rights though to social/ regional inequalities as well as the geopolitical situation. The comprehensive approach is reflected in the enlargement process, the Cotonou Agreement (June 2000) and in the Stabilisation & Association agreements with South East European countries.

Box 9: New Instruments

The EU Treaties of Maastricht and Amsterdam introduced new instruments for political/diplomatic and security/military action under the Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP). In subsequent steps, the European Council has established that the EU should develop its ability to undertake the conflict prevention and crisis management tasks defined in the EU Treaty (the so-called Petersberg Tasks: humanitarian and rescue operations, peacekeeping and crisis management, including peacemaking) through the development of the full range of civilian and military means. To this end, dedicated structures for crisis management have been put into place within the Council of Ministers and within the European Commission, and new procedures are being elaborated.

The European Community has considerable experience in conflict prevention with examples ranging from South Africa, to Guatemala, East Timor and the Balkans. The EU's role in conflict prevention and crisis management is defined in the EU treaty through the development of the full range of civilian and military means. The changing scale and nature of crises during the 1990s creates a double challenge for the EU Commission: firstly, to improve the community's ability to act; and, secondly, to contribute to the development of new targets for civilian crisis management and ensuring compatibility between community action and the new instruments available under the CFSP and the ESDP.

3.3 Summary extract of address by Mr Mark Baltes (OSCE)

From the address by **Marc Baltes**, Coordinator of OSCE Economic and Environmental Activities, on "Improving OSCE capacity to alleviate economic and environmental risks of conflict."

The vision of the final Helsinki Act - from the Conference for Security and Co-operation in Europe over 25 years ago - provides the vision for the comprehensive approach taken today by OSCE to security and conflict issues. The Final Act still gives us a durable set of values and ideals towards the full realisation of which the now 55 participating States are still striving.

Box 10: Increased tension and instability

It is becoming ever more clear that significant differences in levels of economic development between various regions in a particular country, or between various ethnic groups within a particular country, as well as significant differences between various countries in a particular region, can contribute to increased tension and instability within that state or region and generate well-founded humanitarian concerns.

It is a fact that the difference between the richest and poorest countries within the OSCE has grown from a ratio of approximately 23:1 in 1975 to a ratio of more than 200:1 in 2000. In other words, something that the drafters of the Helsinki Final Act correctly identified as a significant threat to our collective security, and to the well-being of our citizens, has been allowed to grow dramatically over the past quarter-century. This insight is only beginning to be understood by OSCE practitioners.

For a long time the economic dimension was thus the stepchild of the organisation compared to the security or political (largely arms control) and human (largely human rights and election observation) dimensions. In Vienna we have the Forum for Security Cooperation, a body which meets regularly to treat "security" issues. The human dimension has several independent institutions (the Office of Democratic Institutions and Human Rights in Warsaw, the High Commissioner on National Minorities in The Hague, and the Representative on Freedom of the Media in Vienna).

Environmental and economic questions are now increasingly being recognised as security agenda issues. The risk of conflict may indeed drastically increase over the next decade, with potential intrastate as well as inter-state conflicts combined with a growing demand for resources, population growth and increased consumption per capita, and thus a likely exhaustion of the environment. One should note that environmental issues played a leading role in the process of political mobilisation of average citizens in the glasnost period and, more specifically, in the growth of national consciousness in the non-Russian republics.

In this regard, the Aarhus Convention on Public Participation, should be considered as a vitally important international legal instrument. It writes into international law, key elements of good governance which apply to environmental decision-making. States which are signatories of the Aarhus Convention bind themselves to consult their citizens on all decisions which affect the environment.

- How does the economic and environmental dimension implement its mandate?

The OSCE - endowed with neither large amounts of money for assistance projects nor vast reservoirs of technical expertise in economic and environmental matters - can act most effectively to counter economic and environmental threats to security. Our office has recently promoted the concept of "The Four C's," namely cataloguing and identifying, catalyzing, convening, and consciousness-raising.

Cataloguing and identifying

Through identifying economic and environmental and social issues posing a threat to security and stability, the aim should be to focus on a small number of

issues and activities, including small projects and specific issues in particular regions of the OSCE, as well as on more general problems.

Catalyzing

The OCEEA acts as a catalyst for the solution of the problems which have been identified. Based on its experience through meetings at headquarters or in the field, or based on reports from OSCE field presences, the OCEEA can catalyse specific action from key partners such as International Organizations, International Financial Institutions or NGO's

Convening

This means the convening of all stake-holders to discuss a particular problem. In many OSCE participating States, there is not yet a well-oiled mechanism for bringing together representatives of Government, opposition parties, the academic community, the business community, the NGO community, and other elements of civil society to discuss a subject of common concern.

Consciousness raising

For civil society to perform its vital "watchdog" function, it must be aware of the agreements and accords to which a government has committed itself. Although an explicit part of the earliest OSCE documents, consciousness-raising has fallen by the wayside. The organisation can act to make sure that citizens know what their governments have signed and what the implications are for their daily lives. They can also raise consciousness about specific issues such as environmental problems and women's rights.

-How to strengthen the economic and environmental dimension of the OSCE

There are a number of tools and instruments which can be effectively used to address key issues in the economic and environmental dimension:

- resolutions of the PC following reports presented by the OCEEA, which themselves are the product of the OCEEA staff, the participating' states and field presences;
- the Economic Co-ordinator and his Office should address the PC whenever it is needed and, if required. after consultation with other organizations;
- concrete activities initiated by OSCE field presences;
- the effects of the seminars and the Economic Forum, and other events organised under the aegis of the OSCE.

Furthermore, there are several possible means, which could help achieve this goal:

- constant dialogue on economic and environmental issues;
- strengthening of the Office of the Co-ordinator of OSCE Economic and Environmental Activities;
- injecting more dynamism in field activities;
- the enhancement of the impact of the OSCE Economic Forum.

4. New Approaches and Perspectives

4.1 Public Private Partnerships and Conflict Prevention

The following is an extract from the UNECE discussion paper "The role of economic factors in conflicts in Europe: How can the multilateral security bodies addressing economic issues be more effective in conflict prevention?"

In recent years, the perception that conflict prevention is the sole responsibility of governments, intergovernmental organizations and NGOs has changed. Increasingly, as a result of the new framework which has been discussed, globalisation, technological changes, and increased social expectations are changing the roles companies play both economically and socially, with the expectation that they do more for the good of a wider group of interested parties, the 'stakeholders'.

Even though the *raision d'etre* of business is to develop business strategies with a primary responsibility of maximising shareholder value, there is an increasing direct link between the financial strength of a company and its wider social role, including its role in conflict prevention. Many companies have altered their former position on involvement in politics. Twenty years ago they were told to 'stay out of politics', and there was an assumption that conflict prevention was separate from, and even in conflict with, business objectives.

However, businesses need a stable political and economic environment to operate. Conflict can have tremendous effects on a company's operations and investments both in terms of risks, and of direct and opportunity costs. Companies also need markets for their products. The European transition economies have the potential for market growth, but this is dependent on their economies growing and on their peoples being able to participate. Development is therefore of interest for business and violent conflicts are a major barrier to development. The threat from terrorism affects business acutely - public and private utilities, the security industry, financial services and tourism.

The private sector can thus lay the basis for peace and security through:

- investments which are critically important for reviving confidence in the economy;
- conflict mediation and capacity building;
- sharing the burden of better enforcement and security
- the enhancement of security of infrastructure and industries.

Examples of Corporate Engagement in Conflict Prevention

Oil companies - Caspian Sea

Past experience in other countries, notably Nigeria and Colombia, has shown that oil is as likely to be a factor in creating and exacerbating violent conflict as a guarantor of stability and prosperity. Therefore in co-operation with the Citizen's Democracy Corps (CDC), and IBLF an on-going dialogue with foreign oil companies investing in the Caspian Sea, national government, intergovernmental agencies and civil society organisations was facilitated. The group meets regularly to explore the role that the oil companies can play in contributing to equitable social and economic development, in particular focusing on the following themes: economic diversification; refugee protection; and democratic development.

BP Amoco - Azerbaijan

On a global basis BP has revised its business principles to include explicit statements on human rights and an annual report on social performance has been established. BP supports a range of community, educational, scientific and cultural initiatives with local partner organisations in Azerbaijan. These include educational support in terms of helping local schools with refurbishment, educational materials and equipment, support for victims of and refugees from the war with Armenia, road safety, and assisting Azeri scientists to develop closer links with their counterparts worldwide. BP has also supported the production of a series of reports on subjects such as nation building, human rights, corruption and the clan system.

Chevron - Kazakhstan

From a supermarket to a bowling alley, the company has been a "venture catalyst" for a wide diversity of entrepreneurs in Kazakhstan. Through partnerships, Chevron Texaco helps transfer western entrepreneurial knowledge to hundreds of local businesses. Joining with the United Nations, the European Bank for Reconstruction and Development and the U.S. Government, the company created the Small and Medium Business Enterprise (SME) program, which has counseled hundreds of local firms, aided in preparation of business plans and helped funding. In addition to the SME program, Chevron Texaco partners with numerous social, educational, health and cultural programs aimed at enhancing people's quality of life.

British American Tobacco - Russia

British American Tobacco works objectively with governments and NGOs to deal with business and development in ways that can benefit both parties. An example of this is the Foreign Investment Advisory Council supervised by the RF Prime Minister. BAT is a member of the council and company representatives take an active part in the work of this influential forum to develop proposals to improve the investment climate in Russia to attract more foreign investments.

Commerzbank AG - Kosovo

In Kosovo, Commerzbank AG has become a joint shareholder with a group of inter-governmental institutions of the Micro Enterprise Bank (MEB). The first bank to be licensed since the recent conflict, MEB will provide account management, money transfers and loans to small and micro-enterprises.

Microsoft - Croatia

Microsoft Croatia is teaming up with the United Nations Commission for Refugees and other partners to launch an IT skills training program for refugees and people displaced by recent conflicts in the region. The program's aim is to provide participants with the basic IT skills that will help them find a job in the new economy.

Microsoft - Russia

Microsoft will make available a grant of \$200,000 and software to the New Perspectives Foundation to establish five multimedia PC learning centres. These centres will be established in underserved communities in rural areas in Russia. The New Perspectives Foundation is a non-profit organization established in 1995 dedicated to empowering young people to build democracy around themselves and their communities, regions and country through its network of 50 partners and affiliates nationally.

Johnson & Johnson - Russia

Through its partnership with the International Federation of Russian Red Cross/Red Crescent, Johnson & Johnson contributed \$1 million in soap, shampoo, baby products, adhesive bandages, and hygiene products. The products were distributed to more than 90,000 flood-affected families, single parents, multi-child families, and other socially vulnerable people in areas that are crippled by malnutrition, poverty and disease.

5. Findings of the Working Group on Sub-regions

5.1 Working Group C: Caucasus

Main threats to security

- unresolved conflict between Armenia and Azerbaijan (ceasefire since 1994);
- unresolved territorial conflict within Georgia;
- unresolved ethnic grievances;
- displaced persons (Azerbaijan & Georgia);
- host country tolerance of malevolent elements of Diaspora communities;
- ineffectively policed territory providing safe havens for criminal activity (eg. smuggling, drug running, terrorism) potential and actual;
- continuing environmental problems (cross border pollution);
- failure of past initiatives and /or implementations of agreements;
- longer term issues poverty, inequality, unemployment.

How threats are currently being addressed

- high-level meetings and negotiations (but see failure above);
- proposals for Security Council resolutions;
- various inter-state agreements negotiated (not all ratified);
- UN/OSCE /NATO projects (Georgia);
- some discussion of regional economic zone and long-term vision;
- police actions against terrorism.

What are the priority tasks for further conflict prevention?

- small scale technical/project work "without prejudice" to wider political agenda;
- medium-scale reciprocal agreements in parallel with high-level negotiations;
- public-private partnerships with a conflict prevention dimension;
- learn lessons from previous implementations;
- persist with attempts to solve political problem.

Recommendations of Working Group C

The Working Group mainly considered the South Caucasus area and its three component states, namely Armenia, Azerbaijan, and Georgia. The Russian Federation was also considered where relevant. The Working Group included representatives from Azerbaijan, Georgia and the Russian Federation but not Armenia, as well as UNECE and other officials from outside the Caucasus area.

Having considered the position as laid out by the officials present, and taking into account the proceedings of the colloquium, the Working Party agreed to suggest the

following courses of action in respect of areas of conflict within the South Caucasus area:

- That discussions of small scale technical issues be undertaken between conflicting parties without prejudice to the overall political situation or to the positions of either party. The Group felt that such discussions would have the benefits of establishing some on-going contact; tackling some necessary matters of substance; and helping to build up confidence between the parties;
- 2. That projects of a related nature be carried out in neighboring states. It is envisaged that although the projects within each country could be self-contained, they would also include elements that could involve cross-border contact and co-operation. It is hoped that these projects would have similar benefits to the technical discussions mentioned above;
- 3. That attempts be continued to agree and implement medium-scale projects of a reciprocal nature (involving some give-and-take by both sides), but that were without prejudice to the overall political situation or to the positions of either party¹. It was envisaged that these projects might be confidence-building as well as providing substantive benefits to both parties;
- 4. That public-private partnership projects with a conflict-prevention and/or peace building dimension be negotiated and implemented, again without prejudice to parties positions. It is possible that such projects might necessitate or stimulate the technical discussions mentioned in (i) above. It is hoped that these projects would be confidence building;
- 5. That attempts be continued to find an overall political settlement so as to alleviate any disappointment arising out of the lack of success of attempts made so far to reach such a settlement:
- That the lessons arising out of the outcomes of the implementation of previous internationally sponsored projects be learnt before embarking on new projects. The role of the ÜNECE, OSCE and NATO hitherto was gratefully acknowledged.

The Working Group considered that items 1 to 5 above might be especially, but not exclusively, useful in the context of frozen conflicts.

¹ In this connection, the representatives of Azerbaijan made the following statement, "A proposal on [the] withdrawal of forces from occupied territories and [the] reciprocal restoration of [the] railroad passing through these regions has been made representing a unique option of combination of settlement measures and cooperation". The Working Group as a whole expressed no opinion as to this statement

6. Conclusions and Recommendations

6.2 UNECE Paper "Conclusions and Recommendations"

Background

The violence in the tragedy of the 11 September attacks in the United States has ushered in a new era. This is now a time for renewal, for new thinking and for creating more efficient approaches to conflict prevention. The tragic experiences in the US, as well as in Europe over the past decade, both clearly demonstrate the need, when confronting rising tensions, to catch the problems as early as possible, before it is too late. To prevent conflict means addressing its root causes.

Increasingly, as has been observed, these root causes tend to be economic in origin. This is why the United Nations Economic Commission for Europe (UNECE) is working closely with the Organisation for Security and Cooperation in Europe (OSCE) to give the Economic and Environmental Dimension of its work a more important and significant impact. Over the years, it has called, *inter alia*, for the renewal of the OSCE's economic commitments, for new approaches to conflict prevention in the form of training for civil servants, for added emphasis to be leant to new environmental threats, for the involvement of the private sector, and for the consideration of more effective mechanisms for responding to early warnings in the economic dimension.

In order to promote new thinking and reflection on the nature of security threats in the economic dimension and how to tackle these threats, the UNECE and the OSCE Economic and Environmental Dimension jointly organised an international colloquium on 'The Role of the Economic Dimension in Conflict Prevention in Europe', held on 19 – 20 November 2001 in Villars, Switzerland. More than 60 experts from the North Atlantic Treaty Organisation (NATO), the European Union (EU), the United Nations Department of Political Affairs (UNDPA), national governments, the private sector, non-governmental organisations (NGOs) and academic institutions together held a forthright discussion on key issues concerning the economic dimension of conflict prevention.²

² All documentation from the Villars colloquium - which includes the UNECE's Discussion Paper - can be found by visiting: www.unece.org/operact

Economic causes of conflict in the region

Primary causes - The participants identified the following roots or primary causes of conflict in Europe:

- economic decline and rising poverty The failure of all but a few states to either enjoy and sustain a period of rapid economic growth, or to deliver real benefits to their populations;
- (ii) growing inequality between and within states This has led to many states feeling disappointed that they have not 'caught-up' with the West, to increased gaps in income and to difficulty in generating hope or incentives for the poorer sections of populations in the context of declining economic circumstances:
- (iii) weak and uncertain state institutions An erosion of state power and the breaking of compacts with civil society. In some instances these have contributed to the regression into older and more traditional social networks, such as those based on clan systems. This process is degenerative and creates the environment within which crime, corruption and terrorism have all emerged to exert undue power and influence.

Secondary causes – The participants also identified a number of significant secondary causes that help sustain conflict. These include:

- (i) *high unemployment* Particularly amongst youth;
- (ii) abuse of ethnicity as a form of political strategy –This has often occurred where a power vacuum has been created by the collapse of former unitary states in an attempt by old political elites to preserve their rule.

The economics of terrorism - Many participants agreed that the issue of financing was of paramount importance in sustaining militant group activities. It was acknowledged that the role of *diasporas* in funding such activities in their countries of origin had been underestimated, as had the role of financial linkages between terrorism and [often transnational] organised crime.

Macro-economic and institutional challenges - Overall, many states are facing severe threats arising from their difficulties in coming to terms with macro-economic and institutional challenges. Foremost among these challenges are:

- (i) the transition to market economies This has been a source of profound distress for many:
- (ii) the effects of the collapse of former unitary states This means that states have simultaneously had to nation-build at the same time as designing effective and sustainable economic policies;
- (iii) *increasing globalisation* This has not produced an equal distribution of benefits, and can leave many states marginalised and highly vulnerable.

Addressing new threats in the economic dimension

While the causes of conflict were identifiable, it has proved more difficult to formulate precise remedies for addressing these successfully. Nevertheless, some **key prescriptions** emerged:

- First and foremost, UNECE OSCE Member States need to implement economic growth policies that will aid poverty-alleviation and halt social disintegration;
- Second, policies need to give more emphasis to building the frameworks for a secure and regulated market economy. There are no short cuts in this process and it will require more significant resources from bilateral and multilateral donors;
- Third, the private sector, it was argued, should play a greater role in assisting states to enhance security; not just to share the resource burden with the state to enforce laws, but also to undertake key investments that can help defuse tensions, for example, investments to alleviate youth unemployment and/or target vulnerable regions;
- Fourth, referring to government policy, participants recognised the need to give more security to national minorities and ethnic groups in the economic field and to provide, if necessary, constitutional guarantees to protect their economic rights. The international community, the OSCE and the Council of Europe have a major role in assisting this process;
- Fifth, participants agued that to address the threat of regional conflicts and to build security, it was important to promote regional economic cooperation. Newly-established regional or sub-regional bodies like the Stability Pact, SECI and the CEI are innovative mechanisms that give states incentives to cooperate. Indeed, it was argued that such regional cooperation bodies might be replicated successfully elsewhere, such as in Central Asia and the South Caucasus region;
- Finally, the participants recognised the central role that the EU plays in building peace and security. Through its offer of closer economic integration to Southeast Europe, the EU has greatly assisted states in that region through the provision of a clear road map for reform and a strong bulwark for security.

A process of renewal and new thinking in conflict prevention

Participants at the Villars colloquium recognised that addressing the key development challenges - such as poor economic performance, increasing divisions and inequalities, rising poverty and weak institutions - lay at the heart of addressing conflict in the region. They urged the OSCE and the UNECE to forge more efficient mechanisms for conflict prevention. It was recognised that the OSCE has made advances in new thinking and the creation of novel approaches; for example through good communication with local field missions, through its links with NGOs and civil society and through its various environmental initiatives. However, participants pressed for less *ad hoc* action, and for more consistent and jointly-managed programmes, incorporating these new approaches, for results to be achieved. A process of renewal and new thinking in conflict prevention was defined, and is synthesised in the following pages.

Raising awareness and new thinking

Economic development - With regards to raising awareness and new thinking, economic development should be the basis of a comprehensive security model for conflict prevention. There is a need to promote the cross-fertilisation of ideas between ministries from different sectors - such as economic development, foreign and political affairs, to promote a better all-round appreciation of the economic instruments that can be used to prevent conflicts.

Conflict prevention training - In order to raise better understanding within governmental, inter-governmental and non-governmental institutions on this new thinking, conflict prevention training can be used to great effect. Training in early warning and preventive measures – such as that provided immediately after the colloquium by the UN Staff College (UNSC) - could also be held in various subregions.

Review commitments - Within this framework for new thinking, it is now time to seriously review the commitments of the OSCE Member States in the economic dimension, which are currently codified in the 1990 Bonn Document. A review would have to take into account new threats to security and new approaches to economic development.

Fight against terrorism - In the fight against terrorism, there is also a need for new thinking and approaches; not necessarily to create something new but rather to build on what already exists. For example, it was proposed that the UNECE's specialised expertise in transport and energy infrastructure, (through which it provides advice on issues such as the transport of dangerous goods), could be the framework for considering further necessary measures that would make vulnerable infrastructure sectors more secure against terrorist attack.

Resource mobilisation

Support - It is not sufficient to merely promote new thinking and approaches; it is also necessary – mindful of the limited resources of states and international bodies - to mobilise practical support amongst new partners to help in implementing this agenda. These new partners include the private sector, civil society and new agencies which have become active in conflict prevention, such as UNDP and its programme on early-warning indicators for conflict in Southeast Europe.

The private sector is involved in many sub-regional activities as part of business councils, either through lobbying for improving the investment environment or for undertaking investment projects. Beyond this, there is a need to bring the private sector into concrete conflict prevention projects and to mobilise and inform them of this new framework, within which their investments can have such beneficial outcomes for themselves and the communities in which they operate. To mobilise private sector support and to create a framework that would allow the private sector to play a more important role in conflict prevention, it was proposed to establish a public-private partnership on conflict prevention under the auspices of the UNECE and OSCE, which would operate within the framework of the UNECE Public-Private Partnership Alliance of Working Party 5 on International Legal and Commercial Practice.³

Building partnerships for implementation of projects

Public-private partnerships - The concept of public-private partnerships would be based on a constant dialogue between the public and private sectors in order to identify long-term conflict prevention strategies, as well as individual operational activities to enhance regional political, social and economic development with a conflict prevention basis. On the implementation of projects, participants identified several PPP projects for conflict prevention where effective partnerships could take place:

- Capacity-building Soliciting the assistance and advice of the private sector in order to: help governments enforce rules and regulations to make their countries more secure against crime and corruption; and identify and solve shortcomings regarding the macroeconomic environment to make the countries of a region more attractive to investors.
- Improving military bodies Making military bodies more accountable, transparent and democratic; Using the private sector's expertise to bring transparency into military expenditure and accounting.

³ Working Party on International Legal and Commercial Practice (WP.5)

- Crime prevention There is a direct link between illicit trafficking and conflict, as well as between trafficking and reduced profits for businesses. Therefore, it is in the interests of both governments as well as the business community to reduce or eliminate trafficking. The private sector could make a significant contribution in training, support and resource supply.
- **Protection of infrastructure** The private sector can help to quantify what is necessary to make the most vulnerable infrastructure sectors more secure against possible terrorist attacks.
- Investment promotion Through its active investments, the private sector can play a significant role in building-up the economies of impoverished regions within Europe; providing jobs, eliminating poverty and increasing living standards. Therefore, an initiative for investment promotion in conflict-prone regions within Europe - such as Central Asia and the Caucasus - should be established.
- Employment for the young A 'Jobs for the Young' programme (providing special employment opportunities and job training) needs to be encouraged, and could be founded by the private sector. This is especially important since statistics indicate that the young unemployed male population is the primary recruiting ground for organised crime and terrorism.
- Supporting small- and medium-sized enterprises (SMEs) To strengthen economic and social development and to ensure long-term economic and political stability within a region, the promotion of small enterprise development is a vital measure. The private sector can play the role of a 'venture catalyst' for a wide diversity of entrepreneurs, transferring their entrepreneurial knowledge to local businesses and helping to fund those businesses through the establishment of micro-credit schemes.

A feasibility study should be undertaken to identify both the most promising projects and also which projects funding is most likely to be attracted to. An international symposium should be held to explain PPP approaches in conflict prevention to the business community. The UNECE could act as a neutral 'broker', bringing together international organisations, governments, the business community and civil society.

Besides cross-sectoral partnerships, participants of the colloquium also stressed the importance of **cross-national partnerships**, creating new regional models of economic cooperation. In some cases, political barriers are holding back the process, and it was therefore suggested that the UN and the OSCE could play a role in mediating such a process in order for cooperative models to be realised

as soon as possible. It was recognised that much has already been done in Southeast Europe, but that there were great needs in other regions as well, such as in the South Caucasus and Central Asia, where greater regional economic cooperation could be fostered. This is not a zero-sum game: each country in each region stands to benefit from greater cooperation amongst its neighbours.

An appropriate framework: 'The Villars Group'

This process needs a vehicle for implementation, for monitoring progress and for achieving results. The UNECE is ready, if support is available, to provide the framework for the so-called Villars Group as a vehicle for the implementation of these new approaches. The Villars Group would be a pan-European, cross-sectoral network of experts, involving military experts, lawyers, NGOs, businesses and representatives of international bodies such as the UNECE, the OSCE, the EU and NATO. A suggestion was made to regularly convene joint UNECE - OSCE informal meetings. This group would not need to be tied to a specific place; it could convene in Vienna or elsewhere, depending on interest and support from national governments.

The main objectives of the group would be to act as:

- (i) an advocate of new multi-dimensional and cross-sectoral conflict prevention thinking and relevant conflict prevention strategies;
- the basis for a cross-fertilisation of ideas and a better exchange between the UNECE and the OSCE in economic matters, utilising synergies and avoiding duplication;
- (iii) a genuine meeting-place for designing, implementing and monitoring practical initiatives in the economic dimension of conflict prevention in Europe.

Plan of action: time-frame for implementation

With regards to the time-frame for implementation, it is useful to divide the objectives into:

- (i) those to be achieved in the short- to medium-term;
- (ii) those to be achieved over the longer-term.

In the short- to medium-term, the Group would:

- Publish the results of the Villars colloquium in order to highlight these new approaches to conflict prevention in the economic dimension;
- Mobilise interested governments to host meetings and provide backing. The UNECE will send out a letter to Member States with this proposal, inviting them to join the process so that they might actively participate in formulating strategies and putting the projects into practice;

- Establish The Villars Group under the UNECE Coordinating Unit for Operational Activities (CUOA);
- Establish the concept of Public-Private Partnerships in Conflict Prevention and mobilise governments and the business community to join and contribute to this initiative;
- Prepare a draft of new commitments in the economic dimension in consultation with members of The Villars Group for deliberation by governments at the next OSCE Economic Forum in Prague.

In the longer-term, the purpose of the Group would be to target more comprehensive strategic development assistance for those conflict–prone regions with the most acute needs.

Conclusion

The UNECE has for some time now been promoting both a new approach to conflict prevention, as well as the development of closer cooperation with the OSCE Economic and Environmental Dimension. The Villars Meeting has brought this cooperation between the UNECE and the OSCE to a new level. The process that this has created could become a vital vehicle for change.

7. Annex 1: UNECE discussion paper

Discussion Paper

The Role of Economic Factors in Conflicts in Europe:

How can the Multilateral Security Bodies Addressing Economic Issues be more Effective in Conflict Prevention?

A UNECE-OSCE Colloquium with the participation of experts from NATO on the Role of the Economic Dimension in Conflict Prevention in Europe Villars, Switzerland, 19 - 20 November 2001

Note by the secretariat:

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1. Introduction

Never more than today has the security of the world appeared so vulnerable. The violence involved in the tragedy of September 11 has ushered in a new era of conflict and terrorist threat that is global in scope. This is not to forget that in the preceding decade, despite the end of the Cold War, conflict in the ECE region, contrary to all hopes and expectations, has increased rather than diminished.

In addition, in discussions on the causes of these conflicts, there is a growing consensus that the root causes tend to be economic in nature. Economic inequalities, conflict over access to employment, credit, land and natural resources, economic decline, institutional hiatus and state collapse, social marginalisation and exclusion have all fuelled conflicts in Europe during the 1990s. In addition, these fundamentally economic causes are recognised as also playing a part in the spread of international terrorism. Clearly, the economic dimension to conflict is important for developing effective conflict prevention actions.

However, multilateral security bodies addressing economic issues, such as the OSCE Economic Dimension, even though they have very clear conflict prevention mandates, do not, in fact, have activities, which strictly speaking, 'prevent ' conflict. These bodies, for example, may raise awareness about the economic component to conflicts. They may also assist in boosting growth and development or encouraging economic cooperation, which indirectly can build peace. But they do not intervene in concrete situations 'on the ground', nor provide ' early warning', undertake rapid response or develop confidence building measures (CBMs) to stave-off conflict as the military, diplomatic and political bodies do.

However, this state of affairs is beginning to change. Recent events in the US are encouraging a new discussion on practical ways in which conflict prevention projects by bodies dealing with economic issues, can be added to the various instruments mentioned above, which are undertaken by their military, political and diplomatic counterparts. This debate is also encouraging NGOs and the private sector to adopt important initiatives in the area of conflict prevention. The Brahimi report has called on the UN system to take new initiatives in peace building and to make a practical effort in conflict prevention. UN recommendations also call for greater cooperation between the UN and regional bodies and for closer links with the private sector to enhance their role in conflict prevention.

Nonetheless, while conflict prevention is now a legitimate objective of multilateral security bodies addressing economic issues, it is much more difficult in practice to develop effective conflict prevention actions. Indeed, some have argued that, however laudable the objectives of undertaking real

This paper thus analyses:

conflict prevention work are, these bodies really cannot feasibly make a difference in preventing armed conflicts. Such an argument however needs to be challenged. A profoundly new world requires a profoundly new thinking and a series of practical and concrete approaches for enhancing the capacity to secure peace. These urgently need to be implemented in order to prevent a repetition of September 11 and other violent acts.

- i. Challenges and new threats to security in Europe
- ii. What is required to address these
- iii. The instruments that are currently used by international security bodies dealing with economic issues
- iv. The way forward to ensure that conflict prevention is made more relevant to deal with the current challenges and new threats

2. Main Challenges and the New Threats to Security in Europe

The nature and types of conflicts, which the international economic community are faced with, has changed radically in the decade since the end of the Cold war. Four types of conflict have been evident in Europe during this period up to the present day.⁴

2.1. Towards a Typology of Conflict

i. Conventional warfare - wars of attrition

The conflict between Azerbaijan and Armenia was the only conventionally fought war in Europe during the last decade. It was fought with regular troops along a defined series of fronts. Targets and objectives were primarily military and strategic. The war made extensive use of technology such as heavy artillery and jet fighters. The increasing cost of such warfare has tended to make these conflicts self-limiting in the region.

ii. Factional warfare

Factional wars are fluid by nature. There is rarely a defined front line and fighting is frequently opportunistic rather than strategic. Warfare is low tech and small arms are the main weapons. Such wars are not costly and can easily be sustained without external support. Frequently, these conflicts move rapidly from the original cause to revolve around the exploitation of commercial, mineral and natural resources. Factions will seek to involve, exploit and control a significant proportion of the civilian population.

⁴ Considering the example of the conflict between Azerbaijan and Armenia there were elements of ethnic tension demonstrated in this conflict as well. Conflicts may, in fact, contain elements from more than one category.

iii. Genocide and ethnic based conflict.

The last decade has seen the re-emergence of genocide and ethnically based conflict. Centrally directed and involving the virulent use of propaganda, these conflicts spread like wildfire and leave a huge death toll, massive displacement, fear and confusion. Ethnic and genocide fighting tends to be low tech, often using small arms. A distinguishing characteristic is the speed with which genocide attacks take place and the high degree of central organisation and planning involved.

Sustaining peace after conflicts is not easy in ethnic-based clashes. Recent evidence shows that in post-conflict situations, large diasporas can substantially raise the risks of a renewal of conflict.

iv. Regional conflicts

The spread of regional conflicts has been another feature linked to ethnicbased fighting. The spill over of tensions from one country into another adds to instability.

v. The "New Warfare" - Violence caused by international terrorism

All four elements of warfare have coalesced into what can be described as the world's "new warfare" – war against terrorism. Terrorism is increasingly not sponsored by individual states. It is fluid, organised as a network and its spread is global. It finds recruits from all classes and all countries including amongst ethnic and marginalised groups in many affluent western cities. In this type of conflict, conventional state forces are frequently engaged in actions against states accused of harbouring terrorists. State forces are, and will become increasingly involved in the protection of key installations, infrastructures and borders, and may find themselves engaged in capital-intensive, attrition warfare with other states. Non-combatants and innocents are the victims of this war. Currently, this kind of war against terrorism - a new type with no beginning and no apparent end - continues.

Critical features of this type of terrorism are:

- (i) The financial basis of terrorism is critical for its success. Terrorism does not arise in a vacuum. It needs training bases, safe havens, soldiers, staff, weapons, and these need money. The money comes from a combination of legal and illegal operations, drugs, extortion etc.
- (ii) Terrorism is closely tied to the growing problem of trafficking in drugs. Many of these terrorist and drug trafficking groups have used the spread of religious extremism only as a means to create instability and thus to establish and secure their trafficking routes.

(iii) The main threat from international terrorism is to large-scale installations, power plants, ports, bridges, drinking water, etc.

2.2. The New Global Economic Environment and Recent Changes in Europe

An effective response to these conflicts and threats requires agreement on, and understanding of, its causes. Past responses to conflict have often failed to understand the context within which conflict has operated or to address causes. First, it is necessary to understand the new global economic environment in which conflict is taking place and then to distinguish between the root causes of conflict, the secondary causes that enable and sustain conflict and the tertiary causes or the drivers that hinder resolution.

The new global economic environment is one of rapid change as barriers to the movement of goods and capital fall, dramatic and continuous advances in technology open new markets and transform existing industries and as changes affect population structures as well.

Within this context the countries in Europe face threats and risks from an interplay of the following forces:

- globalisation which is generating benefits but also new challenges in the form of enhanced competition and the need to find a place in the new order and within new international structures and bodies;
- transition a long process of adjustment and development toward market economies for the countries of central and eastern Europe and the CIS;
- collapse of former unitary states and a reorientation of infrastructures around the emerging new borders.

2.3. Causes of Conflict – Primary Causes

With regards to the causes of conflict in this new economic environment, the root causes are threefold

i. Economic decline and rising poverty

Contrary to expectations, the majority of countries of central and eastern Europe transition brought economic decline. Initial shocks were predicted but not the long-term economic decline and the failure of the majority of states to reach their 1989 levels of GDP. In countries such as Georgia, the Republic of Moldova, Ukraine and Yugoslavia, GDP in 1999 was a mere one third of its pre-transition level. On the other hand there were some successes: Polish GDP was almost 22 percent higher than ten years earlier. But even this success does not hide the economic fragility of these economies. Indeed in only a few countries - no more than six or eight – can it be said that the populations have felt tangible economic benefits from transition. In the

majority of transition economies the social situation has deteriorated (high unemployment, declining living standards, poorly targeted welfare programmes etc).

i. Inequality

Greater inequalities in income have accompanied economic decline. Globalisation and the removal of barriers to trade and capital flows was, according to international trade theory, to lead to a process of convergence in income of the countries of central and eastern Europe with the west. However, no 'catch up' has taken place, except for a few countries from central Europe. For the majority, the gaps have indeed grown bigger. Southeast Europe would have to increase its income by a considerable degree to catch up with central Europe and would have to increase by the same amount again, to be on similar levels with the advanced western economies.

Weak economic performance makes the effects of increased inequality worse because the economies are unable to offer new incentives or hope to lower income groups that their situation will improve. Nor are economies generating incentives to promote new thinking and approaches amongst the population. Inequality between groups is probably the foremost cause of conflict in southeast Europe. It is inequality between groups - rather than individuals - that increases the prospects of violent conflict. It exists on three mutually reinforcing levels: economic, social and political. In such countries, political power and its benefits are monopolised by one group. Unequal access to power perpetuates a similar lack of access to resources and revenue. The treatment of ethnic groups and minorities, exclusion, discrimination and prevention of access to employment, land and credit are the first signs of impending conflict. Where group inequality occurs there is also differential access to education (as has notably been the case in Macedonia). These barriers to personal development play a key role in sustaining inequalities. Where a society is divided into two or three dominant groups, growing inequality between them often leads to conflict.

iii. State 'erosion' and 'capture'

The third cause of conflict is weak institutions, which lead to state collapse. It was always assumed at the beginning of the transition process that institutions would arise almost automatically. What emerged instead in some countries was not new market based institutions, but rather a regress into old kinship patterns, 'clans', and old networks in which groups had survived in

⁵ This theory has not been disproved as substantial barriers to trade and investment still remain. For example, in the EU there are agricultural subsidies contained in the CAP, while in transition economies, poor governance and other informal barriers restrict FDI flows to these countries.

the past. Such a regression "disintegrates" society and constitutes a profound threat to security when coupled with the weak state of economies and the lack of incentives.

The weakening of state institutions is rarely sudden, but arises out of a long degenerative process that is characterised by predatory governments operating through coercion, corruption and personality politics to secure political power and control of resources. The state finds itself unable to any longer provide basic services or security to its people and loses its legitimacy. The collapse of infrastructure completes the break up of the state. The combination of breakdown of institutions and physical infrastructure coupled with the use of ethnic violence creates the conditions in which violence becomes self-sustaining and factional warfare develops. Institutional weakness also can lead to state 'capture' when vested interests, economic or factional and ethnic groups, take over the state and run it in their own interest.

Weak institutions are also caused by a lack of resources and this has led to a dramatic upsurge in crime. For example, the grave weakening of state power in the transition economies weakened the law enforcement and criminal justice systems. Porous frontiers and newly convertible currencies have increased the attractiveness to criminals of local markets for drugs. In the transition economies, as a result, organised crime flourishes in various guises - drug trafficking, counterfeiting, stolen cars and art objects, commerce in illegal aliens, and arms smuggling. Police forces tend to be underpaid, under funded, and ill equipped. This situation encourages the offer and acceptance of bribes, as well as the use of violence by organized gangs against honest law enforcement officials. An atmosphere of inadequate rule of law has weakened support for democratisation and free markets, and has discouraged investment and retarded economic growth.

2.4. Causes of Conflict - Secondary Causes

i. Unemployment, lack of education

Countries with high levels of unemployment among young men, and where male educational levels are low, face a far higher risk of conflict. Throughout history, factional conflict has drawn on a pool of marginalised or socially excluded young men. Increasing insecurity of land tenure in some southeast European countries and a high level of rural unemployment has provided a ready group of participants in the genocide there. Socially marginalised young men have fought in conflicts in many countries. The unemployment rate of the youth has virtually doubled the unemployment average in many countries. In post conflict societies an increase in unemployment is a major risk to renewed conflict. In Yugoslavia the unemployment rate stands now at

more that 40 per cent. In the transition economies approximately 64 million young people are either not employed or not receiving formal education. This forms the social base of organised crime, and militant groups, including terrorism.

ii. The abuse of ethnicity

With the collapse of former unitary states, a power vacuum has been left which typically has been filled by the old political elites. They needed straightaway to define a new nationalist agenda in order to promote nation building. Nationalism has its good as well as its bad side. An 'inclusive' form of nationalism can benefit the process of creating communities and building new nations. But with economic pressures and the failure of elites to develop effective economic policies, there has been a tendency for the elites to use 'exclusive' nationalist approaches emphasising ethnic hatred. Such abuse prolongs conflict, and creates long-term divisions that reduce the effectiveness of peace building efforts. The countries of southeast Europe unfortunately provide ready examples of this 'abuse' of ethnicity. Elements of the government have openly provoked ethnic tensions in the former Yugoslavia with the intention of destabilising security and the integrity of countries. Equally, elements of the armed forces have exploited ethnic differences in order to benefit commercially from the resulting conflict. In both instances community divisions have been deepened and there have been a greater number of fatalities and injury than have been experienced in more conventional fighting.

The essential point is that when conflicts between minorities and ethnic groups are analysed, it is more often than not, fundamentally conflict over the distribution of, or access to, resources; not over being a member of an ethnic group per se. Elites, for their own purposes, tend to cover up these causes by portraying the issues as threats to the survival of the group and with reference to historical events in which the groups were involved a long time in the past.

2.5. Causes of Conflict - Tertiary Causes

Hindering solutions to conflict are the following factors:

i. Removal of regulations on flows of goods and finance

Globalisation has led to the deregulation of financial activities, which makes the task of tracking-down and finding sources of terrorism more difficult. In addition, the use of new technologies makes terrorist operations cheaper and more dangerous.

ii. Inadequate and inappropriate mediation

External mediation is frequently offered in times of conflict, yet the past decade has seen few obvious successes. While the option for peaceful resolution of conflict must always be available, poor mediation processes can make the situation worse and prolong conflict by giving combatants time to rearm and reorganise as has happened in the conflicts in south east Europe. Greater emphasis on securing and maintaining a cessation of hostilities as the first priority is critical. Peace processes need to be able to draw on a wider spectrum of arrangements for transitional government to provide the conditions in which a stable peace, which addresses the fundamental causes of conflict, can be established.

Overall conclusions as to the main threats emerging are the following:

- New threats to security are arising as a result of inequality against a background of economic decline and poor economic performance;
- (ii) States' capacity to deal with threats has been limited by this weak economic performance and institutional uncertainty;
- (iii) Preventing conflict has to be mult-dimensional, addressing at the same time economic, social and institution building;
- (iv) Terrorism has grown strong via its links with business; attacking it, as a business, e.g. cutting its cash flow etc., is an important way of defeating it.

3. New instruments needed to address these new threats

To address these threats, a new agenda consisting of new instruments and approaches is required.

3.1. Resource mobilisation and poverty alleviation

First and foremost, there resources need to be mobilised to help weakened economies. Conflict cannot be dealt with effectively without an international commitment to resource mobilisation for pre- and post-conflict situations and the delivery of resources to where they are needed. There is a need for more resources to be targeted at states which are threatened with collapse. The Carnegie Commission on Preventing Deadly Conflicts recently declared that the cost to the international community of the seven major wars in the 1990s - not including Kosovo – was USD 200 billion – four times the development aid given in any single year. Conflict prevention, therefore, is not just the right thing to do, it also makes sound financial sense. This makes it especially short sighted that the volume of development aid – one of the key tools for conflict prevention – dropped significantly in the 1990s.

Clearly peacekeeping missions can play a part in monitoring and advising. But these alone cannot be sufficient. More resources should be invested in those areas which will achieve social and human development objectives. These should include improving access to basic health care and improving education, clean water, shelter, employment and much more. Conflict prevention thus needs to be coupled, not only with military responses, but also with economic and social actions.

The realities of each situation need to be understood. Not all poor countries are at war, but growing income inequality coupled with declining economic performance can together convince people that they do not have a 'stake' in peace. When this happens, inadequate political and judicial systems are

often unable to manage the social tensions that are created. Competition for land to live on, or to farm, for jobs, access to water or minerals to export, is also at the root of many wars, particularly when the competition intensifies through external shocks or economic austerity programmes.

3.2 Role of Sub-Regional framework

Regional threats and conflicts need to be responded to by regional programmes of cooperation. Such programmes should focus on economic cooperation through public-private partnerships and regional intergovernmental cooperation. Such regional instruments can foster a return to cooperation between states, which is the best way to defuse tensions.

A regional framework is most effective when it can provide some sort of guarantee to the private sector to mitigate the risk of doing business in the region. States alone, with their very high levels of debt, cannot provide such guarantees.

3.3. Support from the private sector and NGOs

Reconstruction, development and poverty alleviation need resources which go beyond those available to states. The private sector should thus be closely involved with conflict prevention strategies. (See New Approaches and Perspectives)

Conflict prevention needs to be successful at the local level, and NGOs and other groups can play a major role. To this end, womens' groups have played a unique role, e.g. the women's movement in the peace processes in Ireland and Yugoslavia.

3.4. Special protection for minorities and ethnic groups

The international community can also help by providing safeguards or constitutional guarantees to minority and ethnic groups that protect their rights to economic security.

3.5 The Financing by Diasporas of Terrorism

The negative role of diasporas in post-conflict situations has been pointed out in exacerbating tensions. The diasporas often harbour more grievances than ethnic groups *in* the countries. They are often wealthier than the groups in the home countries and they have the means to sustain conflict. Diasporas could create, of course, progress through investment in jobs and new industries; instead their finance tends to contribute to destruction and violence. The international community should therefore reduce their damage by co-option,

persuasion and punishment. In some cases, their business activities finance terrorism and should therefore be shut down.

3.6. Democratic principles and institutions

None of the goals mentioned can be achieved without the accountability of leaders to the citizens. It is important that assistance is delivered to countries where there are good standards of governance. Corruption diverts assistance into wasteful activities. This leads to a dilemma for aid agencies and a classic 'chicken and egg' situation. Does the funding come before the countries have minimum governance levels or after? After, and it is too late; only before is there a real need? This is one reason why it is important that international assistance promotes democratic institutions. Democratic rule fosters the accountability of leaders to their citizens.

4. Instruments Used by Multilateral Security Bodies Dealing with Economic Issues

Following this description of the new approaches and new tools needed, how are the existing conflict preventions bodies meeting these new requirements for conflict prevention?

4.1. OSCE Economic Dimension

The main instruments of the OSCE economic dimension are:

- the office of the co-ordinator
- the economic forum
- the OSCE field missions
- i. The OSCE Economic dimension does not undertake resource mobilisation for support of countries that are in breakdown situations, although it does provide a **framework for discussion** of regional cooperation and support.
- ii. The Economic Forums raise awareness on the issues mentioned above. In 2001, the OSCE, in its annual forums and preparatory seminars, focused discussions on the topic of good governance, its importance to security and the importance of institution building.
- iii. It has **stimulated important local actions** through contact with the local offices of OSCE field missions in a select number of OSCE countries. These missions are active in institution and peace building and democratic reform.⁶

⁶ The office of the OSCE economic dimension has successfully raised about 500,000 EURO in voluntary contributions in the last six months for projects being carried out via its field officers

iv. OSCE European Business Congress (EBC) is part of a strategy to build partnership with the business community in the area of conflict prevention. In 1998 the EBC was formed to contribute to peace and security in the region. Its members are exclusively large enterprises from the European business community.

Notwithstanding its contribution, the OSCE economic dimension needs to respond as well to the changing nature of conflict by adopting new approaches.

- The activity of the OSCE economic dimension is not supported by adequate resources and cannot thus carry out follow-up. This weakness is reflected in the documentation, which by its nature is reflective rather than action-oriented.
- Its economic commitments are increasingly not relevant to the current The last substantive set of principles contained in the document of the Conference - known as the Bonn Document (1990) committed the OSCE states to support broadly speaking liberal markets, protection of private property rights and economic transformation. The Bonn document was important in uniting Europe around the principles of economic freedom and in removing the major barriers to economic integration in the region. It remains a valid framework for reform. It did not, however, mention the new globalisation framework or the threats which have emerged within this new framework such as rising poverty, economic division, crime, and corruption. Thus, the framework in which the commitments were presented needs to be updated. Threats are emerging no longer within a framework of closed markets and state-owned enterprises, but within a global environment where most formal barriers to investment and trade have been removed, and capital flows freely across borders without restrictions. A new set of principles would restore credibility to the review process and enhance the relevance of the earlier set of commitments such as those contained in the Bonn document.
- There is also the wider question of whether, even if these principles and frameworks are updated, their presentation in a quasi- legal and constitutional language is the appropriate format for them to be most 'effective' in conflict prevention. Would not the instruments used by the IMF for conditionality etc., be more effective given that the goals of the review of commitments in the OSCE economic dimension are genuinely to encourage implementation?
- The OSCE does not have a legal personality. It is a political organisation, and functions on the basis of consensus on every issue.

The mandate of the secretariat is to support the Chairmanship in Office. It does not have the possibility to take initiatives.

• The EBC involves the private sector but it works exclusively in the business area; it is not engaged in conflict prevention.

4.2. Sub-regional Initiatives - South East Europe (SECI, Stability Pact, CEI etc.), Central Asia, the Caucuses etc.

Sub-regional frameworks are a good instrument to address the root causes of conflict, economic underdevelopment, institutional hiatus etc. Various initiatives have been established in Europe during the last decade.

The following have contributed to the success of the various initiatives:

- Sub-regional frameworks have proved an efficient vehicle for quickly, and
 in a coordinated fashion, raising and delivering resources for development
 and conflict prevention. The best example, the Stability Pact of South east
 Europe, began with a donor's conference. Shortly afterwards it instigated
 a number of targeted 'quick start projects'. The Stability Pact
 demonstrated speed and commitment with the involvement directly of
 donor and beneficiary countries in the programme.
- The EU as the instigator of this activity played a major part in building
 political support. For example, its promise of eventual membership to the
 participants gave a tremendous incentive and a 'road map' for economic
 reform. It offered prospects of real integration to South East Europe with
 the rest of Europe: this offer also was the means for overturning the
 political hardliners and former war leaders by a new democratic
 leadership.
- The Stability Pact delivered programmes simultaneously in economic prosperity, security and democratic institution building, recognising the linkage between these three elements. Only if there is progress in all three sectors can a self-sustaining process of peace get underway.
- The Stability Pact recognises that the prospects for enhanced prosperity and security are ultimately in the hands of the member governments and that they must 'own' the process. SECI, similarly, encourages the states to take over the projects themselves. There is also a commitment to fostering regional cooperation in economic matters, with trade liberalisation and the removal of barriers at borders.

• The role of the private sector is underlined in every initiative, often through the creation of special business councils connected to the initiatives. In SECI, actual enterprises participate in order to 'do business'. In the Stability Pact by contrast, its counterpart plays an advocacy role on behalf of business associations, on, for example, fighting corruption. Individual companies do not participate in the Stability Pact business council. The CEI model is a more fluid and inclusive body, organising very large annual economic summits. Nevertheless, there are also a number of challenges to the successful implementation of these programmes:

- I. Real regional cooperation. Deepening the process of regional cooperation is necessary to tackle the economic problems and the development challenge. This involves countries deciding on their nation's policy priorities and then meeting within a regional framework to develop a coordinated regional programme. However, many of these initiatives take place at a lower level of cooperation between the participants. Typically, representatives from the Ministry of Foreign Affairs are nominated to represent their countries on these sub-regional projects while the sectoral ministries remain outside the process.
- II. Encouraging all states to join sub-regional initiatives. Some governments do not want to join and this can hold back regional cooperation as a whole. In Central Asia and the Caucasus for example, some states are reluctant to join regional cooperation initiatives. In the case of Yugoslavia, its eventual entry in the regional framework was a strong boost to the success of the initiative. These initiatives should therefore increase the incentives for states to join. Massive resources allocated to such cooperation by the donor community will raise the opportunity cost for governments who decide not to join.
- III. The active engagement of the business sector is necessary and this participation should also involve its direct role in the prevention of conflicts.
- IV. Preventing conflict? Since the establishment of initiatives, there has been an upsurge of conflict in Macedonia. How far do these initiatives have mechanisms for preventing conflict in the short term?

Regional cooperation initiatives for conflict prevention can thus be made better. However, this does not detract from the main conclusion, which is that the successful experience of sub-regional initiatives, such as the Stability Pact for South East Europe, should be transferred as quickly as possible to regions such as the Central Asian Republics and the Caucuses.

4.3. The Private Sector's Role in Conflict Prevention

Overall, there is great potential for corporate involvement in conflict-prone situations. The private sector can play a significant role by preventing violent conflict through its investments in impoverished regions, providing jobs and increasing living standards. These can stabilise the situation and can contribute to the development effort. Secondly, corporate business activities should be socially responsible, that is observing environmental/social

standards and human right codes, contracting with local employees and suppliers, frequently monitoring the company's regional impact on conflict causes and consulting with stakeholders on a permanent basis. These activities foster long-term peace. A policy of social investment and supporting philanthropic initiatives, which help to develop a region, such as education, health, house building, food supply and enterprise development programmes, can contribute to conflict prevention. Lastly, businesses can also become engaged in policy dialogue with government institutions, NGOs and other stakeholders to address structural issues that defuse conflict. Apparently, with the framework of the UNDP development assistance and the World Bank Poverty Eradication Programme, such a dialogue involving all civil society representatives discussing poverty eradication strategies is being encouraged.

However much needs to be done to transform such potential into concrete actions:

- The contribution which business can make to some of the regions at risk in Europe, is not taking place because of their very low level of investment. There is a perception that these regions are too risky and there are many alternatives in more secure places for business to make their investments.
- Secondly, individual corporations are taking initiatives. Many international companies, e.g. BP Amoco, Shell, Ericsson, Coca Cola, J&J, Microsoft, have made explicit statements in their business objectives on their social responsibility and have taken already various successful actions in the transition economies (see New Approaches and Perspectives for various case studies). However, more should be done through collective action with business initiatives such as the Prince of Wales business leaders for development process, and within a framework that allows dialogue between the private sector and the international economic community.

The development of this role of fostering conflict prevention activities by the private sector, through partnerships between all-important parties (private sector, governmental and non-governmental organizations) etc, should therefore be encouraged further.

5. A New Approach for Conflict Prevention in Europe – Conclusions

This analysis has confirmed the enormous economic challenge that faces Europe and the critical role which economic divisions and the weakness of the state is playing in the rise of conflict in Europe. It has further identified a number of new and valuable approaches, which can prevent conflict and lower the risk of renewed conflict.

There is a need to:

- 1. raise awareness amongst policy makers of new threats and conflict prevention strategies and the tools to deliver results;
- 2. enhance the capacity of states to implement conflict prevention strategies; and
- 3. improve the quality of response to threats through enhanced safety standards.

Recommendations - Practical and Concrete Steps

The following projects have been selected to address the above-mentioned goals. They have also been chosen because they can be achieved quickly (they can be implemented within already established bodies); are practical and concrete; represent new and imaginative approaches to new threats to security; and do not require a large allocation of resources. All five projects form part of an integrated response to the new challenges.

Awareness and creation of the right frameworks for conflict prevention

- i. Renewal of the OSCE commitments under the economic dimension and its integration with an early warning mechanism
- ii. Creation of regional conflict prevention bodies for the Central Asian Republics and the Caucuses
- iii. Training Programs on Conflict Prevention for Government Officials using multi-dimensional peace building approaches

Resource mobilisation

iv. A public-private partnership programme to increase security against threats

Enhancing safety standards to fight new threats to security

v. Creation of an anti-terrorist corset to protect public and private utilities and essential services in energy and transport from attack

Awareness and creation of the right frameworks for conflict prevention

5.1. Renewal of the OSCE commitments under the Economic Dimension and its integration with an early warning mechanism

A new set of commitments should be prepared to address the current threats to security. The principles need to tackle the threats from economic division, the discrimination and insecurity faced by minorities and ethnic groups, and the role of regional cooperation in enhancing and defusing tensions. These "new commitments" should be an opportunity to provide an encouragement to enforce these commitments as well as to showcase success. Thus, it will be an incentive for governments to participate in the process. It should also be linked to early warning.

Actions: It is proposed that in the drawing-up of these commitments, the drafters should *consult with governments and also experts from the NGOs and the private sector.* UNECE could, if appropriate, be asked by the Chairman-In-Office of OSCE to prepare a draft of such a new document and to submit this draft for discussion at the next OSCE Economic Forum. This task would take the place on the agenda for the Forum of the review of the OSCE economic commitments.

- An early warning mechanism should focus on: a) protection of minority and ethnic groups and their right to economic security; b) a common strategic framework to deal with failing and fragile states, which would include a commitment to state building where necessary; c) governments actions to mitigate terrorist threats to the economic infrastructure.
- Early warning should also present successes and be a means to encourage participating states and NGOs to demonstrate implementation of their commitments.

5.2 Sub-Regional Cooperation

First, the experience of sub-regional cooperation is positive as a conflict prevention instrument. The Stability Pact model offers a path for other regions to follow where tensions exist such as Central Asia and the Caucasus. In both regions, the countries have proposed the establishment of a similar initiative. However, to date nothing concrete has happened. It is therefore proposed that two new sub-regional development/security bodies be established - CAPACT and COPACT - using the Stability Pact for South East Europe and SECI as the models.

Action: Under the auspices of the follow-up activity to the Villars Colloquium, a task force will be established to prepare the way for the creation of two

development/security sub-regional initiatives. The task force will set out a programme and a timetable for implementation.

Resource requirements: The initiative will need seed money from a donor to prepare this initiative and the task force will commit to launching a funding program to raise resources for these initiatives.

5.3. Conflict Prevention Training Seminars for Sub-Regional Programmes

Actions: UN Staff Training College, Turin

Resource Mobilisation

5.4. Private Public Partnerships for Conflict Prevention

The private sector can improve the capacity of the state to enforce rules and regulations and make their countries more secure against crime and corruption. In addition, they can provide assistance and advice to governments on how to diversify their economic structures. (In the case of central Asia, diversification of its economy from its reliance on cotton production will improve the management of scarce water resources, itself a cause of tension in that region). Companies themselves can gain from this process and thus have an interest in making this initiative a success.

Action:

Companies should be approached to provide assistance in two areas: enhancing security, i.e. improving enforcement of laws and safeguarding vulnerable sectors against terrorist attacks etc, and; developing and diversifying economies. A company should be selected and twinned to a particular country and a plan of action developed. The company, it is assumed, will already have an interest in working in the country and have an insight into requirements. The outcome will be an analysis/action programme produced by the joint partnership between the private companies and the governments on what needs to be done, how it can be done and what resources are required. The projects as defined by the company and the government will be presented for implementation under the auspices of the follow-up to the Villars Colloquium.

Enhancing safety standards to fight new threats to security

5.5. An Anti- Terror 'Corset'

The vulnerability of key installation infrastructures to terror attacks is acute. There needs to be a review of existing procedures; how these procedures can be improved, how this can be financed and what the legal implications are. In some cases, such as in trade facilitation, the procedures exist nationally within the customs authorities but there is insufficient cooperation between governments, hence many procedures are not implemented. The bodies with the necessary expertise and an already established network of government experts will carry out this review. e.g. the UNECE Transport, Energy Committees, WP 5 etc

Action:

The tightening of the corset will reduce risk and scope for actions that can have disastrous consequences. A plan of action is needed on how stage-by-stage the scope for attack in each of the critical sectors - energy, transport, customs etc. - can be reduced. It should provide basic indications on future work to identify the most vulnerable energy and other areas with suggestions for provisional security measures.

Experts to be invited from:

- major oil and gas companies;
- oil/gas transportation companies;
- electricity generators (power stations);
- operators of gas storages, oil and LNG terminals;
- transport specialists
- industrial safety experts
- logistics specialists
- security and risk analysis experts
- insurance companies

Implementation of the Action Programme:

To ensure that these five recommendations are implemented: it is suggested as a follow-up to the Villars meeting that:

i. A network of experts - to be called The Villars Group - will be established to encourage implementation and to foster multidimensional and cross-sectoral approaches to conflict prevention. This network will interact and have members from the international bodies dealing with conflict prevention in the economic dimension and others. The work will look at the pan-European theatre with emphasis upon Southeast Europe, the Caucasus and Central Asia. It will act as an advocate for new conflict prevention approaches, as well as for the creation of effective sub-regional structures for conflict prevention. It will advocate, mobilise support, recruit and publicise the partnership programme on conflict prevention involving the private sector.

ii. Switzerland as a location for this initiative is appropriate because of its history, its economy, its democratic institutions and the relationship of its armed forces with civil society and the state.

The 'Villars' group will be built around two pillars:

- An annual analysis of modern threats that provides both an intellectual framework and recommendations for the meetings of the UN and the OSCE governing bodies;
- ii. Specialised projects to directly address economic-related threats to security.

Action: UNECE/OSCE will send letters to organisations and persons inviting ideas and concepts and the organisation/person to join. This initiative will create a cross-European network of new players, such as military experts, lawyers, businesses and representatives of international bodies and security groupings, such as NATO and the OSCE. This network will foster dialogue in an informal manner amongst bodies, public and private, national and international and from all countries. 'The Villars Group' may become an annual meeting with the aspiration to fill a gap and to create a genuine meeting place for new concepts and for implementing practical steps in the economic dimension to conflict prevention, something which might be described as the 'Davos' of peace-building.

6. Some Questions for Further Discussion

6.1. Role of Sub-Regional Initiatives:

- i. How effective have the sub-regional initiatives been in preventing conflict?
- ii. With regard to the establishment of new Stability Pact style initiatives for other regions, such as the Caucuses or Central Asia, to what extent would they be welcomed?
- iii. In Central Asia despite some border disputes and tensions, an international war appears to be very unlikely. Is a regional cooperation initiative thus needed?
- iv. For the two proposed new sub-regional initiatives what other countries, if any, might be asked to join?

6.2. Role of Public-Private Partnerships

i. In the Caucasus are the private partnerships involving the oil companies necessarily stabilising ones?

6.3. Inequality and Conflicts

Some of the groups involved in the recent conflict in Southeast Europe were being financed by remittances from diasporas and were also very entrepreneurial. To what extent was rising inequality therefore a cause of conflict in these instances where the groups involved appear not to be poor?

6.4. Financing of Terror

According to reports (Washington Post Nov. 12, 2001) not much money was needed for the funding of September 11. Is such an assertion true and, if so, what implications does this have for monitoring the sources of funds used by terrorist?

7. Annex 1

Causes of Recent Conflicts in Europe

Southeast Europe

Interethnic conflict was fuelled by a combination of economic and institutional weaknesses and the failure of state to undertake necessary economic reform. SEE was one of the weakest of all regions, in terms of investment, trade and growth. It suffered from **corrupt leaderships while the institutional basis of the state continued to atrophy** and the creation of an institutional hiatus. The institutions established to promote the market economy were either weak or non-existent. When ethnic tensions emerged the state institutions collapsed.

The Caucuses

Poor economic management weakened highly centralised states. The inability to provide basic levels of policing and social services helped to lead to the weakening of state authority. Internal conflict increased dramatically throughout the 1990s. In extreme cases, fragmentation encouraged the formation and proliferation of splinter groups, which in turn divided into warring factions. The very nature of conflict changed. The civilian population increasingly became the target of conflict in factional wars and was subjected to particularly high levels of violence and abuse. This resulted in massive displacement as well as social and economic distress.

Central Asia

Militant Islam fuelled tensions in the region. The core cause was thus economic, but the form tended to be interethnic religion. The political exploitation of ethnic discrimination in Europe has its roots in communism. When the ethnic issues were subsumed, the collapse of communism led to their resurgence. In general, ethnicity is used as a means to sustain conflict and is rarely a primary cause. Yet, the increasing marginalisation of the poor has provided fertile ground for those promoting ethnic conflict as a means of sustaining their own control over power. Ethnic violence is in danger of becoming part of the culture of conflict in Europe.

8. Annex 2

Examples of threats from international terrorism to Europe's infrastructure: case of the energy sector

As an example of the threats posed by international terrorism to infrastructure and the vulnerability to attack on the energy sector, it is worth looking in detail at this sector in the ECE region. The energy infrastructure is a highly complex network of often interdependent crude oil, natural gas, electricity and coal facilities and plants. It is composed of numerous primary energy producing units which are connected to the final energy market either thorough a vast pipeline infrastructure or other transport routes, sea routes included. At the same time, the final energy producers such as power stations are linked to end-users by an expensive and elaborate high to low voltage transmission system. The complexity of the energy sector operations and its vast and very expensive infrastructure makes it a relatively easy target for various kinds of sabotage operations. The damage potential of only one such major operation might be tremendous and difficult to prevent.

The energy sector has been keen to provide appropriate security all along the energy chain and in particular to its end-users. With this goal in mind, the sector achieved considerable supply diversification wherever it was possible including supply network optimisation, such as in the case of natural gas in continental Europe. However, the practiced security has little to do with potential terrorist threats and cannot be considered as an adequate response to such threats.

The vulnerability of the energy sector can be best described by the following elements:

- Absence of spare capacity in pipelines and electricity networks in the region;
- ii. Inability to have appropriate network interconnections such as in the electricity markets in Europe and the USA which are currently represented by numerous regional and, in some cases, small markets;
- iii. High vulnerability of both USA and Europe to energy supply shocks and in particular crude oil and natural gas;
- iv. Increasing imports dependence with no other solution currently in sight;
- v. Investment uncertainty due to inappropriate regulatory climate which blocks much needed investments in the region;
- vi. High volatility of the commodity and financial markets that further complicate the energy security picture;
- vii. Existence of a large number of nuclear facilities; and

viii. Probability that a large-scale terrorist action on the energy infrastructure might carry a death and damage risk beyond the sector itself.

Although the consequences of potential attack on the energy facilities in the USA are also significant, Europe's vulnerability seems to be much more pronounced.