

POSSIBLE IMPACTS OF MILITARY DEPLOYMENTS ON THE HOSTILE COUNTRY'S ECONOMY

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Abstract

The paper deals with the particular consequences of military deployments affecting the economy within the functioning of peacekeeping troops on its territory. It performs brief characterization of the UN, NATO and EU peacekeeping operations. The influence of military deployments is determined by economic, political, strategic, social and legal circumstances. Positive and negative impacts of peacekeeping deployments are defined in the text. The paper analyses the economic impact of peacekeeping deployment on the economy. In the text, peacekeeping deployments and their impact on the economy were analyzed in Congo, Georgia and Iraq during 1989–2015. Macroeconomic indicators, such as GDP, inflation, unemployment rate and balance of payments, were taken into account, first before the effect of peacekeeping deployments, then during peacekeeping deployments and after the peacekeeping deployment. Statistical data show both, positive and negative impact on the hostile country' economy. To sum it up, peacekeeping deployments can contribute to creating suitable conditions for national economic policy implementation.

Key words: deployment, peacekeeping deployment, peacekeeping operations

JEL Code: B22, F52

Introduction

Since the mid-20th century, the United Nations have deployed more than 64 peacekeeping operations in various parts of the globe. The concept of peacekeeping operations includes all types of operations aimed at creating, maintaining, enforcing, promoting and building peace. But also Organization for Security and Co-operation in Europe (OSCE), North Atlantic Treaty Organization (NATO) and the European Union (EU) organize peacekeeping deployments.¹

This paper is devoted to peacekeeping operations and their impact on the economy that were conducted by the United Nations in the years 1989-2012. A number of statements about the positive impact of peacekeeping deployments on the country's security have been

¹ ICentrum OSN v Praze Follow (2015). Vše co jste chtěli vědět o OSN. Retrieved June 19, 2017, from <https://www.slideshare.net/OSNPraha/ve-co-jste-chtli-vdt-o-osn>.

publishing so far. This hypothesis was stated: “Peacekeeping missions affect the macroeconomic developments in the countries of the action”. Therefore, macroeconomic indicators were analyzed before the action, during and after the action of the peacekeeping deployment. Then conclusions were drawn about the positive, negative or neutral impact on the country’s economy.

Peacekeeping activity can be understood as a result of the market failure. A conflict usually occurs in one or several states, according to the nature of the conflict. Deployment of peacekeepers will help to increase the domestic forces to defend their own nation. Support costs of peacekeeping deployments can be significant, but the fact that they become involved in supporting peacekeeping deployments is an important contribution to ensuring international peace and security in the region. However, it is necessary to think that the primary task of the army is to ensure security in their country and protect its citizens. Therefore, military expenditures depend on the current security situation in the region and the strategy, which assumes the government of the state.

$$S = S (ME, E) \quad (1)$$

Military spending can be defined according to following function:

$$ME = f(\text{INCOME}, \text{PRICE}, \text{SPILLIN}, \text{THREAT})$$

Variable income (“INCOME”) represents the rate of GDP and “PRICE“ represents variable costs of defense. “SPILLIN“ refers to the total allied expenses. “THREAT“ reflects the degree of risk.

$$ME_I = S_0 + S_N + S_E + Q + I \quad (2)$$

Defense expenditures are intended to ensure the security of the state, even in activities such as assistance during floods or other natural disasters. The alliances were created to increase the security, such as NATO. The alliances should deter any potential aggressor or they are involved in assisting in the defense of their members.

The increasing demand for peacekeeping is limited by its supply. Providing „peacekeeping services“ may have a significant impact on international security and peace. Peacekeeping deployments become a function of the military, and therefore the willingness to expend resources on international deployments increases (Berkok, 2006). However, the providing of peacekeeping operations is still up to the second set of tasks dedicated to the state armed forces. Governments in cooperation with international organizations are trying to provide and maintain a degree of public goods at the desired level. International support eliminates the competitiveness of the country, and therefore it is necessary to have a special

regime is to enhance the domestic economy and, for example, restore the armed forces ensure their own security.

1 Peacekeeping deployments

The concept of peacekeeping was created within the United Nations; therefore we cannot rely on the basic document of the organization – the United Nations Charter. The reason is simple. At the time of the creation of the Charter (1945), its creators did not count with a similar concept, because they believed in the continuation of cooperation within the powers victorious coalition of the Second World War.

There is a definition written by Alex J. Bellamy and Paul D. Williams from the book *Understanding Peacekeeping*, where the issue of the definition of peacekeeping operations devoted an entire chapter:

“Peacekeeping operations include the use of uniformed personnel (police and soldiers), with or without the permission of the United Nations, with a mandate or a program, that:

- assists in the prevention of armed conflicts by supporting the peace process;
- serves as a tool for observing and supervising the fulfillment of ceasefire or peace agreement;
- promotes a ceasefire or peace agreement will of the UN Security Council in order to build a lasting peace” (Bellamy, Williams, Griffin, 2015).

Each peacekeeping deployment has its tasks and objectives. The main objectives of peacekeeping deployments can be defined as follows: ending the conflict; establishing the system of fundamental rights and freedoms; saving lives; avoiding removal and yet caused property damage; restoring the state system, territorial integrity and sovereignty; handing over management of territorial local authorities and governments.

It is obvious that the basic task of foreign deployment is peace and security in the world and humanitarian assistance for natural disasters and natural disasters (Fetterly, 2006). Its goal is to resolve local conflicts and to prevent its escalation beyond the territory where the conflict takes place. A primary aim of the action of multinational units in a given area should be to create a safe environment for the realization of the objectives of macroeconomic policy. The influence of the peacekeeping deployment can be quantified by macroeconomic indicators, such as gross national product, employment, inflation and balance of payment in the country where peace deployment takes place.

How to explain the positive impact of peacekeeping deployments on the economy of the country? There are three theories explaining this issue: 1. Expenditure Theory – increase of (Keynesian) aggregate demand; 2. Diffusion Theory - the extension of positive changes - the development of technologies to improve the operation, respectively institutional reform; 3. Security Theory - a safe environment is a prerequisite for economic growth; in terms of the order in the first place stability and security, and consequently cash flow. The expenditure GDP growth theory explains the increase in spending, an increase in the consumption of local products, including the increase in the consumption of foreign troops. Diffusion theory explores the cause of the increase in GDP by the stabilization of institutions, the rule of stabilization, monetary and financial system. In case of exposed troops also attempt to spread of values, particularly democracy, human rights, property rights, etc. may be included. Security theory is based on the assumption that higher security means a positive signal for foreign and domestic investors. Higher security provided by foreign armies can be understood for the domestic economy as a saving of its own expenditure on national defense and security with their allocation to other areas of public life. This effect is usually called as black free riding (Krč, 2016). The cons of peacekeeping deployments that may occur after or during the deployment include: a negative perception of the deployment by the local population; little trust of local authorities; worsening economic situation; the occurring of uncontrolled price growth (Goldsmith, n.d.). An interesting phenomenon when exploring pros and cons of peacekeeping deployments is undoubtedly the influence of consumption at different markets. For example, changes at real estate markets, where in the case of the UN deployment it is usual that their members demand and accommodation at local real estate markets (Jones, Kane, 2012).

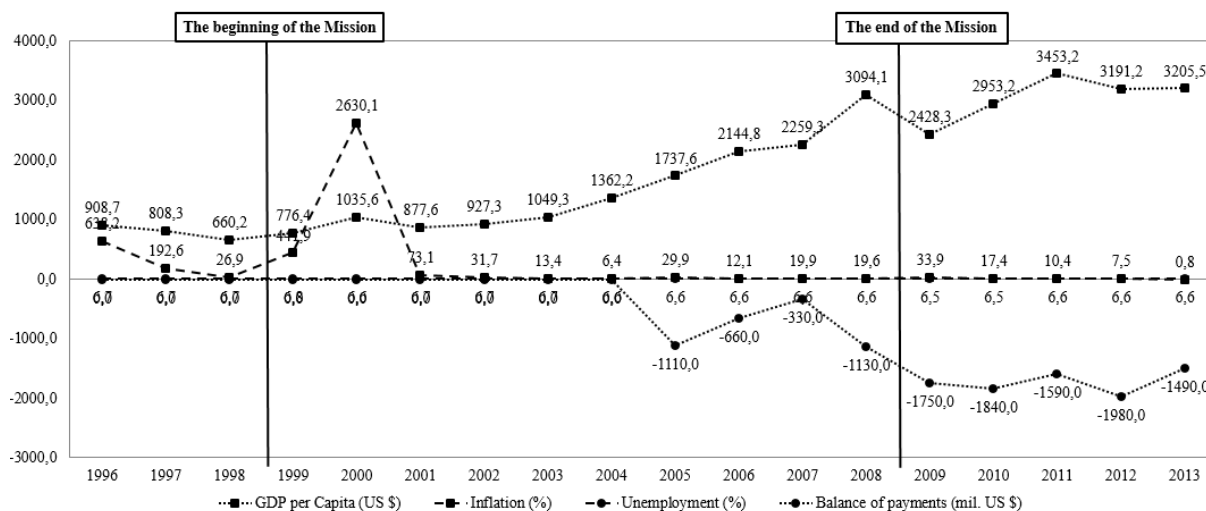
1 Effect of Peacekeeping Missions on the Economy of Receiving Countries

This section is devoted to an analysis of the impact of UN peacekeeping deployments on the economy when using main macroeconomic variables. The analysis of macroeconomic development of the country is carried out before the start, during and after the peacekeeping deployment. The development is illustrated with graphs that show the basic macroeconomic indicators: GDP, inflation, unemployment and balance of payments. Each peacekeeping deployment is briefly outlined by its characteristics, causes and other important factors that will help to better understand the impact of peacekeeping deployments on the economy.

1.1 United Nations Deployment in Congo

The main task of this deployment was to monitor the ceasefire and disengagement of armed forces and maintaining relationships among all parties of the ceasefire agreement.

Fig. 1: Development of economic indicators in Congo during 1996-2013



Source of data: World Bank Database

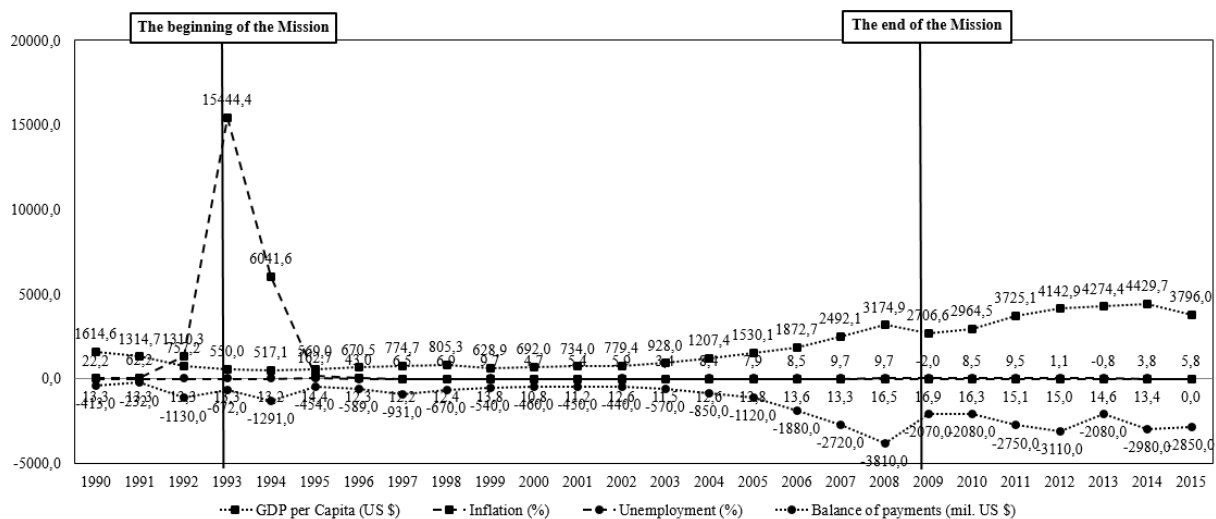
As can be seen in Fig. 1, GDP development showed an upward trend during the deployment and after its completion. Inflation was high, but stable. After the end of deployment, inflation rate was on average around 12 %. Development of unemployment showed relatively stable trend, without any striking increase or decrease. The trade balance and balance of payments were to be failed to stabilize. The macroeconomics development was conditioned by constant internal political conflicts.

1.2 United Nations Deployment in Georgia

UNOMIG deployment was established in August 1993 to verify compliance with the ceasefire agreement between the Government of Georgia and the authorities of Abkhazia in Georgia. The deployment’s mandate was extended after signing the agreement on ceasefire and separation of forces in 1994. UNOMIG deployment was terminated in June 2009 due to lack of consensus among members of the Security Council about extending the mandate.

As can be seen in Fig. 2, real GDP grew slowly until 1998, when GDP amounted to \$ 805.3 mil. The following year GDP fell to \$ 628.9 mil., and since this decline the growth can be observed in 2008 of \$ 3,174.9 mil. A small drop from 2009, when the deployment was terminated, accompanied by renewed growth. GDP growth during 2003-2007 counted 8.9% on average, with a peak in 2007 of 12%. Georgia's GDP during 2003-2008 tripled. The volume of foreign investment increased three times during this period, and in 2008 counted 12.2% of GDP. Inflation rate was on the high level, it grew up to 1,310%. Then it dropped significantly and maintained at a relatively stable values. There was significant change only in 1995, when inflation began to rise, and in 1997, when it was again to the original levels. On average, the inflation rate was around 9%.

Fig. 2: Development of economic indicators in Georgia during 1990-2015



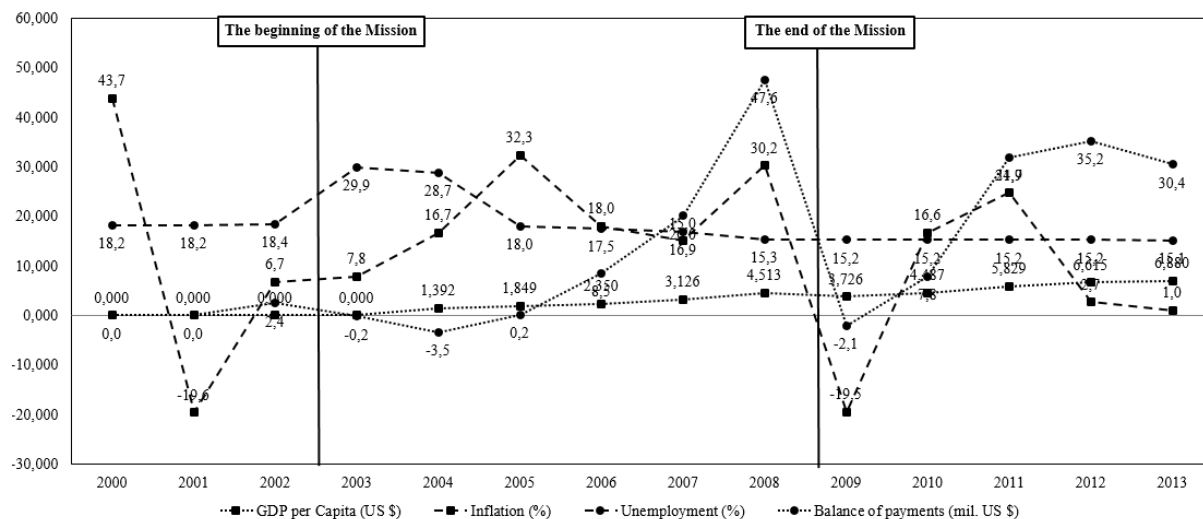
Source of data: World Bank Database

The development of unemployment showed no significant changes in the period and unemployment have held relatively stable level of 10 to 13%. The trade balance remained in negative values at the beginning. In 1997, the trend had changed and the balance of trade began to grow slightly. In 2002, the trend reversed and the trade balance began to drop to the accelerating level \$ - 3,811 mil. in 2008. After the completion of the deployment in 2009 it grew rapidly and since this year it has been showing a cyclical trend, as can be seen in Fig. 3.

1.3 Military Deployment in Iraq

Operation in Iraq was launched in 2003. The international peacekeeping and stabilization forces started operation beyond the control of the UN, only after the release of the first UN Security Council resolution and this operation induced a number of criticisms. Allied forces of other participating countries fulfilled their commitments to the US administration, not to the UN. The international alliance was represented by the Multi-National Force MNF - Iraqi Freedom and the NATO Training Mission-Iraq. The MNF had operated in Iraq since March 2003, when the Iraqi Freedom operation was launched. The task of the multinational force was to stabilize the security situation, restoring the security forces and the government of the country. The UN carried out the humanitarian and observation activities since August 2003. This UN assistance operation was separated and not a part of the MNF-I. During the UN Security Council Resolution no. 1546 of July 19, 2004 this operation was renamed to Multi-National Force Iraq (MNF-I). At the same time cooperation and relation conditions were established. President Barack Obama appointed (in February, 2009) the date of cessation of US combat operations in Iraq in August 31, 2010. The last combat brigade left Iraq in August 19, 2010. The 52,000 US troops remained in the country and was renamed to New Dawn and the operation was aimed to reflect the limited role of US troops for helping the country. US soldiers left the country in December 18, 2011.

Fig. 3: Development of economic indicators in Iraq during 2000–2013



Source of data: World Bank Database

It was very difficult to obtain and objectify statistical data on Iraq. The data from various Iraqi authorities and the World Bank differ. Some statistics are published with a long

delay. In Fig. 3 there are the data of the World Bank where economic development of Iraq has been continuously monitored and evaluated, and available for Iraqi government offices, including the Central Bank.

Iraq's GDP per capita had showed relatively stable level and since 2004 regular annual increases could have be seen until the end of the deployment and subsequently after its completion. The only year with a decline was the year 2009. In that year, GDP of US \$ 3,726 per capita represented a decrease of more than 18%. In 2010, the value of GDP per capita was US \$ 4,487 and it has been still growing so far. The development of inflation rate showed significant fluctuations during the period. Inflation reached its lows in 2001 and 2009, when it was deflation. Before the deployment the inflation rates reached the values from -19.6% in 2001 to 7.8% in 2003. The maximum values of inflation are evident at almost regular cycles. The maximum value was in 2000, at the level of 43.7%. The lowest level of -19.6% has been discussed as the most significant annual change and it means a decline in the annual rate of -55.1%. Almost similar minimum can be seen year before the end of the deployment, when in 2009 the inflation rate fell to -19.5%. In 2011, inflation rate raised to the level of 24.7%. The years 2012 and 2013 were the years of re-recession, when inflation stood at 2.7% in 2012 and 1% in 2013.

The development of unemployment was relatively stable. Before the start of the deployment the unemployment rate had exceeded slightly the level of 18%, but after starting the deployment it showed a sharp increase due to the security situation in the country and it reached almost 30% level. Two years after the unemployment rate returned to 18% border and there a gradual downward trend can be seen after the deployment's termination with the level of 15.2%. The trade balance showed a decline when starting the deployment. In 2002 it had been on the level of \$ 2.4 mil., but it fell to its lowest \$ -3.5 mil. in 2004. Then an upward trend can be seen, but interrupted again by the years of completion of the deployment, from \$ 2.1 mil. in 2009 to \$ 7.8 mil. in 2010. It reached the maximum in 2008 of \$ 47.6 mil. in 2008. After completion of the deployment it has been relatively stable with the level above of \$ 30 mil.

Conclusion

The role of the UN is essential in resolving armed conflicts. The UN peacekeeping operations represent an important tool for lasting and sustainable solution of violent conflicts around the world. International cooperation and support represent essential and important requirements

for the success of peacekeeping deployments. Consequently, unlike the national level, where democratic governments have the authority and ability to shift priorities and programs to meet the demands of its citizens, this flexibility is limited and suppressed partly at the international level. Indirect costs are followed reflection or a byproduct of the planned, ongoing or completed conflict. Indirect costs could include cost increase in the form of the potential decline in GDP, reduction of personal income, an increase in the state budget deficit due to the funding of military operations, reducing the development of social programs, the cost of post-war reconstruction, the cost of care for veterans and other. The indirect costs also include fluctuations in prices of raw materials mined in the territory where military deployment is ongoing. A significant part of the indirect costs are the costs for war veterans and their families funded by the state budget. And other cost should be added because of reduced quality of war veterans' lives, loss of employment and long-term health consequences.

The figures illustrate that peace deployments in most cases caused positive impact on the economic development of the countries. Stabilization of economic development was conditioned by active participation in peacekeeping deployments. GDP curves had mostly rising trend, or at least, remained stable. Inflation and unemployment rates also avoided no significant negative changes, rather the opposite or kept nearly constant value. The trade balance showed positive, stable or negative developments. The stated hypothesis was confirmed. Peacekeeping deployments helped to stabilize the economic development and stabilization has been continuing in the post-peacekeeping deployment time.

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