

Economics of Conflict and Peace with focus on Nepal

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1. Background

The economy of a country largely gets affected as and when there is conflict. The longer the conflict, the more severe is the economic loss. As compared to the no-conflict situation, the annual loss to an economy due to the conflict is enormous. It affects GDP per capita growth negatively. It also affects investment climate. Even domestic investors generally shy off from making an investment during the conflict. The foreign investors are more sensitive and they often prefer to take away their capital from the industries.

At the micro level, the organizational units have to pay fees to the lawyers and professional bodies to settle conflict. There are productivity costs in the form of value of lost time because of the diversion of workers' efforts from normal duties and also due to the reduction in motivation to work. Absenteeism is the normal phenomena during this period.

As well known, poverty is one of the most important reasons for the outbreak of conflict. Studies show that during last two decades eight out of ten of the countries with the lowest Human Development Index (HDI) had experienced one or the other kind of conflict. A country has a tendency to become conflict prone when there is weak HD along with sharp horizontal inequalities (His). A vicious cycle is formed when conflict aggravates HD and in turn weak and exclusionary HD accentuates conflict (Stewart, 2007). Conflict affects HD in all major areas such as life expectancy, incomes and education of the people. Besides, it also negatively affects human security and freedoms of the people.

There are certain direct economic costs involved in conflict due to escalation in military expenditure, increase in medical costs, destruction of infrastructure and care for the displaced people. But the economic costs of conflict are quite often indirect. Indirect costs are more serious in nature than the direct costs for the loss of income due to foregone investment, loss of livelihoods resulting from the dislocation of the economy, reduced tourist arrivals, human capital dead and the injured persons, affect in output due to the displacement of people, fall in income from valuable natural resources, inflation, debt, unemployment and trauma.

Additionally, indirect economic costs are due to the destruction of economic infrastructure, environmental degradation, break in communication, restricted export markets and poor foreign exchange earnings. All this affects the prospects of the administrative machinery to mobilize adequate tax revenue for the state and on allocation of resources to finance social services. As a result, the affected population has a tendency to migrate outside for protection and employment opportunities. The conflict together with migration of the population dampens the prospects of proper utilization of productive resources such as agriculture, industry and the trade sectors. Sometimes the disruption in supplies and escalation of food prices results into famines.

2.0 Impacts of Conflict

In Mozambique, there was destruction of nearly two-thirds of dams and either closure or destruction of about 60% of primary schools. Around 50% of the doctors and 80% of the pharmacists left Uganda in late 1970s. Calorie consumption drastically reduced in 70% of the countries affected by conflict such as in Ethiopia, Liberia, Mozambique, Sierra Leone, Somalia and Afghanistan.

There was substantial fall in government expenditure on health and education in 10 out of 14 conflict-affected countries. In Angola and Mozambique, there was a severe fall in enrollment of students. Infant and adult mortality rates notably increased in Uganda. Millions of people were killed in Sudan famines of 1980 and 1998 and in Ethiopian famine of 1984 (Stewart, 2007). Also, there was major disruption in food supplies leading to malnutrition of people of different age groups, particularly that of women and children in many of the conflict affected countries.

In Colombia, the long civil war cost US \$ 10 billion per year, which was close to 11.4% of its GNP. The cost of conflict in Uganda in 16 years cost nearly 3% of its GDP. In Philippine, 40% of the annual budget was diverted to military expenditure. Indonesia had to spend almost US \$ 1 million each day for its occupation of East Timor (Brahm, Eric. 2004). In 1980s during the Cold War period, two of the three governments spent more on defending their citizens than protecting them from disease, accidents and ill health. During this period, one out of three governments spent more on military activities than on the education and health of their citizens.

- The conflict in Afghanistan cost US \$ 240 billion in military supplies, humanitarian assistance and lost economic growth during two-decades.
- It cost Russia \$ 101.7 million per day in Georgia's breakaway republic of South Ossetia for deploying 30,000 troops, armored vehicles, equipment and naval vessels.
- The United States spends \$ 10 billion per month in war in Iraq and additional \$ 2 billion in Afghanistan (<http://en.rian.ru/russia/20080820/116153237.html>).
- Since 1990, \$ 300 was lost in conflict by Algeria, Angola, Burundi, Central African Republic, Chad, Democratic Republic of Congo, Cote d'Ivoire, Djibouti, Eritrea, Ethiopia, Ghana, Guinea, Guinea-Bissau, Liberia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Sudan and Uganda.
- Armed conflict cost African nations about \$ 18 billion per year. It reduced their economy by 15% and derailed development activities on a massive scale. With this money, even the HIV/AIDS crisis could have been controlled in Africa. It would have contributed significantly in providing education, water and prevention/treatment of diseases like TB or malaria in this region. Thousands of hospitals, schools and roads might have been built in this region with this money and poverty could have been substantially reduced.

1.0 Costs of Conflict in Uganda and Eritrea

The costs of war in Uganda amounted to nearly US \$ 1.3 billion during the conflict, which is presented in Table 1.

Table 1: Costs of War in Uganda

Rank	Cost Item	%
1.	Direct Military Expenditure	27.58
2.	Loss of Income from Crops	15.96
3.	Reduction in Tourism	13.90
4.	Increased Medical Cost	10.38
5.	Loss of Output due to Ill Health	7.47

6.	Loss of Income from Sales of Livestock	4.80
7.	Loss of Livestock (cattle)	2.61
8.	Loss of Life	2.58
9.	Costs related to West Nile	2.42
10.	Loss of Foreign Exchange Earnings	2.27
11.	Loss of Houses	1.46
12.	Loss of Tax Revenue	1.42
13.	Loss of Donor Funds due to Conflict	1.01
14.	Loss of Crop due to Forced Move to Camps	1.00
15.	Loss of Household Goods and Tools	0.98
16.	Loss of Investment due to Conflict	0.50
17.	Loss of Production/Income due to Illiteracy	0.50
18.	Cost of Externalizing Debt	0.26
19.	Impact of War related to Lira Districts	0.13
20.	Environmental and Land Degradation Costs	0.13
21.	Frozen Investments in IDP Camps	0.11
22.	Roads and Bridges Destroyed (Gulu Only)	0.10
23.	Outmigration	0.03
24.	Cost of Government Offices Destroyed	0.01
Total		100

Source: Jeff Dorsey & Steven Opeitum. 2002. **The Net Economic Cost of the Conflict in the Acholiland Sub-Region of Uganda**: Kampala, p. 30.

In Eritrea, the impact of war was not just confined to killings, imprisonment, torture and displacement of population, but it stretched far beyond devastating the main fabrics of the national economy. Amanuel Mehreteab presents a picture of the loss to the Eritrean economy due to conflict in Table 2:

Table 2: Ethiopian Military Actions – Impacts on Rural Eritrea 1986-91

Action	Total
Persons conscripted (since 1984)	53,300
Persons killed	8,400
Persons imprisoned	14,200
Food confiscated or destroyed (tones)	44,200
Land destroyed/mined (hectares)	70,000
Homes destroyed	52,000
Camels confiscated or killed	15,100
Cattle confiscated or killed	86,100
Pack animals confiscated or killed	43,700
Sheep/goats confiscated or killed	321,000

Source: Leeds Food Needs Surveys 1987, 1991 in **Wake Up, Hanna! Reintegration and Reconstruction Challenges for Post-War Eritrea** by Amanuel Mehreteab published by The Red Sea Press, Inc: Asmara, 2004.

4.0 Conflict in Nepal

There was major set-back to the Nepalese economy decade-long Maoist insurgency beginning in 1996 with “people’s war.” Over 15,000 people were killed during this armed conflict. There were heavy atrocities against the civilian population. Extra-judicial killings, disappearances and abductions by the warring factions were rampant. The most common form of torture and inhuman treatment inflicted by all side of the conflict included beatings, threats, humiliation, forced incongruent acts, social isolation, tying down, rape and different other sorts of sexual harassment (NHRC, 2003).

The violent conflict compelled thousands of individuals and families to get displaced to the district headquarters and urban areas for livelihood and security to their life. The government estimated the number of the displaced population to be 5,656; while UNDP estimated this figure between 150,000 and 200,000. On the other hand, Force Nepal estimated the number of IDPs as 400,000 (Annapurn Post, 2005).

Thousands of girls between the age of 15 and 30 were forced to make their livelihood by working at the restaurants as dancers and waitresses as cabin girls. Many of these girls numbering 70,000 at the national level are believed to have involved in degraded activities.

All the sections of the Nepalese population were affected by the conflict irrespective of the economic status, ethnicity and social background. Most of them were compelled to live in the environment of tension and insecurity. Many of the women were separated from their families. The single women had to face added income insecurity as their husbands either fled or were killed.

Since many of the schools and school compounds were used as forts by the warring factions, many of the children lost the opportunity of education. Many of the Dalits and Janajatis were suspected of being the supporters of rebel forces and so they had difficulty in making earnings. The regular *bundhs* of short and long-term duration affected the movement of the people. In several districts, food supplies were stopped due to the transport problem.

As the torture by the warring factions continued, thousands of people were forced to flee the country across the border to India, the Gulf countries, the Middle East and different other countries of the world. Since 2003, the number of people crossing over the border to India due to the conflict shot up to 2,000 each day (<http://www.ipsnews.co.th/writingpeace/features/nepal.html>). From the Nepalgunj sector alone, the number of people crossing over the Nepal-India border in November/December 2003 averaged to be 1,200. In the previous years, this figure used to be in the range of 300 to 400 (Save the Children, 2005). It was estimated that the conflict forced 2 million people to migrate to overseas for employment. Millions more migrated India.

5.0 Economic Costs of Conflict

During the conflict, the rate of economic growth of the nation plummeted to all the time low to 1.9% during 2002-2004 as compared to the rate of economic growth of 4.9% in the decade before. Had this trend continued between 2005 and 2009, the country might have lost about 57% of economic growth mainly due to the decline in development expenditure (Ra and Singh, 2005). There was hardly any sector that escaped devastation – be it agriculture, industry or trade, though no authentic survey has so far been conducted in this area.

Development activities in the VDCs and DDCs came to the halt as funds expected to be disbursed by those bodies were diverted to other sectors. It affected people’s livelihood and

prospect of employment opportunities. The deterioration in the security environment even blocked the access of many of the GOs, INGOs, donor and multilateral agencies to the grassroots levels. In many corners of the country, even health posts, sub-health posts, drinking water system and public communications systems were destroyed.

As many as 1,500 VDC buildings were partially or completely destroyed (Mahat, 2006). Many of the rural bridges, schools, communication installations, district level government offices, police posts and private properties were damaged (Jha, 2006). Sale of goods produced by private sector declined by 20 to 25% in the rural market (WB, no date). The situation aggravated to such an extent that even the revenue was collected simultaneously by the government and rebels (Timilsina, 2005). The development expenditure recorded a fall of one-third during 2001 to 2004 period due to the conflict (Stewart, 2007).

Various estimates have been made about the costs of conflict in Nepal. DFID estimated the cost of conflict in Nepal at 8-10% of GDP; while National Peace Campaign (2004) estimate the cost of conflict to be \$ 66.2 billion between 1996 and 2003 (Ra and Singh, 2005). Economic costs of destruction in some of these areas were also estimated at \$2 billion (Dahal, 2006:27).

As per the estimate of Asian Development Bank, infrastructures amounting to minimum \$250 million were destroyed. Frequent strikes, blockades, shutdowns and extortion escalated the costs of economic activity resulting into economic slowdown. Private investment rate plummeted to 12.6% in 2004 from 15.4% in 1996. Foreign investors desisted from making any investment (Ra and Singh, 2005). The development expenditure of the government declined from 9% of the GDP in 2001 to as low as 6% in 2004. On the other hand, the security expenditure of the government during this period nearly doubled from 1.6% to 3%.

The royal coup of February 1, 2005 further aggravated the prospect of socio-economic development of Nepal. Because of this regressive step, the local production of goods and services recorded a lowest level growth of 2% or so, which was even lower than the population growth of the country. There was a decline in foreign grants as well as in government development expenditure on account of the internal conflict. Of the \$ 1.8 billion budget in 2005/2006, 20% of the resources were diverted to the security sector. It was estimated that development aid to the tune of \$ 250 million was either suspended or postponed. This directly affected major development programmes related to poverty-reduction, rural development, education, health and forestry (Devkota, 2005). Norway during this period made a decision not to investment in half-billion dollar water supply project in Kathmandu. The World Bank followed the suit and withdrew its 65 million investments in this project.

6.0 Peace Dividend

Unlike the conflict, peace has a tendency to accelerate growth and growth in turn creates an environment of peace. In many countries, the economic growth has been the outcome of peace. It was in the environment of peace that the per capita income in East Asia increased substantially. Korea and Japan are its glaring examples. In Korea, the per capita income growth recorded a growth of 8 fold over half of the century. Also, along with the increase in the per capita income in East Asia, the life expectancy of the people tended to increase. Reversely, in many of the sub-Saharan African countries, it was due to the lack of peace that income of the people is lower now than what it used to be some 20 or 30 years ago.

The Basque country used to be one of the most prosperous regions in Spain. In 1960s, it had higher per capita income, higher investment ratio, higher industrial production and better

educated labour force. But things changed for the worse once the terrorist activity took its ugly rise in the region. Of the 17 regions in Spain, it occupied 3rd position in terms of per capita income until the outbreak of terrorist activity in early 1970s. But within about three decades of terrorist and political conflict, the per capita income in the Basque Country plunged from 3rd position in 1970s to 6th position in 1990s. In the terrorist activities, 800 people were killed. Many entrepreneurs and corporations were targeted through assassinations, robberies and kidnapping for ransom. Political instability in the Basque led to decline in both domestic and foreign direct investments. But as soon as the terrorist outfit called ETA announced a cease-fire on 16 September 1998, Basque stocks outperformed non-Basque stocks as truce became credible (Abadie and Gardeazabal, 2002).

However, the importance of peace is yet to be properly understood in many of the countries or by the organizations. At the micro level, often strife between the employers and employees results into serious loss to these two parties. There is still an outdated mindset both among the employers and the employees for their belief in “zero sum game” in which one party thinks of gaining by squeezing the other. The employers have a tendency to think that the employees would ultimately surrender and come to the negotiation table as they cannot do without the organization. On the other hand, the employees also think that the management would have to come to the terms as they cannot do without them. In this process, there is a great loss of production and income and generally both the parties suffer. Ultimately, both the parties have to come to the negotiating table but it happens at a great cost.

Therefore, learning lessons from the outside world, the Government of Nepal has now taken certain initiatives in the post-conflict situation to transform the conflict-torn economy into a reconstructed economy. The Nepalese budget for 2008-2009 gave further impetus to the transformation of agricultural sector, development of water resources, expansion of tourism sector, improvement in physical infrastructural facilities, human resource development, and national industrialization. More than anything else, the budget has been able to give a new direction to the ailing Nepalese economy to move towards the current world trend of globalization without making much of the compromise on the socialist transformation of the state through certain people’s oriented programmes. Some of these efforts might help restore peace and development in the country.

Despite the conflict in Nepal, there have been some benefits to the economy. The remittance from overseas workers, particularly from India, Arab countries and Malaysia shot up significantly from US \$ 139 million in 2001 to US \$ 808 million in 2004, which constitute 14% of GDP and 56% of total foreign currency reserves (Horfmann and Grossmann, 2005). In 2007, the remittances from foreign employment recorded NRs. 143 billion or US \$ 2 billion, which is about 20% of the country’s total GNI (Gautam, 2008).

As against the negative growth rate during the later part of conflict in Nepal, the GDP growth rate in 2007-2008 was estimated to be 5.6%. The smoothening of peace process and improvement in law and order situation are more important than any other factors for this encouraging development.

1.0 Conclusion

As for any other country, for Nepal too, the path of growth is the path of peace. Conflict is the road to disaster. No organization, society and nation has ever benefited from conflict. World history – be it European, Asian or African has the same experience. In this light, it is encouraging that the different conflicting parties in Nepal understood the futility of “conflict” and

within a short span of time after the Peace Accord in 2006 they made a history by successfully conducting CA elections, abolition of feudal monarchy, formation of new coalition government and allocating substantial funds for the reconstruction of badly shattered infrastructural facilities in order to restore permanent peace in Nepal. Now the signs of recovery have started appearing in economic front. However, a lot needs to be done in the time to come towards enforcing rule of law, avoiding hyper-politicization and maintaining consistency in policy messages and action for avoiding conflict and reaping the advantage of peace dividend in the long-term perspective.

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