Reconstruction Zones as a Driver of Conflict-Sensitive Policies
For Inclusive and Dynamic Growth in War-Torn Countries

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Abstract

Countries coming out of crises have found it easier to achieve macroeconomic stability than to create a basic legal, institutional, and regulatory framework, simple and flexible enough, to support the creation of local jobs and entrepreneurship and attract foreign direct investment. Since most countries start reconstruction from a very weak fiscal situation, and spikes of aid are short-lived, governments need to vigorously support private sector development that is dynamic, inclusive and sustainable. By contrast, many of the private sector activities that create growth in these countries—including natural resource concessions and free trade zones for low-skilled manufacturing (also known as export-processing zones)—have operated as enclaves within the country, without an impact on the population at large, and even creating threats to human security by putting large investors and local communities in confrontation with each other as they are in the Niger Delta, Liberia, Haiti and elsewhere.

An appropriate and stable policy and institutional framework is necessary to attract foreign direct investment, particularly into infrastructure development, manufacturing for export, banking, and the utilization of natural resources, including both agriculture and mining. The right framework is essential in ensuring that transnational corporations and large domestic ones create links between their export-oriented activities and the national economy, that there is a fair distribution of gains and risks between the public and private sectors, and that land concessions and other preferences given to large investors do not become a new source of conflict in the country. Such framework is also essential for ensuring that domestic micro, small and medium-sized enterprises have a level-playing field to operate in the country, including basic infrastructure and adequate credit.

I have proposed elsewhere the creation of reconstruction zones (RZs)—combining an export-oriented (ERZ) and a local-production zone (LRZ), together with trade preferences in international and regional markets for goods processed in these zones. I have made specific proposals for highly-aid dependent countries such as Afghanistan, Haiti, and Liberia that need to replace foreign direct investment and exports as a source of foreign exchange and reduce their dependency on aid. The purpose of this paper is to focus on the policy issues and on the specific legal and regulatory framework that countries need to have in place to establish RZs that effectively promote investment, trade, food security, employment and entrepreneurship. In this process, RZs could become a major policy tool to improve human security as well.
Introduction

Reconstruction of war-torn countries—what the press generally refers to as “nation-building,” the State Department as “post-conflict stabilization and reconstruction,” the UN as “peacebuilding,” and UNDP as “early recovery”—has proved particularly difficult in the post-Cold War, in which countries emerged from civil wars or other internal chaos at low levels of development. In these countries, when wars end, reconstruction takes place simultaneously in four different areas: Violence must give way to security for inhabitants (“security”); lawlessness and political exclusion must give way to the rule of law, participatory governance and respect for human, property and gender rights (“political”); ethnic, religious, sectarian, ideological or class polarization must give way to national reconciliation so that former enemies can live with each other (“social”); and ruined war economies must be transformed into functioning economies that enable ordinary people to make a decent and honest living (“economic”).

The latter—post-conflict economic reconstruction—has proved particularly challenging in the post-Cold War context since governments and their international supporters have found it very difficult to create viable, licit, inclusive and sustainable economies out of war economies. The inability to create jobs and other productive livelihoods—particularly of the young and uneducated—has been one of the most serious obstacles to peace. Failure at economic reconstruction has required large amounts of resources for military and peacekeeping operations. At the same time, failure at economic reconstruction made reconstruction in the other areas particularly difficult to finance through domestic means and countries become highly aid dependent.

During the Marshall Plan, the most successful reconstruction program, the word “economic reconstruction” referred mostly to the rehabilitation of basic services and infrastructure for the reactivation of production and trade. It involved industrial countries that had strong institutional and policy frameworks in place. At the same time, national reconciliation was not a must since former combatants would return to their own countries and did not have to coexist within the same physical space. In the post-Cold War context economic reconstruction required a broader definition to also include the modernization or creation of a basic macro and microeconomic institutional and policy framework for economic policymaking, for the effective utilization of large volumes of aid, and for the financing of other aspects of the reconstruction, that were not necessary at the time of the Marshall Plan, including the creation of security forces, political reform and national reconciliation.

Countries coming out of civil war or other internal chaos have been unable to engage in sustainable long-term development unless they go first through a process of effective economic reconstruction, or what I call the “economics of peace.” During this interim phase, the main objective is to jumpstart licit and broad-based economic activity, under the serious political constraint of minimizing the chances of reverting to conflict. Thus, following peace agreements or military intervention countries need to move away from the “economics of war”—the
underground economy that thrives during wars—and engage productively in the economics of peace before the “economics of development” can take root.

As John Maynard Keynes argued at the end of the First World War, the economic consequences of peace-related activities are large. This is why it is so important that countries establish a viable economy that enables them to contribute financially to other aspects of the reconstruction. Among the most expensive and challenging peace-related activities are the creation of the national security forces and the modernization of the judiciary system and other institutions to uphold and enforce the rule of law and good governance. At the same time, national reconciliation among former combatants and other conflict-affected groups is a sine qua non for peace. For this, these groups need to be reintegrated into society and productive activities. Also, institutions will need to be created so that people can address future grievances by peaceful means. Since the savings capacity of war-torn countries is non-existent or severely restricted, they will rely largely on foreign aid for quite some time.

Reconstruction has proved incredibly difficult, not only for the countries involved, but also for the international community that has been ill prepared to deal with it effectively. The high risk—roughly fifty percent—that war-torn countries have faced of relapsing into conflict or chaos makes the economics of peace necessary, demanding, and promising. Failure is directly linked to the large human, military, peacekeeping, financial, contagion, and environmental consequences associated to the economics of war. To carry out economic reconstruction amid the security, political, and social constraints that these countries often have has proved indeed an overwhelming challenge.

In carrying out economic reconstruction, war-torn countries have found it easier to achieve macroeconomic stability—reactivate growth and control inflation—than to create a basic legal, institutional, and regulatory framework, simple and flexible enough, to support the creation of local jobs and entrepreneurship. Since most countries start reconstruction from a very weak fiscal situation, and spikes of aid are short-lived—with Mozambique, Afghanistan and Liberia as the important exceptions—governments need to vigorously support private sector development that is dynamic, inclusive and sustainable.

By contrast, many of the private sector activities that proliferate in these countries in the post-conflict period are often not sustainable over time, preserve corrupt practices of the past, or can be conflict insensitive. As countries emerge from conflict and the international presence in the country increases (including the aid community and foreign troops or peacekeepers), construction and services geared to such presence are generally the most dynamic sectors. This growth is unsustainable as the international community withdraws.

At the same time, in war-torn countries it is often the case that those most apt to become entrepreneurs in the post-conflict period are those that made money and survived during the war through corruption and illicit activities. Promoting them in the post-conflict period is risky since it may be a way to perpetuate corruption and other illicit practices.

It is often the case that war-torn countries’ most successful investments—including natural resource concessions and free trade zones for low-skilled manufacturing—have operated as
enclaves within the country creating some low-skilled jobs and foreign exchange earnings but, at the same time, disregarding the condition of workers or affected groups or communities, creating few links to the domestic economy and few benefits for the population at large. Such conflict-insensitive policies can be destabilizing for the economy and can even pose new threats to human security as they create conflict between the large investors and the government, on the one hand, and the communities, farmers and small investors on the other.

Is there a way to improve the poor post-Cold War record with post-conflict economic reconstruction? Can economic aid be more effective in war-torn countries? Can foreign direct investment and exports replace some of the aid early on in the transition to peace? Can these countries move away from aid dependency into a path of investment, trade, employment, food security, and entrepreneurship that would allow them eventually to stand on their feet?

My answer to all these questions is YES. But doing the same thing that did not work in the past over and over and expect that this time it will have better results is not realistic. In this connection, I have proposed the creation of reconstruction zones (RZs)—combining an export-oriented (ERZ) and a local-production zone (LRZ), together with trade preferences in international and regional markets for goods processed, or produced under special conditions, in these zones. Given very different models of development, I have made specific recommendations for RZs for highly-aid dependent countries such as Afghanistan, Haiti, and Liberia in which the distortions of aid and the need to improve the effectiveness and accountability of aid are largest.

The purpose of this paper is to focus on the policy issues and the specific legal and regulatory framework that countries will need to establish RZs as a way to put the country in the right path to peace, stability, and prosperity. In the process of reactivating the economy in a balanced and inclusive way through conflict-sensitive policies, RZs could become a major policy tool to improve human security, ensure that peace becomes irreversible, and reduce aid dependency.

Why the Need for Reconstruction Zones (RZs)?

The experience with reconstruction since the end of the Cold War when civil conflicts started winding down in what it was then called the Third World has allowed us to identify a number of problems that need to be addressed if we want to improve the record going forward. RZs could address many of these problems, depending on the specific form they take in the different locations in which they are set up. Among the problems identified, the most relevant are the following:

First, war-torn countries are highly dependent on aid. It is important that foreign direct investment and exports start replacing aid as major sources of foreign exchange as soon as feasible so as to decrease aid dependency.

Second, attracting foreign direct investment, including into potentially highly profitable ventures for the exploitation of natural resources (mining, energy and agriculture), is not easy due to the high risk relating to security and general uncertainty in these countries, as well as to many business climate problems (lack of infrastructure, utilities, skills, weak judiciary systems to enforce contracts, etc.) that make investment in these countries difficult.
Third, conflict-insensitive government policies of giving specific preferences and building infrastructure and services targeting the needs of foreign investors and domestic elites, while ignoring the needs of small investors and local communities increase security risks due to confrontation between the two groups. Furthermore, by failing to provide a level-playing field for farmers and small entrepreneurs, these countries miss on the productive capacity and creativity of a large part of the population.

Fourth, humanitarian and reconstruction assistance are often conflated: humanitarian aid should be phased out as soon as possible and reconstruction aid should not be delayed. Humanitarian (or charity) aid for the provision of food, shelter, potable water, medical care and for returnees’ resettlement helps to support life and to provide minimum levels of consumption for subsistence in the short run. However, by affecting relative prices and discouraging labor supply, domestic production, and the building up of domestic capabilities, continuation of this type of aid over extended periods creates all kinds of price and wage distortions, threatens self-sustainability and creates aid dependencies, including for food. Only reconstruction (or economic) aid targeting investment opportunities that use local capabilities, land, and natural resources can increase productive capacity. Its economic impact, however, will depend on how productively the aid is invested, whether the investment is sustainable, and the impact it has on the labor market, on the exchange rate, on reactivating production and trade, and on protecting the environment.

Fifth, misguided economic policies, the international financial institutions and other donors often press on war-torn countries to liberalize imports and to use aid to promote commercial agriculture (that requires large infrastructure investments and takes time to materialize) and have an impact, often leads to the neglect of subsistence agriculture and a shift of productive land towards drug production, which in turn leads to food insecurity and food imports that these countries can hardly afford.

Sixth, the provision of aid to war-affected countries has followed a fragmented rather than an integrated approach. It is often the case that donors channel funding outside the government budget without supporting national priorities. Such practice does neither allow the government to have project ownership nor acquire legitimacy by providing security, services, and infrastructure. Aid fragmentation and lack of ownership has led to ineffective, expensive, and unsustainable projects and facilitated corruption. Because of the large dependency of these countries on aid, it is particularly important to improve the effectiveness of aid delivery and the accountability of aid providers—both at the national and international levels.

Finally, war-torn countries need to rebuild a variety of infrastructure and services across the country. This has proved difficult and donors have built a road here, a school there, and a clinic somewhere else without a well-integrated strategy, which is essential for the reactivation of growth and livelihoods.

**What Are Reconstruction Zones (RZs) and How Should They Function?**

Reconstruction Zones (RZs) would consist of two distinct but linked areas to ensure synergies between them—an export-oriented reconstruction zone (ERZ) producing exclusively for exports
and a local-production reconstruction zone (LRZ) producing for local consumption, including food security. Any existing export enclave—such as concessions for natural resource exploitation or free trade zones (mostly assembling operations of low-skilled manufacturing or commercial agriculture)—could become the basis of the ERZ. Any new greenfield foreign direct investment could also serve the purpose.

Although each war-torn country would end up with a different RZ depending on local conditions and resources, there are some principles that would apply to all. The main purpose of setting up an LRZ close to an ERZ and stimulating synergies between them would be to avoid the problems that enclave production for export usually have. Mining or agricultural concessions often create a number of human security threats by displacing indigenous communities and endangering their food security, as well as by destroying forests, wildlife and ecosystems. Free trade zones, which often operate as enclaves as well, have also been associated to inadequate wages, poor working conditions and even violation of basic human rights.

The government could identify higher-value exports from the ERZs that could eventually be produced from these zones as “reconstruction goods.” This would provide governments with a strong argument to request donor and partner countries to extend to these goods preferential treatment to enter their markets. For example, the United States has granted Haiti’s garment industry preferential access through the Economic Lift Program Act (HELP) of May 2010.

With the right legal and regulatory framework for the ERZs, and with the creation of a level-playing field for small farmers and other entrepreneurs in the LRZs, RZs could be expected to create positive externalities or spillovers among different activities in the zones in particular, and with the local economy in general. In addition to investment, the RZs would promote employment, food security, gender equality, and reduced corruption. In the process, both aid utilization and living conditions in the communities would improve.

The Export-Oriented Reconstruction Zones (ERZs)

In the ERZs, local and foreign investors could produce a variety of low-skilled manufacturing products (garments, textiles, carpets, beauty products, agro-industries or other low-skilled manufacturing), goods that are often produced worldwide mostly from free trade zone granting tax and tariff preferences. Investors will not produce these goods in the national economy without such preferences. Their option is to move to free trade zones somewhere else since there are well over 100 countries that have them. Thus, contrary to what some critics of these zones argue, governments are not giving up tax revenue when they set up these zones. Clearly, if there is no production, there will be no taxation either.

By contrast, by not letting these zones operate as enclaves, these zones will generate tax revenue for the government by creating indirect jobs and by establishing other links to the national economy. Thus, the greater the links of these zones to the domestic economy, the higher the tax benefits for the government. This is another reason for ensuring that the RZs are established in a framework in which they will create links within and outside the zones.
Although free trade zones often focus on low-skilled manufacturing, agricultural products (vegetables, fruits, flowers, and spices), and processing of such goods (juice drinks, dried fruits and flowers, and other agro-businesses) can also be exported from these zones as well. In Afghanistan, for example, the government wants to establish commercial agriculture for export. Establishing such activity in a free trade zone would probably be easier than finding an investor interested in an agricultural concession. First, it would probably be easier to provide infrastructure and security within the walled area of such zones. Security and economic risks are high in Afghanistan and there are not too many investors willing to invest large amounts of money to start a concession in which they will be obliged to pay specified taxes and royalties to the government. Second, the government could operate the free trade zone and charge fees to a number of investors for the land and services provided within the zones in exchange for the tax and tariff preferences that such investors would have within the zones. The fees paid by the users of the free trade zone will represent revenue for the government, similar to that from concessions.

Should all goods produced in the ERZs be entitled to trade preferences in international markets? I would suggest that all goods that are important enough for war-torn countries to grant tax and tariff preferences to investors because of the jobs they create, should also be granted preferential access in international and regional markets. The international community has a great stake in ensuring that these countries do not revert to war and this would be a strong way to support them. Supporting trade from these countries can be even more effective than providing aid that often creates corruption and distortions.

In granting concessions in agriculture (rubber, timber, palm oil) and mining (iron ore, gold, coal, copper, among others), governments provide land and natural resources in exchange for tax revenue and royalties. Natural resource exports should not have trade preferences in international markets. On the other hand, ERZs could provide fiscal preferences and the international community could provide preferential access to the processing of goods produced in the concessions to improve the value added of exports and create manufacturing employment in the host countries.

The Local-Production Reconstruction Zones (LRZs)

As mentioned earlier, each ERZs should be complemented by a local-production reconstruction zone (LRZ) to avoid the ERZs from becoming enclaves. Because food aid often leads to food insecurity, a main objective of LRZs should be to attain food security. Food security of the local communities is of key importance, particularly of those communities displaced by large concessions or export processing zones. In addition to investing in staples and other nutritional vegetables and fruits, the purpose of the LRZ is to produce other agricultural products such as woodlots and light manufacturing for the less demanding local market, as well as services and input goods for the ERZ.

The objective of the LRZs is to attain food security in these communities as a first step towards food security in the country. Some of the food surpluses can eventually be used to create agro-businesses to supply the domestic economy or sold outside the RZs. In the LRZs, donors could provide expertise and bring technology in five main areas of intervention—agriculture and food security, health,
education, infrastructure, and business development. The idea is not to reinvent the wheel and have donors work in collaboration with national and local government to provide the level-playing field that communities need to create viable livelihoods.\textsuperscript{11}

Production in the LRZs would be based on strong local ownership. Thus, the need for interventions should only be established after a thorough consultation process with local communities, with national and local governments and development partners. LRZs will need to be empowered with basic necessities, scientifically proved and low-cost technologies, and other tools so that people can lift themselves from extreme poverty in a sustainable way.

Gender equity should be the guiding principle of LRZs rural development. Lack of productive inputs (seeds and fertilizer), credit, training, and access to land has resulted in a much lower productivity of women in the agricultural sector in the developing world. This should not happen in the LRZs where women should be given the same opportunities as men. As Bill Gates has noted, “If we are serious about ending extreme hunger and poverty around the world, we must be serious about transforming agriculture for small farmers, most of which are women.” Furthermore, to paraphrase Secretary Hillary Clinton, “When we invest in women producers, we get a double benefit—now and in the next generation.” As the Food and Agriculture Organization has estimated, equalizing access to productive resources between female and male farmers could increase agriculture output in developing countries by as much as 2.5-4.0 percent, which could in turn reduce the number of hungry people in the world by 12-17 percent.\textsuperscript{12}

LRZs would create a level-playing field for micro and small enterprises by offering them security and the best infrastructure that donors could build for the LRZs. Governments could also establish a single and low tax rate (say a 10\% flat rate) for such enterprises (applicable throughout the economy, that is, also outside the RZs so as not to discriminate). This could encourage these enterprises to operate in the formal sector. Donors and partners need to ensure that sufficient credit is available for these small firms to prosper. The provision of credit to this type of enterprises is often non-existent since they do not have collateral. Another fact to keep in mind is that this type of enterprises needs strong technical assistance both in production and to ensure that credit is well utilized, and area in which UN agencies and other donors could play an important role.

Having an LRZ next to the ERZ in the same RZ would also create other externalities. At the present time, some of the workers and their families living in the concessions have access to clinics, schools, transportation and other services but those outside are excluded from them. By having the two zones in nearby locations some of this infrastructure and services can be shared. Scarce human expertise including teachers, health workers, and skilled workers can also be shared more easily. At the same time, the services and infrastructure of the LRZ should be made as attractive as possible so that young people could be enticed to work the land rather than crowding out the cities.
Legal, Regulatory, Monitoring and Enforcement Framework for RZs

To create the RZs requires a legal and regulatory framework that will ensure the necessary links so that the country as a whole would benefit as much as possible from the foreign investment. At the present time, the framework with regard to concessions and free trade zones varies widely across countries and often even within the same country. For example, concessions in Liberia renegotiated or signed since the 2005 elections differ in the way they address the corporate responsibilities with regard to workers in the concessions as well as indigenous peoples displaced by them. In this regard, it is important to distinguish between what the concessions contemplate for the displaced and affected groups, from what these groups actually get. In many cases, international experts have been involved in drafting the legal framework for the concessions but then the local governments do not have the capabilities to monitor and enforce them as a result of weak legal and judiciary systems as well as the complexity of the contracts. In the case of Liberia, the full text of the concessions is not easily available neither from the government nor from the foreign investors, which indicate not only a lack of transparency, but makes it difficult to determine how investors comply or not with the contracts. As pointed out by Lorenzo Cotula, lack of transparency and of checks and balances in contract negotiations create a breeding ground for corruption and deals that do not maximize the public interest.13

Many of these contracts include the commitment of the investors to create clinics, schools, and roads or other infrastructure within the concessions for their workers. These contracts, however, do not require the provision of such services to those groups displaced by the concessions. Some include the creation of financial funds to support displaced populations. They may also contain some vague language with regards to compensation for lost livelihoods. Vagueness in this regard has become a source of contention, since companies have often offered to pay for a crop rather than compensating for the sustained loss of livelihoods. Most of the concession are likely to create environmental problems and are often a threat to the local biodiversity and ecosystems. Although concessionaires are responsible for the environmental studies, the real impact is not always monitored and standards are not enforced because of lack of expertise and means to do it at the local level. Thus, in addition to the displacement and loss of livelihoods for affected communities, and the environmental and biodiversity cost associated to many concessions, concessions often create risks to human security, beyond the economic and environmental ones. This is due to the lack of consultation with local communities about the project itself and about compensation for their lost livelihoods and other social impacts that affects them dearly. This can easily lead the country back to conflict.14

Similarly, the export processing zones that provide miserable wages, dangerous and unhealthy working conditions, and even violations of human rights are likely to pose a risk to human security. This has been the case of Haiti, but has increasingly been a problem in wide-ranging countries including China. Thus, war-torn countries in particular need to modify the legal framework of free trade areas to eliminate some of the abuses of the past to ensure that peace is not reversible.15
Converting concessions or export-processing enclaves into ERZs and linking them to the LRZs will facilitate addressing some of these problems. To maximize the benefits and the links between sectors created by the RZs, the government would have to design the legal and regulatory framework for the ERZs taking into account lessons and best international practices. Although the right framework is *sine qua non* to maximize the potential and minimize the risks of ERZs operations, it is not a sufficient condition. The monitoring and enforcement of the framework is just as important and difficult to achieve in war-affected countries. In this regard, the development partners need to support governments, at the national and local levels, with the right kind of training and expertise to be able to monitor the ERZs. At the same time, police and judicial bodies need to be adequately staffed and resourced for enforcing purposes.  

The proposed changes are not only targeted towards improving the multiplier effect that the RZs can have on the rest of the economy, but also to address some of the environmental and human security risks created by the displacement of indigenous groups, the destruction of forests, the exploitation of minerals through open pit mining, and other such problems. Given the disruption created in the lives of the communities as a result of land granted in concessions or free trade zones, it is of critical importance that the government consults with them closely on all issues that affect the communities. Otherwise opposition will be fierce and human security would be at risk.

At the same time, the legal and regulatory framework should include specific requirements for foreign and domestic firms operating from ERZs specifying that, as *quid pro quo* for the preferences granted in terms of land, tax or tariff exemptions, the government expects foreign investors, and domestic ones if relevant, to:

- Pay local workers fair wages and benefits, with wages increasing as their productivity rises;
- Establish basic security, human rights, and other adequate working conditions in the zones;
- Achieve minimum levels of investment and/or local employment established in the legal framework;
- Establish links between their export activities and the local economy by using competitive local inputs and services and increasing other local procurement;
- Contribute to *in situ* training of local workers and transfer of technology and managerial capacity;
- Train local workers (in the country and abroad) on administrative and managerial jobs so that they can assume more responsible and higher-paid jobs in the ERZs;
- Establish agreements with local technical schools and universities to create specialized courses, internship programs, and other arrangements to promote transfers of technology and capacity building of the local labor force;
• Exercise corporate responsibility in social and environmental areas (this should apply to both foreign and domestic companies operating in ERZs). For example, create local parks, schools, clinics, environmental projects, and other such projects in the LRZs in exchange for their benefits;¹⁷

• Promote options for expanding ERZs’ operations beyond the traditional apparel and textile sector to higher value-added products; and

• Promote different options to use local agriculture to develop agribusiness industries in the ERZs.

**Overall Objectives and Expected Results from Reconstruction Zones (RZs)**

Countries would have different types of RZs according to their own preferences, local resources, ability to attract foreign investors and the interest of donors to support them. Nevertheless, RZs could help governments to reach certain objectives that are common to war-torn countries in general. In most of these countries, the creation of RZs could be a first step to turn the vicious circle of poverty, insecurity, political instability, and aid dependency into a virtuous one characterized by investment, dynamic growth, economic inclusion, food security and political stability. Through RZs war-torn countries could make aid more effective and reduce aid dependency through the promotion of foreign investment and trade. Although the specific objectives and expected results of each RZs could be different, RZs in general can be expected to achieve the following:

First, RZs can be used to promote the government agenda. Most war-torn countries need to create inclusive and sustainable growth without which peace and security will be elusive. Because many of these countries are at low levels of development, the livelihoods of large parts of the population depend on the agricultural sector and therefore need to reactivate rural development and ensure food security. Many of these countries also need to diversify the structure of their economies to move away from high dependence on single sectors or products. To support economic growth and development, these countries need to improve education and create training programs to provide today’s workers and future graduates with the skills they need to become productive members of the workforce. RZs could help countries achieve these goals. Moreover, war-torn countries often find it difficult to move away from corrupt and illegal practices of the workforce and RZs could provide a limited space to enforce zero tolerance to corruption practices. By creating a level-playing field also for small farmers and other entrepreneurs, the zones can change people’s perception that government is unresponsive to their needs and that government policies only benefit foreign investors and large enterprises.

Second, RZs can address head on the main impediments to growth. Since the LRZ could promote integrated rural development (jointly with the development of human capital, infrastructure, business development and credit), they will contribute to reduce the dependence on food imports that many war-torn countries have and can hardly afford as well as to increase the food and nutrition of vulnerable communities. By leveling the playing field for farmers and other small entrepreneurs in terms of land tenure, infrastructure and financing on an equal gender
basis, the LRZs are expected to increase the productivity and creativity of a large part of the population that is often marginalized in war-torn countries. By having government, communities and donors working together with a specific, comprehensive, well-designed and contained project focusing on specific communities, LRZs could improve aid effectiveness and accountability that has proved a main impediment to inclusive and sustainable growth in war-torn countries.

Third, RZs can play a role in strengthening local communities and government institutions. By deciding themselves what they want to produce, what type of infrastructure they need, what kind of skills will be necessary and what other needs they have, the communities will have strong policy ownership which will make the RZs sustainable. By working with investors, communities, and donors in a common project, RZs can help strengthen local government in war-torn countries often characterized by strong centralization. Because interventions in the different areas will be short to create productive capacity in food, education, health, and business development rather than provide humanitarian assistance in these areas, donors could provide experts on secondment from their governments or specialized organizations for short periods of time, rather than flood the country with expatriates, as it is often the case, creates large distortions and dependencies.

Fourth, RZs can promote gender equality. Women are often seen as victims of war and donors often pay lip service to gender issues in war-torn countries. But this is not enough: the gender issue is an economic issue. Women need to be empowered economically if they are to have any rights. By having gender equity be the guiding principle of integrated rural development in the LRZs, these zones would provide productive inputs (seeds and fertilizer), credit, training, and access to land to women on an equal basis, and hence improve their productivity in the agricultural sector, which has been extremely low precisely because of the lack of such inputs. By putting families to work together on an equal footing and by ensuring that women health issues are addressed appropriately through human development and capacity building, RZs can make a big improvement in women’s lives and those of their families.

Fifth, RZs would promote environmental sustainability and protect biodiversity, by making these objectives a core component of the zones. War-torn countries are often affected by deforestation, land erosion, water contamination, land mines and unexploded ordnance during the war and also by customary “slash-and-burn” method of cultivation and other unsustainable practices. In the RZs, woodlot production, development of orchards and crops as well as water treatment and improved irrigation methods could help reverse some of the ecological damage.

Sixth, RZs could help promote an integrated development strategy. The fragmented policies of the past have often led to inefficiencies and waste. By following Tinbergen’s principle according to which multiple objectives require multiple tools, the RZs will create synergies between them. By providing better health, nutrition, education and access to basic tools, infrastructure, and finance, men and women in the RZs are expected to be more productive which will increase their incomes; more inclusion, better justice and improved public security will greatly improve their standard of living and accelerate development. By following an integrated strategy in the RZs, war-torn countries could avoid the common development failure of educating or training people for whom there are no jobs, or building roads for which there is not enough production to take to
the market, or schools for which there are no teachers; or providing seeds to farmers that do not have health or technical skills to use them productively.

Last but not least, RZs could promote national reconciliation and peace consolidation. By adopting conflict-sensitive policies, RZs could break the dual economy structure of many war-torn countries and create opportunities for the large majority of the population. By improving the lives and livelihoods of the communities—in terms of a decent shelter, adequate food, education and health services, and a productive occupation—including those displaced or threatened by large investors, RZ could be a way for creating peace, stability and prosperity in small islands in the country, which can eventually expand as ink spots to cover the territory.

Concluding Remarks

Many war-torn countries have increasingly relied on private-sector activities that operate as enclave production for export—including natural resource concessions and free trade zones for low-skilled manufacturing. By failing to create links to the rest of the economy, such enclaves create growth that benefits elites, both foreign and national, rather than the population at large. Because of their weak fiscal situation and the short-duration of the spikes of aid that often take place during economic reconstruction, governments need to vigorously support private sector development that is dynamic, inclusive and sustainable. Without it, enclave production can become a source of human insecurity.

To deal with the problems of enclave production in countries that need to reactivate their economies and consolidate peace at the same time, we have proposed the creation of reconstruction zones. If properly designed and with the right legal and regulatory framework, these zones could become a driver for investment, trade, employment, entrepreneurship and food security. Just as important, they could improve aid effectiveness and accountability by using it to promote an integrated strategy for economic reconstruction. In the process, these zones would improve human security, a basic condition for the success of the economics of peace, the only sure path to long-term development.

3 The UN reckons that these countries have a roughly fifty-fifty chance of reverting to war or chaos. See UN, 2005, In Larger Freedom: Towards Development, Security and Human Rights for All (New York: Report of the Secretary-General to the General Assembly, A/59/2005, March 21, p. 31).
4 The distinctination between economic reconstruction and development as usual is discussed in detail in Graciana del Castillo, Rebuilding War-Torn States (Oxford University Press, 2008).
In countries such as Costa Rica, for example, open pit mining has been forbidden. In others, they are becoming increasingly restricted. In Uruguay, a huge investment in iron ore by an Indian company has been stopped and the government has been talking about a referendum vote. 

This, of course, needs not be the case. The experience with free trade zones in Ireland and Costa Rica reveals the importance of establishing the right legal and regulatory framework so that these zones can be better integrated to the domestic economy.

The HELP Act was signed into law by President Barack Obama on May 24, 2010, is an effort to make investment in the Haitian free-trade zones more attractive, not only for U.S. firms but also for other investors as well. This Act expands duty-free access to the U.S. market for certain Haitian textile and apparel exports under the Caribbean Basin Economic Recovery Act (CBERA), which was amended by the United States–Caribbean Basin Trade Partnership Act, the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE Act), and the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II). The HELP Act extends until 2020 existing trade preference programs for certain imported knit apparel articles made in Haiti from yarns wholly formed in the United States. The law also provides duty-free treatment for additional textile and apparel products that are wholly assembled or knit-to-shape in Haiti, regardless of the origin of the fabric or yarns from which the articles are made. Duty-free quotas for Haiti exports are also almost tripled to 200 million square-meter equivalents. These preferences do not violate the WTO rules. Preferences for RZs will have to be designed in such a way as to be consistent with WTO rules as well. There is a strong case, however, for WTO to make more flexible rules for war-torn countries.

Although the government can administer the free trade zones, these zones usually have a private administrator that is not normally entitled to fiscal preferences (unless the government wants to create an incentive for the zones to be located in a specific location). Thus, the administrator will pay taxes or fees to the government, adding to the revenue impact of the zones.

Countries such as Ireland, Uruguay, Costa Rica, and Singapore produce services from their free trade zones. This is not possible in war-torn countries that lack the skilled labor required for financial, ICT, health, and other services.

The LRZS would require technical support as that provided by the Earth Institute at Columbia University to the millennium villages project (MVP) in Africa. For details on this model see the 2010 Report by the Earth Institute, the Millennium Promise and the UNDP, Harvests of Development in Rural Africa: The Millennium Villages After Three year, available at: [http://www.millenniumvillages.org/docs/MVP_Report_2010FINAL.pdf](http://www.millenniumvillages.org/docs/MVP_Report_2010FINAL.pdf)


See Yasmine Shamsie, “Time for a ‘High-Road’ Approach to EPZ Development in Haiti” (paper prepared for the Conflict Prevention and Peace Forum [CPPF], Social Science Research Council [SSRC], January 24, 2010) for a detailed analysis of the problems created by Haiti’s free-trade zones, including violations of human rights. Poor conditions in Haiti’s free-trade zones, however, are not much different from those of other countries, which are increasingly under attack and will necessarily have to change for the better. See, for example, See, for example, Kathrin Hille, “Showing the Strain,” Financial Times, May 29/30, 2010, which discusses the problems in the Chinese city of Shenzhen, where a series of suicides in the staff of a Taiwanese company, Foxconn, producing 4 percent of Chinese exports, have called attention to appalling working conditions. In March 2011, Shenzhen had to increase minimum salaries by 20 percent (about $200), the largest increase ever (El Observador, March 3, 2011).

Leaving the monitoring in the hands of nongovernmental organizations (NGOs), as it has often been the case in the past in Haiti and other countries, will not suffice. See Shamsie, op. cit.

This is what foreign companies in the pharmaceutical industry, an industry with high environmental impact, has done in the city of Cork where they are mostly located in Ireland.