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Chapter 1

Introduction

RICHARD KOZUL-WRIGHT AND PIERGIUSEPPE FORTUNATO

THINGS FALL APART: THE SPREAD OF CIVIL STRIFE

Civil wars are deeply disruptive of social and economic life. They endanger personal security and civil liberties, seriously damage the environment and create health crises and famines. Furthermore, being principally fought inside national borders, they generate deep and cumulative divisions that undermine social cohesion, threaten the norms and institutions of the State, and create a sense of fear and distrust among citizens. As the World Bank recently suggested (World Bank, 2003: 32), civil strife can be well described as a process of “development in reverse”: in most cases output stagnates or shrinks along with productive investments, trade flows are massively disrupted, state finances are undermined and public services are curtailed. This process is likely to continue well after the fighting stops.

Post-conflict countries are, as a consequence, particularly fragile societies, where deep social and economic vulnerabilities come with the added threat of a return to full scale civil war. Afghanistan is a prominent case in point. Conflict there has been a way of life for three decades, the compounded result of economic stagnation and repeated socio-political shocks. The swift overthrow of the Taliban regime in 2001 raised hopes of a rapid and sustained recovery, as military and civilian aid poured in to the country. However, as a recent report by the International Committee of the UK House of Commons (2008) makes clear, while there have been some real improvements on the ground, especially in repairing the country’s social infrastructure, the gap between the expectations of the Afghan people of a more secure and prosperous future and the capacity of the state to deliver on a wide array of social and economic services, appears to be growing. Under these circumstances, hard-earned gains can be quickly wiped out by even a small escalation of conflict.

Civil wars have been on a sharply rising trend since the mid-1970s, accounting for the vast majority of total conflicts. The related fighting has

been much more irregular than more traditional (interstate) forms of warfare and most of the victims have been non-combatants. These civil conflicts peaked in the early 1990s, but continued for the remainder of the decade at a high level, two or three times the number recorded in the early 1970s, before dropping off at the start of the millennium: an estimated 5.5 million people were killed in 35 civil wars during the 1990s, making it the deadliest decade since the 1940s (Figure 1.1).¹

Figure 1.1: **Trends in armed conflicts since 1945**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden and Oslo, Norway.

The increased *protractedness* of ongoing civil conflicts, rather than any substantial increase in the number of new wars, explains this trend (Figure 1.2). In the early 1970s, civil conflicts lasted on average for just 2½ years, by the mid-1980s that had lengthened to four years and by the early 1990s had more than doubled to a peak of over nine years; by the start of the millennium, conflicts were, on average, still lasting around seven years.

Protracted conflicts have been most common in Asia. These have involved full-scale civil conflicts as well as secessionist struggles confined to geographical sub-regions. Africa has also been a region of long-lasting violence, more so since the early 1980s, when protracted inter- and intra-state struggles, going back in some cases to the post-independence period,² were compounded by new conflicts fought mainly inside national borders and along “ethnic” lines³ (Figure 1.3).

Over two-thirds of Sub-Saharan African countries have experienced a civil war episode during the past 25 years. Elsewhere, conflicts that might have been expected to diminish with the end of the Cold War have persisted and even intensified, most notably in the Middle East. Civil war also returned to

Figure 1.2: **Annual onsets of armed conflicts versus long-lasting crisis since 1945**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden.

Figure 1.3: **Regional trends in armed conflicts since 1945**

Source: Political Instability Task Force (PITF, 2006), Center for Global Policy, George Mason University.

Europe in the late 1980s, as a result of the break-up of Yugoslavia and the dissolution of the Soviet Union, but this proved short lived. Latin American conflicts peaked in the late 1980s, with a heavy concentration in Central America, but have been on a steadily declining trend ever since.

The declining incidence of inter-state wars has coincided with a declining trend in the annual average number of battle-related deaths. As can be seen in Figure 1.4, that decline has been associated with four (progressively less

intense) peaks at the end of the 1940s, the 1960s, the 1970s and the 1990s, respectively.⁴

Although the number of deaths on the battle fields have been on a declining trend, the impact of civil conflicts measured in terms of transnational refugees (including asylum seekers) and internally displaced civilians has risen sharply, since the early 1980s (Figures 1.5 and 1.6). No less than 24.5 million people were displaced in 2006, half of them in Africa (UNHCR, 2007).

Figure 1.4: **Battle-related deaths in civil conflicts in post-WWII period**

Source: UCDP/PRIO Armed Conflict Dataset (2007), Uppsala, Sweden.

Figure 1.5: **Transnational refugees and internally displaced civilians (thousands)**

Source: World Refugee Survey (USCRI, 2007), United States Committee for Refugees, New York.

Figure 1.6: **Transnational refugees and internally displaced civilians by region (thousands)**

Source: World Refugee Survey (USCRI, 2007), United States Committee for Refugees, New York.

The picture of contemporary warfare emerging from these broad trends is one of the increasingly *protracted* and disruptive civil conflicts able to generate profound and long-lasting divisions in the society. This, in turn, further exacerbates internal tensions and violence making such conflicts strongly path dependent. According to World Bank estimates, a country with a record of conflict is 2 to 4 times more likely to experience a subsequent war than one without, and the risk may be 10 times for a country that has just ended a war (World Bank, 2003).

All civil conflicts are, of course, shaped by local conditions and particular histories. This is the reason why case study evidence is so important to understanding the cause and persistence of conflict, as well as to finding appropriate policy responses (Ballentine and Sherman, 2003). However, there appears to be a number of broad characteristics, in addition to a prior history of conflict, that make countries more vulnerable to civil wars. On the economic side, these include a low level of income, a slow pace of economic growth and a weakly diversified economic structure, but there is strong evidence also suggesting that highly unequal societies are more prone to lasting violence (see Chapter 2; Collier, 2006). Vulnerability to conflicts, in other words, seems to correlate well with poverty and low levels of human development (Figure 1.7).⁵

There is a real and persistent threat in these states that economic shocks can trigger a vicious circle of falling state revenues and human development, expanding illegal and informal activity, increasing inequality,

Figure 1.7: **The vicious circle of conflict and vulnerability**

Source: Rice and Patrick (2008).

declining political authority and a growing threat of political violence, leading to further declines in fiscal revenue and human development. This is what some commentators have called “the conflict trap”. Heavy reliance on natural resources as a source of income and export earnings has been seen as one important indicator of vulnerability to conflict, whether as a direct trigger of the fighting or a means of perpetuating a conflict once it has started. The relation need not be direct. Downturns in the price of international commodities, for example, which are usually the result of distant economic factors, have been associated with the increase in the probability of civil war in countries that are highly export dependent.⁶ The link between natural resources and conflict is, however, a contentious issue of research, and many of the empirical studies are fraught with serious problems of model specification, endogeneity and measurement error. As suggested by Fearon (2004), for example, mineral resources may not be the initial cause of civil wars, but once started these wars tend to persist for a long time, as the rents from these commodities help to finance war besides being a source of profit. Snyder and Bhavnani (2005) argue instead that natural resource abundance may feed conflict only under very specific circumstances: when they represent the main source of government revenues and the mode of extraction is artisan.⁷ Finally, there is a reverse causality issue; civil wars might well be the “cause” rather than the effect of resource dependence by, for example, undermining investment in the manufacturing sector and underlying structural features such as a weak state or failed diversification strategies, might lead to both resource dependence and conflict.

Political changes provide another possible trigger of conflict. In particular, the risk of conflict appears to be at its highest during transitions to and from democracy, when state capacity is weak, and also in fledgling and imperfect democracies. Conversely, that risk is lower in both well-established democracies and autocracies, perhaps because of greater state capacity (Hegre, *et al.*, 2001). Others suggest that it is not just state capacity that matters but whether or not ruling elites can reach a compromise with wider sections of civil society which can underpin institutional stability and economic efficiency (Lynn, 1990; Sorenson, 1993; Cervellati, *et al.*, 2007 and 2011). This is shown in Figure 1.8, which plots the relationship between the level of civic participation along the transition to democracy and the quality of democratic institutions in the new democracies in 2006 for the 67 countries that have been involved in the so-called “third wave”.^{8,9}

Figure 1.8: **Third-wave democracies: Kinds of transition and political rights**

Source: Freedom House (2005).

Furthermore, as plotted in Figure 1.9, those countries characterized by weaker civic societies along the transition tend to be associated with governments incapable of effectively enforcing the law and creating an environment where parties can negotiate and avoid destructive confrontations.^{10,11} Such an environment is particularly vulnerable to seeing the everyday (manageable) disputes and tensions associated with the development process generating abnormal levels of social discontent which, in turn, may trigger political violence.

Figure 1.9: **Third-wave democracies: Kinds of transition and property rights protection**

Source: Freedom House (2005).

THE VICIOUS CIRCLE OF ECONOMIC UNDERDEVELOPMENT, INSTITUTIONAL FAILURE AND CIVIL CONFLICT

The Conflict Trap

The previous section has emphasized that the presence of certain social, political and economic vulnerabilities make some countries more susceptible to armed civil conflict. Moreover, once the conflict begins, the short- and long-term depletion of social, physical and human capital is bound to intensify existing vulnerabilities and create forms of destitution from which households will find it difficult to recover. **Patricia Justino (Chapter 2)** surveys the direct and indirect costs that strongly affect the conditions of households at the time of the conflict and for many years thereafter. Moreover, the various coping strategies employed by households during periods of conflict often lead to new forms of vulnerability and exclusion which persist into the recovery period threatening the norms and institutions of the state and creating a sense of fear and distrust among the citizens. Justino maintains that dealing with these legacies must be a crucial part of any effective post-conflict recovery strategy.

Graham K. Brown (Chapter 3) suggests that countries vulnerable to conflict can become trapped in the kind of vicious circle familiar from the development literature, whereby interdependent and cumulative processes work to reinforce existing vulnerabilities. Much of the pioneering work emphasized the central role of capital accumulation in breaking these development traps. In more recent interpretations, however, the constraints

on growth resulting from limited human development and the lop-sided distribution of productive assets and capabilities have also been emphasized (Stewart and Ranis, 2007). In most conflict situations, such traps usually have multiple dimensions. Capital flight, both human and financial, is exacerbated by the shortening of investment horizons in the face of uncertainty. Furthermore, the negative impact of conflict on health and education, particularly during childhood, can readily reinforce the structural vulnerabilities behind conflict (see Miguel and Kremer, 2004; Bleakley, 2007), as can the rising incidence of hunger and falling nutritional levels which tend to be marked features of conflict environments.

Brown sees the capture of political institutions by cultural, religious, linguistic, regional or ethnic groups and the resulting threat of widening “horizontal inequalities” as a significant cause of violent conflict and its persistence. Horizontal inequalities are multidimensional. The economic dimension involves more than income differences but also access to employment and to a variety of assets (e.g. land, finance). The social dimension concerns access to services (e.g. health, water), housing and education; while the political dimension includes access to power at the top (presidency, cabinet) and at lower levels (parliamentary assemblies, local governments) as well as at the bureaucracy, the army and the police. These inequalities are likely to be more dangerous where they are compounded across all three dimensions simultaneously.

Armed civil conflict also crucially alters the structure of political institutions, both local and national, as well as their ability to provide even basic social services and guarantee the establishment of property rights, the rule of law and security. Violent conflicts frequently result from and/or lead to forms of state and governance failure (e.g. Zartman, 1995; King and Zheng, 2001), but they also offer opportunities for new classes of local and regional leaders to challenge political powers (e.g. Reno, 2002). In most conflicts, a number of actors (militia-leaders and members, political elites, businessmen, petty traders, but also households and groups) have tried to improve their position and to exploit the opportunities offered by a context of internal conflict. The result can be a process of social and political transformation involving a profound reshaping of the legal and judiciary structures (see Vlassenroot and Raeymaekers, 2004). One way in which those processes occur is through the emergence of “ethnic entrepreneurs” who exploit inter-communal distrust as a means of building and consolidating political support (Paris, 2004: 161–162) or through the emergence of local “governance” structures in places where “government” is absent. In the literature, such circumstances are referred to as state “collapse” (Zartman, 1995).

Reappraising the Greed Hypothesis

One possible explanation for why these traps have tightened in recent years involves the choices made by calculating rebel leaders about whether to maximize their profits through normal lines of production or the violent appropriation of existing assets. According to this view, the combination of economic failure along with the presence of valuable natural resource rents provides a fertile environment for conflict, as well as the financial means by which rebel organizations can maintain their activities.

The greed hypothesis has an intuitive appeal and has been extremely influential in donor policy circles; civil wars occur in poverty stricken, failed states characterized by venal, corrupt and inept regimes, which underinvest in social protection and the rule of law, and are sustained by a kind of behaviour akin to banditry. This suggests how a conflict trap can persist but also provides an agenda for breaking that circle once the fighting ends, through direct intervention to prevent failing states from completely collapsing, combined with measures to strengthen property rights, root out past corrupt practices, establish (or repair) safety nets and get price incentives back to normal (World Bank, 2003).

However, the evidence mustered in support of this approach as well as its tendency to confuse correlation and causation has cast serious doubts about its value for policy makers (United Nations, 2008: 126). As Mkandawire (2002) points out, the desire to impose a one-dimensional and static analysis on what is an inherently complex and dynamic problem leaves it particularly insensitive to the origins of most rebel movements in Africa, provides few clues to the structural vulnerabilities around which conflict pressures have deepened in recent years and ultimately hinges on such *deus ex machina* influences as leadership quality, propaganda and the irrational behaviour of combatants to explain why conflict persists.

Since conflicts typically do involve a large cost in terms of lost and wasted resources, the opposing parties, if operating on “rational” principles, should be able to find an agreement that satisfies all sides. The inability to find such an agreement is therefore an essential ingredient to explain the emergence of armed conflicts. Modern states typically have built up a collection of rules and institutions for conflict management and dispute resolution, including constitutions, courts and arbitration bodies, as well as fostering a set of values such as compromise and trust which keep the costs of such management in check. Such institutions channel contests for power through economic competition and political bargaining instead of through political violence and armed conflicts, give legitimacy to the distribution of the rewards, and generally

give people the expectation that problems will be resolved without recourse to violence. In most stable societies, these institutions have evolved in response to an array of pressures and tensions, including many thrown up by market forces. As Albert Hirschman (1994) has observed, conflict can be either a “glue” or a “solvent”, depending on whether or not society learns to manage it.

Many economic threats and conflicts should be manageable because they are of the “more-or-less” variety (i.e. caused by vertical inequalities) and therefore open to negotiation and bargaining. Thus, even if large resource rents do constitute a sizeable prize, violent conflict is unlikely to take hold as long as the country has a framework of viable rules, both formal and informal, that govern the allocation of resources and the peaceful settlement of any kind of potential grievances. In the end, the absence of such rules cannot be explained by economic motive or opportunity alone, but involve the complex interplay of political, social and cultural factors.

The Breakdown of the Social Contract

Any stable socio-economic system seeking to advance to higher levels of development must rely to some degree on “an implicit understanding, agreement by members of a community to co-operate for mutual benefit” (Panić, **Chapter 7**), a *social contract*, to which the great majority of the population finds in its best interest to abide. This, in turn, gives rise to more formal rules and regulations (and accompanying institutional mechanisms of protection, adjudication and enforcement) that facilitate the adaptation to change without serious disruption or violent upheaval. In doing so, at least three key demands must be satisfied: these are for legitimacy, order and fairness (Kozul-Wright and Rayment, 2007). The demand for *legitimacy* refers to the basic justification of a government’s authority over its citizens, the procedures by which that authority is created and exercised, and more generally the manner in which political, social and economic institutions are rooted in and reflect the values and traditions or, in the words of Adam Smith, the “moral sentiments” of the population or community concerned. The justification of authority has obviously changed over time and still varies among communities. The dominant principle of modern politics is that legitimate authority is based in some way or another on discussion with and approval by those over whom it is exercised. Although this democratic principle is core, there is still plenty of scope for variation in the ways in which this is put into practice and, indeed, for disagreement as to how far it should go in emphasizing the principle of individual liberty and free choice or that of equality.

The demand for *order* concerns the agreed laws, rules, social norms and informal conventions that govern relations among the various members of a society, or independent states in their international relations whether within or outside of formal institutions. The structure of incentives embedded in these laws, norms and standards defines the acceptable forms of behaviour throughout the system and provides for sanctions against the unacceptable. Clearly, for laws to be observed and for citizens to be able to pursue their legitimate aims, appropriate and effective institutions of enforcement must be in place. Well-ordered and effectual legislative and judicial systems are crucial for meeting this requirement of stability. But, more fundamentally, laws and rules will only stand when a majority of those subject to them agree to observe them voluntarily because it is in their interest to do so, not because of the threat of being caught or sanctioned for breaking them.

Finally, the demand for *fairness* refers to the capacity of the system to meet the needs of all its members. It recognises that popular support for institutions and the system as a whole will not be sustained if economic performance fails to generate an adequate standard of living, if it falls persistently below expectations or if too many citizens are left behind in poverty or regard the distribution of the benefits and costs of economic change as unjust.

Together these three components form the basis of a “social contract”. As described by **Mansoob Murshed (Chapter 4)**, such a contract contains three broad sets of governing rules, political (representation, consultation and decision making), moral (personal conduct and a sense of justice) and economic (resource allocation, production and exchange). Whatever the particular rules in place at any given time, adherence to them is necessary for peace and stability, and is based on a mixture of power, consent and self-interest. The relationships are complex and almost certainly non-linear. A sharp deterioration in economic wellbeing, for example, may not threaten the stability of the system if popular support for institutions remains strong and if policies and institutions are capable of responding to social distress. In contrast, a smaller deterioration in the three criteria all together might pose a much greater threat to stability, and seriously escalate if institutions prove themselves incapable of finding an effective response. There are also possible offsets: rapid income growth may distract attention from institutional failings or, more ominously, nationalism may be used to distract attention from deficiencies in legitimacy and economic performance. But in the medium and longer run, all three requirements must be met. According to Murshed, in countries coming out of conflict where the underlying rules have essentially broken down, the essential struggle will be to recover a fair division of power and resources. He suggests that the initial stages of recovery

will be characterized by a delicate balance between the recovery of central state authority and some degree of political and economic decentralization.

Focusing attention on the breakdown and repair of the social contract in conflict and post-conflict societies is closely linked to contemporary debates about market-led development. The self-regulating market was very much the *idée fixe* of the late 20th century. Dismantling the checks and balances that had emerged to curb what an earlier generation of policy makers had seen as the self-destructive tendency of unregulated markets became a global trend, whereby many of the stresses and burdens of those markets have been unloaded onto individuals and households, with diminished or only limited offsetting government responses. Pushing this idea was—as more advanced economies have now found out—always a gamble. Competitive markets do not arise spontaneously as the default position of social organization, they are above all social constructs and, as Adam Smith recognized, can never be disembodied from the political, social and legal structures from which they arise. Nor are market forces pre-programmed to generate stable equilibria, let alone social harmony, but rather tend to be caught up in processes of cumulative causation which can certainly give rise to rising incomes for some but can just as easily confine others to low levels of security and well-being, thereby threatening the very foundation of social stability. That “good economic governance” should necessarily involve the centrality of market forces has unfortunately been a core point in the IFIs’ agenda even in post-conflict environments.

The combination of market forces and public interest needed to establish the right balance between economic progress and social cohesion is very much a political question which hinges on effective redistributive institutions, those related to conflict management and those that extend participation in the decision-making process. When such institutions exist and function well, the legitimacy, order and fairness of social outcomes will be guaranteed. But problems will arise if social contestation becomes so intense that it cannot be channelled through the existing institutions.

Particularly where the tensions and grievances among groups that make up the state are compounded along exclusionary rather than overlapping lines, the potential for internal violence is likely to increase. Available empirical evidence, as discussed earlier, confirms that horizontal inequalities can give rise to political mobilization and that levels of dissatisfaction turn more quickly to violence than is the case with purely vertical inequalities.¹² Violence is likely to intensify when competition and conflict reinforce deep and cumulative social cleavages of an exclusionary kind, and individuals and households are compelled by social pressure or threats to give up normal multiple identities

and “take sides”. In this vein, some researchers have suggested that conflict is being driven by *polarization* rather than inequality *per se*. Income polarization, for example, is higher when the gap between rich and poor is greater (resulting in greater alienation between the two) and when income inequalities inside each one of the group lower, resulting in greater identification with others in the same income group (**Boyce, Chapter 6**). Furthermore, when economic polarization (in the distribution of income, wealth or other attributes such as employment, education and health) aligns with social polarization (in the distribution of the population into identity groups based on race, ethnicity, language, religion or region), the potential for violent conflict may be multiplied. Duclos, Esteban and Ray (2004) speculate that a “hybrid” measure of polarization, that combines social and economic considerations, may be a better predictor of social conflict than “pure income” or “pure social” measures confined to distribution measured on a single attribute; and Montalvo and Reynal-Querol (2005a, b) offer empirical support for the proposition that what they term “ethnic polarization”—which attains a maximum when the population is divided into two ethno linguistic groups of equal size—is a statistically significant predictor of the likelihood of civil war.

STATE-BUILDING AND POST-CONFLICT RECOVERY

The dramatic weakening of social cohesion and institutions due to a protracted civil strife make a sustained recovery all the more difficult once the fighting stops. Drawing on the experience of many post-conflict countries and *fragile* states, the second part of the volume studies the economic, social and political challenges faced by war-torn societies along the transition from violent conflict to durable peace. It is clear that repair of the social contract is closely linked with state-building in post-conflict countries. In recent years, the international community has been drawn in to that process. **Susan L. Woodward (Chapter 5)** examines some of the, often conflicting, underpinnings on which that involvement has been based and why it has not been very successful. She suggests that the international community fails to grasp that, rather than being an independent political umpire and supporter of capacities that the local population need, it is all too often part of an ongoing contest for state power once the fighting stops. Consequently, outsiders need to be much more cognisant of the way their actions impact on the process by which a new political leadership is seeking to win over rivals, establish authority and regain the trust of the population through its own behaviour and the policies it adopts.

A crucial issue during post-war transitions is the building up of state capacities to collect and effectively employ domestic revenue. The size of government revenue relative to gross domestic product (GDP) in war-torn societies is, in fact, typically far below the average for other countries with similar per capita income, while the need of funding for new institutions and for expenditures to improve human well being, strengthen public security and ease social tensions remains extremely high for years. **James K. Boyce (Chapter 6)** tackles this issue, and offers some thoughts as to how aid can effectively support efforts to build a durable peace. In particular, he considers how aid can support efforts to build the fiscal basis for a sustainable state and suggests that the priorities and policies traditionally pushed by the international financial institutions and the wider donor community need to be rethought in the light of post-conflict challenges.

In a closely related contribution, **Mića Panić (Chapter 7)** devotes special attention to the institutional aspects under which external economic and technical assistance is given and implemented, and proposes concrete measures to raise the effectiveness of international action. These include: the division of responsibilities between the recipient country and its donors; the timing and duration of disbursement of aid flows; sensitivity to a country's traditions in any reforms of its labour relations; capacity of individual countries to manage and supervise new financial institutions; and the factors that need to be taken into account in monitoring and assessing the effectiveness of foreign aid. Panić offers a series of recommendations that would make external economic assistance more effective in bringing about a sustainable peace.

Richard Kozul-Wright and Paul Rayment (Chapter 8) put these policy recommendations in to a more general framework, inspired by the Marshall Plan, intended to ensure that aid is used more effectively and to encourage policy makers to forge a new kind of social contract in post-conflict economies. They argue that the attraction of the Marshall Plan is that it addressed many of the issues that have been subsequently raised anew in the recent debates on aid effectiveness. From this experience, Kozul-Wright and Rayment identified a set of general and operational principles that remain highly relevant to the problems of post-conflict countries today, even though their security, reconciliation and development challenges are a good deal more demanding than those facing war-torn Europe after 1945.

NOTES

- 1 The World Bank (2003) suggests that the decline from the peak of the early 1990s reflects a surge of peace settlements with the end of the Cold War, possibly due to a drying up of finance and greater scope for peace keeping mission. But it also worries that this may have been a one-off drop.
- 2 Very few wars were ended by negotiated settlement during the Cold War period.
- 3 The classification of conflicts as “ethnic” is widespread in the literature but does raise difficult conceptual issues. According to the Center for Systemic Peace, a conflict can be classified as ethnic when “the mobilization of violence is largely exclusive to a particular social identity group that desires to change its political status, either through greater autonomy or separatist goals or competition with another identity group, or groups, over capture and control of the central state apparatus”. This obviously differs from more prosaic uses of the term.
- 4 The first two peaks were generated by increased deaths in Asia (the Chinese Revolution and Korean War followed later by the conflicts in South East Asia), the third by rising tensions in the Middle East, and the final peak by an intensification of conflicts in Africa.
- 5 Figure 1.7 considers the least and most secure states according to the Index of State Weakness in the Developing World, a measure developed by the Brookings Institution. This measure evaluates whether a state is able to provide physical security for its citizens according to five different indicators (occurrence and intensity of violent conflict, illegal seizure of political power, widespread perceptions of political instability, territory affected by conflict and gross human rights abuses).
- 6 See Brückner and Ciccone (2008) for a more detailed analysis.
- 7 In this case, their argument goes, government revenue tend to be extremely low crucially affecting state capacity.
- 8 The “third wave of democratization” refers to the third major surge of democracy in history which has seen more than 60 countries experience democratic transitions since April 1974 (i.e. the end of Salazar’s regime in Portugal).
- 9 Freedom House (2005) classifies the transitions of the third wave according to the intensity of the participation of the civil society in the democratization process (strong, moderate and weak participation). The new democracies are also classified as “Free” (where a wide array of political rights and civil liberties are guaranteed), “Partly Free” (where some significant limitations on rights and liberties persists) or “Not Free” (where basic rights are systematically denied).
- 10 The measure of quality of governance is the fourth cluster of the indicators of rule of law proposed by Kauffman *et al.* (1999). That indicator “measures the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions and the extent to which property rights are protected”. The countries in the sample are classified into two groups, Good- and Bad-Governance, depending on whether they perform better or worse than the average. This is intended simply as an indicative exercise.
- 11 See Cervellati *et al.* (2007) for a detailed analysis of the relationships between the characteristics of a democratic transition and the institutional quality in the new democracy.
- 12 See, for example, Mancini (2005) on Indonesia and Gates and Murshed (2005) on Nepal.

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