A Political Economy Perspective of How Corruption Happens in Conflict and Peacebuilding
Michael Pugh, University of Bradford
Originally presented as a commentary for Colloquium on The Nexus: Corruption, Conflict and Peacebuilding, The Fletcher School, Tufts University, 13 April 2007

Preliminaries

- This commentary adopts a critical political economy perspective and therefore contests the liberal order that divorces the political from the economic. Orthodox ‘economy building’ operations adopt unreflective assumptions about economic laws and treat economic reform as a technical, a-political, value-free issue. Nor does the critical perspective offered here endorse the liberal project’s assumption that physical and structural violence can be artificially divorced. This piece contends that distributive injustice and structural violence continue when physical violence stops.

- A broad definition of corruption is used here in order to capture phenomena that are excluded by a narrow emphasis on abuse of public office or ‘entrusted power’, i.e. mere political corruption. A critical theory perspective warrants a broad definition because:
  (a) there is usually limited and contested public office in conflict zones, let alone much ‘entrusting’;
  (b) the restricted definition creates silence over ‘non-political corruption’, such as corporate corruption (at which advanced capitalist societies excel).

- The commentary makes particular reference to Bosnia and Hercegovina (BiH) and indicates how corruption occurs, who is involved and why it persists. A provocative finale follows.

The How

- Legacies of pre-conflict corruption include crony economic development; avoidance of regulation and command planning; and fraudulent accounting to meet targets.

- Sanctions, where applied, provide a considerable boost to corruption because of the incentives to evade that may result in new means to control trade, as happened in BiH, Macedonia and Serbia for example.²

---

¹ Transparency International’s Global Corruption Report for 2004 focused on political corruption, defined as: ‘the abuse of entrusted power for private gain’ (p.11), which omitted company fraud and those not entrusted with power (though ‘power’ like ‘private’ is not defined). It is a contention of critical international relations that the public and private spheres are difficult to distinguish in advanced modernity.

Conflict creates new incentive structures for primitive capital accumulation (i.e. the acquisition of surplus value as a process delimited by Marx in which capital is acquired and markets expand). It can be interpreted as continuous and not just bound historically and involves plunder and violence as well as profits made from exchange. These conflict incentives include:

(a) change in the pattern of diminishing marginal returns because of shortages (i.e. the high value of goods for which there is no regular supply creates profit windfalls);
(b) displacement of ‘legal’ options;
(c) enhanced discrimination against ‘others’;
(d) predation and looting;
(e) resource exploitation;
(f) new borders that create obstructions and incentives for engaging in risky exchange;
(g) borderlands grow in significance and gain extra-territorial linkages as central authority weakens.

The conflict endgame (the military, political, economic and social relations that coalesce around developing a peace) can create opportunities for corruption. Dayton created multiple layers of authority that proliferated such opportunities, notably in the Federation.

Violence and intimidation is used to protect new empires, though it has largely been superseded by divisions of spoils or the isolation of rivals.

Peacebuilding creates incentives for corruption because by definition corruption can only exist where efforts to establish rule of law are undertaken. An even more critical stance is that: ‘These regulatory frameworks are evasive ones because rather than [the ‘international community’] taking political responsibility for its regulatory policies it seeks to assert that its actions are merely facilitating the will of the governed, aimed at empowering and capacity building both states and their citizens.’

In BiH economic policies have meshed with corruption, especially through the sequestration and redistribution of assets (including public/social assets), asset stripping, privatisation, decentralisation, sub-contracting, lack of employment policies and the absence of policing/judicial system.

The Who

Controllers of scarce goods. In combat economies strongmen engage in predation and exploitation at various levels. They may be warlords or pre-war security personnel and pre-war entrepreneurs. They may be intellectuals and self-styled ‘patriots’ (Karadžić). Often they are opportunists acquiring capital. In BiH, smuggling was often an opportunistic venture. Sometimes such control is associated with ‘resource wars’ but often with ‘service provision’.

Political and religious elites establishing and reinforcing clientalism, patronimialism and control of constituencies. In BiH, political parties are perceived as the most

---

corrupt institutions in BiH. Party leaders developed a symbiotic relationship with shadow economies.4

- Entrepreneurs with access to resources. BiH lacked an easily transported mineral wealth or an agricultural crop comparable to poppy cultivation in Afghanistan (where farmers can make gains). But it has forestry. In BiH the timber business was riddled with illegal logging, unlicensed saw mills and links to persons subsequently indicted for war crimes. Srpske Sume has a timber web, up to 50% owned by the SDS (Serbian Democratic Party, which supports Karadžić) and another 50% by the PDP (Party of Democratic Progress).5 Srpske Sume has links with a roads and construction firm (Interkop) in Serbia and firms in the Federation as well as RS logging companies.

- Mobility controllers are just as significant as resource controllers. Officials and others who control movement and access can charge premiums because mobility is interrupted by conflict. In BiH the political borders erected by Dayton also reinforced the profits to be made by crossing them. The costs of access and movement and those who control it charge premiums, including taxation of relief supplies. If the risks and costs associated with a particular route increase then it can often be displaced.6 It should be unsurprising that hotels serving as transit points became sites of money laundering and trafficking.

- Transport owners and conveyors are in high demand for their services. Although vulnerable to hijacking and taxation by route controllers, they can also smuggle using: petrol tankers (BiH), boats (Albania), mules (Kosovo), motorcycles (Sierra Leone), or camels (Afghanistan). Bus and truck drivers can rise in the hierarchy. In wartime Herceg Bosna a truck driver, Dinko Slezak Dika, dealt in gold, built up a Mostar construction company reportedly worth US$250 million and became part of the Prlić group, the country’s strongest economic and financial empire by 2001.7 Smuggling fuel and money during sanctions and war led, unsurprisingly, to garages and petrol stations becoming a significant channel for laundering money.

- Dealers who understand financial transactions have been significant in swindles such as setting up phantom companies, paying for goods that are not supplied and customs frauds. Thousands of deutschmarks entered the Bihać enclave with every vehicle during the war. Unsurprisingly, banks, both public and private became foci of corrupt activity, even though bank privatisation was considered by internationals as

---


5 The PDP provided two RS Prime Ministers, both economists, Mladen Ivanić and Dragan Mikerević. The latter was also embroiled in an oil refinery deal, but was a ‘moderate’ in calling on Karadžić to give himself up. Both ministers resigned office in protest at the OHR’s centralisation policies. Mikerević is now Chair of the Steering Board, Association of Accountants and Auditors of RS.


7 Neven Katunarić and Marijan Puntararić, ‘Prlić i partnari sada Peru Robu u Pistom Moru Makarske Rivijere’, [*Prlić and his partners now launder money in the clean water of Makarska River*], *Slobodna Dalmacija* (Split), 24 Sept. 2001 [OHR trans.].
successful. The Hercegovacka banka network was a major channel of political-economy corruption that the OHR disbanded by force.\(^8\)

\textit{Why Persistence?}

\begin{itemize}
\item Corruption and fraud have been particular features of the BiH transition, and are in part a legacy of the pre-war as well as wartime periods. Lack of regulation and the legitimation of war elites have also played a role in the activities that deprive the government of revenue.
\item The ‘tricks of everyday life’. These daily negotiations have a fundamental impact on local adaptation that promote survival, social relations and social inclusion.\(^9\) This kind of activity, not to be equated with high level crime and corruption, continues a tradition, often with inter-ethnic transactions that are not mediated by the externals, and in which volatile ethnicity issues are marginalised. The tricks of life do not conform to the rationalism of external economic engineering, but facilitate ‘daily reinvented social norms around the claim to subsistence’,\(^10\) and are often a function of sheer convenience (e.g. where the absence of domestic infrastructure makes translocal exchange across borders easier). People cope not only because of the benefits provided by an international presence but also in spite of it. The dismissal of ‘tricks of life’ as socially corrosive and leading to moral collapse,\(^11\) is to misunderstand the social cement that it provides in conditions where social corrosion is advanced by the introduction of peacebuilding norms.
\end{itemize}

\textbf{Summary}

\begin{itemize}
\item In BiH there has been some resource/production base for combat and post-conflict corruption, notably in timber. But by far the most lucrative illicit activities during and after the violence have been in the service sector (import/exports, transport and accommodation, financial transactions and trade). The service economy rather than primary production or industry is more prone to corruption. Not by coincidence, this is the sector that: (a) the economic peacebuilders have supported most strongly through export-led growth policies, privatisation programmes and subsidies to SMEs; and (b) the capital sector and its political backers have favoured over agricultural and industrial production by denying institutional support to rival capitalists.
\item Liberal peace processes introduce new tensions and neglect the functional aspects of unregulated political economy that nevertheless enable people to get by in situations where new regulatory norms are emerging. TWE (transforming war economies) research indicates that the imbalance arising from liberal policies of macroeconomic stability, neglect of production, failures of emergency job creation and poor social protection has an inhibiting impact on economic recovery and potential growth.
\end{itemize}

\(^11\) Andreas (n.2 above), p.344.
Provocations

A critical theory perspective contends that without incorporating economic justice into our views of security we shore up existing hegemonies.\textsuperscript{12} So I end with three elemental provocations.

- **Sophisticated corruption and crime in the context of modern conflict is unexceptional.** Current corruption in conflict zones is entirely consistent with the underground economies of the second world war (when a host of new crimes were also created by legislation). In the UK, armed robbery, prostitution and other rackets flourish. Thefts from the military at home and abroad were enormous. Administrators stole from stores, especially petrol. Some 200,000 military deserters created new identities, laundered money at race tracks, traded black market goods and forged ration books. Shopkeepers simply could not survive on selling rationed goods. Corruption was partly a response to new opportunity structures and partly to the great uncertainty of life. It was a way of ‘doing a good turn’ to people in need.\textsuperscript{13}

- **In so far as peacebuilding has also spilled over into state-building, it involves corruption because of state building’s reliance on primitive accumulation.** This exists prior to, or in the interstices of, efficiently policed regulation.\textsuperscript{14} Moreover, statebuilding in a neoliberal framework introduces ‘free markets’ managed in the interests of the most powerful entrepreneurs who resist regulation when it suits them but demand subsidies and protection also when it suits them. This kind of free market increases the gap between rich and poor. The idea that everything, including health, education and public facilities, has to be submitted to so-called rational choice market strategies is a flawed perspective of ‘freedom’ that damages social cohesion and relies on fear and suspicion of fellow human beings rather than on cooperation.\textsuperscript{15} And it contradicts peacebuilding.

- **The argument that capitalism is inherently corrupt – and structured for corruption – can be supported by empirical evidence.** Flows of dirty money (‘money that breaks laws in its origin, movement, or use’), is supported by an elaborate structure of ‘tax havens, secrecy jurisdictions, shell banks, dummy corporations… fake foundations, falsified pricing of trade transactions’. Over half of the dirty money (i.e. over $500 bn a year) is estimated to move from undeveloped into developed countries, compared to the aid that averages $50 to $70 bn a year. Raymond Baker contends that: ‘The richest countries are the biggest promoters of lawlessness in international trade and finance…. The money streams through mechanisms designed by western countries to bring hundreds of billions annually into western coffers.’\textsuperscript{16}


\textsuperscript{14} See Christopher Cramer, \textit{Civil War is Not a Stupid Thing: Accounting for Violence in Developing Countries}, London: Hurst, 2006.


In sum, this implies that concerns about corruption in war-torn societies are no doubt relevant, but they also conceivably contribute to the silences that surround the dishonesty of so-called 'free market' systems, and contribute to deflecting attention from those elements of peacebuilding that do cause harm.¹⁷

¹⁷ In the past six months we have the following:

- In the US, the Special Inspector General for Iraq Reconstruction (SIGIR) noted that, among other events: (a) a Pentagon contract employee admitted to stealing US$2m from the reconstruction fund; (b) over half of Kellogg, Brown and Root’s costs for oil industry repair went on overheads and the company overcharged the US military about $60m for fuel; (c) another company completed only 6 of its contracted 140 primary healthcare centres but was still paid in full (‘Corruption: the “second insurgency” costing US$4bn a year’, The Guardian [London], 2 Dec. 2006, pp.16-17; ‘How the US sent $12bn in cash to Iraq. And watched it vanish’, The Guardian 8 Feb. 2007, pp.1-2).
- The size of the Greek economy was boosted by 25% when it was decided to include the estimated black market of 60bn euros as a way of decreasing its budget deficit that would have otherwise likely attracted EU fines (‘Greek economy up 25% – with a little help from prostitutes’, The Guardian, 30 Sept. 2006, p.11).
- The UK government has been under investigation by the Metropolitan Police for a year in regard to a ‘loans for peerages’ scandal. The UK domestic corruption laws are antiquated, the most recent dating from 1916, and a new law on tackling corruption has been contemplated since 1997. A new consultation Commission will not report until at least 2009 (‘Account for the cash’, The Guardian, 15 Mar. 2007, p.38). Further, the government required the (independent) Attorney General to stop the Serious Fraud Office from continuing its investigations into bribery allegations against British Aerospace (BAe) in several countries, but particularly in Saudi Arabia, a major customer of UK defence industries. The OECD has expressed its serious concern about: (a) the failure of any British company to be prosecuted under the 1997 OECD Convention on combating bribery which the UK ratified in 1998; and (b) the UK government’s role in preventing further investigation, which may be in breach of the Convention. A private legal action by an NGO has been taken out in the High Court (George Monbiot, ‘The parallel universe of BAE: covert, dangerous and beyond the rule of law’, The Guardian, 13 Feb. 2007, p.29; ‘OECD rebukes Britain for ending inquiry into Saudi arms deal’, The Guardian, 15 Mar. 2007, p.5).
- Internet banking fraud in the UK was estimated at £33.5 million (US$65m) in 2006. (Good catches for “phishing” fraudsters as losses through fake bank websites leap 44% to £34m’, The Guardian, 14 March 2007, city page). According to a survey conducted led by Cardiff University economic crime specialists for the UK Association of Chief Police Officers, fraud in the UK costs some £20bn a year at a conservative estimate. This includes a figure for carousel fraud, under-reporting and the cost of combating the problem. The Commissioner of the City of London Police observed that: ‘Lying to secure financial benefit is fast becoming endemic in British life’. (BBC News, 7 Mar. 2007 http://news.bbc.co.uk/1/hi/business/6425963.stm). Carousel fraud in the EU costs the UK exchequer about £5bn a year. The fraudulent carousel tax reclaims were valued at £1.6bn in July 2006 alone. Some estimates place it at around 50bn euros a year. In a related move, Dutch officials raided a bank in Curacao, a tax haven, in 2006 (‘Follow the money: the multibillion pound trail that led to Caribbean bank’, The Guardian, 20 Sept. 2006, p.4).
- According to a leading tax expert, John Christensen of Tax Justice Network, Britain the US and Switzerland are among the world’s most corrupt countries: ‘The failure of these and other developed countries to clamp down on offshore tax havens is responsible for more hardship than any corrupt acts by third world leaders’. John Christensen ‘Follow the money – how tax havens facilitate dirty money flows and distort global markets’, (Economic Geography Research Group, Geographies of Corruption, RGS IBG Conference, Tax Justice Network: London, 1 Sept. 2006, www.taxjustice.net/cms/upload/pdf/Follow_the_Money_-_RGS-IBG__final_31-AUG-2006.pdf).