



**CATOLICA**  
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LISBOA

# **War Economy and the New Wars:**

## **A case study of Kosovo's War Economy**

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27/09/2019

## **Acknowledgements**

During the first year of the course of M.A. Governance, Leadership & Democracy Studies, I had the pleasure to attend the classes of Professor Mónica Dias. It was from her classes and her way of teaching that brought inspiration to the topic of this thesis. Thanks to Professor Mónica's attention, guidance, and dedication in supervising the project and thesis, it was possible to accomplish this important step in my academic life.

## Abstract

Word Count Dissertation: 28 658

Word count abstract: 334

This dissertation aims to study the relationship between the economic dimension of “new wars” and the perpetuation of violence. The analysis on the economic dimension of “new wars” shows that it is an essential aspect to understand in an interconnected and globalized setting because there are impacts on the state-building and on the social and political spheres.

The main question of the thesis is going to analyze the main aspects of the war economy in Kosovo. One of the hypotheses holds that in contemporary wars, the state suffers increased levels of violence, which leads to a non-ending cycle of internal crisis, because of the economic aspect of war. The goal is to explore this hypothesis and to analyze the nature and characteristics of the war economy as well as, to understand how the perpetuation of violence can easily spread on a transnational level. One of the main sources for the discussion of the “new wars” theory are the book *New & Old Wars: Organized Violence in a Global Era, 2012* by Mary Kaldor and the book *The New Wars, 2003* by Herfried Münkler. Kaldor has an extensive fieldwork experience on the type of intrastate conflicts and analyses the main aspects of conflicts in different parts of the world.

While Kaldor and Münkler focus on the “new wars” thesis, authors such as Philippe Le Billon in the paper *The Political Economy of War: What Relief Agencies Need to Know, 2000* provides a better insight into the different types of war, their characteristics and challenges. Finally, authors such as Francesco Stratazzi in the article with the title *Between ethnic collision and mafia collusion, 2006* and Jenny H. Peterson, in the article with the title *Transforming a war economy, 2014* provide an even more detailed analysis of the economic aspects of the conflict in the Balkan region and in relation to the case on Kosovo’s war economy.

The dissertation is divided into three chapters. The first chapter examines the nature of the “new wars” based on a qualitative research of the central authors on the topic. The second chapter analyses the political economy of weak states and the causes for the perpetuation of violence. In the third chapter, the case study on the Kosovo war economy is discussed and analyzed to better understand the theoretical aspects of the economy of the war in the case of Kosovo. The main goal of our thesis is to study the related causes of the economic dimension of these types of war and to understand how the awareness of war economy can help to take measures to prevent violent conflict and perpetuation of war.

## Contents

<b>Introduction.....</b>	<b>1</b>
<b><u>Chapter I: The “New wars” Theory: characterization, critique, and defense .....</u></b>	<b>12</b>
1.1 The theory of old wars and new wars .....	13
1.2 Characterization of new wars .....	17
1.3 Critique and defense of the new wars theory .....	29
1.4 State erosion and the breaking down of institutions .....	32
<b><u>Chapter II: Shadow Economy of new wars .....</u></b>	<b>39</b>
2.1 The emergence of shadow globalization and a war economy .....	40
2.2 Primary sources for revenue raising and transnational networks .....	60
2.3 Why violence perpetuates and persists in the regional context .....	64
<b><u>Chapter III: Case study on Kosovo’s war economy.....</u></b>	<b>68</b>
3.1. Ethnic conflict in Kosovo and the way to war .....	69
3.2. The Dayton Peace Agreement .....	72
3.3. The flows and complexity of actors in Kosovo .....	74
3.4. The causes and development of the shadow economy in Serbia and Kosovo....	81
3.4.1. Independence Claims .....	83
3.4.2. The role of the Albanian Mafia .....	89
3.5. Interventions from international organizations .....	92
3.6. Post-Kosovo War .....	97
<b>Conclusion .....</b>	<b>101</b>
<b>Bibliography.....</b>	<b>107</b>
<b>Webography .....</b>	<b>113</b>

## **Introduction**

Peace cannot be achieved through violence; it can only be attained through understanding.

— Ralph Waldo Emerson<sup>1</sup>

Since the beginning of human history, war is considered as the driving force in the transformation of societies. By learning from the wars of the past, we hope to prevent war in the future. For this, we consider looking at the factors that shape contemporary wars of the end of the twentieth century. Studies on the contemporary wars focus on the changing patterns of conflicts. That is, the nature of warfare has changed since the end of the Cold War period, which represented the formation of new nation-states, rapid developments of technology and communication, free movement of people and free-market and global economy. With these new developments leading to a freer and more open world, the emergence of new identities and challenges started to affect the newly formed identities because of statehood failure. The economic dimension an especially important factor in the studying why, in the long run, low-intensity violence has become more and more recurrent, and conflict tends to persist.

### I. Context and Research Question

The emergent new challenges have not only transformed warfare but also shaped the events in the current geopolitical context. The transformation began to be most apparent by the post-Cold War period that left behind a vacuum of power along the peripheries of the two major superpowers. The challenges that characterize the contemporary geopolitical context are addressed in the 1992 document by the Secretary-General Boutros Boutros-Ghali and provides with recommendations to the United Nations on how to approach contemporary conflicts. These involve preventive diplomacy, peacemaking, and peacekeeping (Boutros-Ghali: 1992).

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<sup>1</sup> Quote retrieved from <https://foreignpolicyblogs.com/2007/07/20/peace-cannot-be-achieved-through-violence-it-can-only-be-attained-through-understanding-ralph-waldo-emerson/>

However, these solutions were hard to always put into practice as the shaping patterns of intrastate conflicts have offered additional reasons for conflict perpetuation. One of such shaping patterns can be attributed to the emergence of warlord entrepreneurs and a range of different warring groups that are interested in the business of war. Because of the emergence of new, non-state actors, state power suffers erosion, which consequently generates economic, political and social unrest. In addition, a weak state usually means that the economy has developed and consolidated a shadow economy, which in turn is the opposite of formal economy. Shadow economy can affect an entire region and develop very fast through the engagement of warring groups in criminal networks, who trade illicit goods and services in and out of the country and pass them into other countries in the region. For the shadow economy to function, shadow institutions are also created, which can only be taken down by strengthening the institutions existing from a formal economy based on the premises of a rule-of-law oriented state.

Within this context, our main thesis question is the following: **are the economic factors the most relevant to understand the persistence and ongoing nature of the new wars?** The hypothesis holds that the economic factor is essential in understanding the persistence of war economies in intrastate conflicts and provides better understanding to the challenges in these conflicts. In order to analyze this question, Kosovo's case is a good example to understand the enduring consequences of the new wars. It is a case study which shares many of such new wars characteristics, and a long-term development of the shadow economy. This is the reason this thesis is focused on that conflict that marked world politics in the 90s and affected the whole region until today.

The war of Kosovo-Serbia is one of the many wars that portrays the specificities of the new wars political, economic, military, and war struggles. In Kosovo's case, the shadow economy

has developed well before the Yugoslavian dissolution and have played an essential role in the armed struggle with the Republic of Serbia. For instance, the networks emergent from the shadow economy, including remittances and support from the diaspora, have contributed to a substantial economic and political support for war entrepreneurs. The armed struggle in Kosovo began with the primary objective to earn an independent status for Kosovo and to reestablish Albanian Kosovans rights. However, Albanian Kosovars faced Serbs resistance. The emergence of shadow economy can be said to constitute a need which helped assert the position of the newly formed identities within Yugoslavian Federation, while facing a major economic crisis which broke into violent conflict and later, into a bloody war. For instance, some of characteristics associated to economic factor are most people living in extreme poverty, high unemployment, and overall economic underdevelopment.

Authors also encounter the patterns of conflict associated with the development of shadow economies, the so called “grey”, “black”, and “mafia-type” economy with well-developed criminal networks. Some non-state actors emerged as a waring group which initially fought for Kosovo's cause. However, the Kosovo Liberation Army is also a group associated with criminal activity, whose activity allegedly continues to affect the economy in development in Kosovo. Furthermore, by provoking the Serbian side, violence exacerbated on both sides accompanied by violent massacres. The continuation of the struggle eventually led to the Kosovo War in 1998-1999.

When analyzing Kosovo's case, not only should the ancient ethnic divisions be considered, but also the development of a shadow economy pre-existent to the dissolution of the Yugoslavian Federation. Since economic factors do play a significant role in the context of the new war and the state erosion, it is then essential to study and analyze one of such conflicts such as the Kosovo case study to understand which economic aspects generate ongoing conflicts in countries with similar circumstances.

## II. Motivation

The analysis of the shadow economy will not only explain the causes leading to the Kosovo War but also give an insight into the current crisis and the state of the economic situation in Kosovo. This case study encouraged an interest because Kosovo has a wide amount of research on the shadow economy, for it having been existent not only in Kosovo but also within the whole Balkan region. Also, it is a conflict situated within Europe, which at the time created a divide in the international organizations. Furthermore, development of criminal networks and provocations by Kosovo and Serbia have also led to one of the most significant humanitarian interventions by NATO in 1999. By discussing the topic of the new wars, we can better understand the causes, repercussion, and challenges of the contemporary conflicts, and how the effects of informal economies can be mitigated to lead to better economic development and help build a more robust state. Lastly, because I have origins in Eastern Europe in it of my interest to analyze the countries which experienced the consequences of statehood failure, strong political crisis, as well as, problems associated to illicit economy, all of which have in general affected the countries in the Eastern Europe.

## III. Methodology & case study

The dissertation is based on the qualitative analysis based on theoretical arguments from various authors on the topics of new wars, the war economy, and Kosovo's case study. The book *The New Wars*, by Herfried Münkler (2005) is the primary basis for the topic in analysis, as well as other texts such as *Wars of the 21st Century*. Another essential author is Mary Kaldor and Mark Duffield, who offer a complement to Münkler theory on new wars. However, Münkler remains the primary source because of his focus on the relation between new wars and the war economy. Additionally, the study on the shadow economy is based mainly on authors such as Philippe Le Billon, Dietrich Jung (2003) and conference reports and articles on

the war economy. The report by Marcatan Humphreys titled as *Economics and Violent Conflict 2003*, discusses the causes of the development of war economies.<sup>2</sup> Besides the conference titled as *War Economies in a Regional Context 2004*,<sup>3</sup> by Kaysie Studdard, discusses the main regional challenges and approaches to solving the war economy in countries over different continents. Lastly, for the case study, some of the primary references are Peterson (2014)<sup>4</sup> and Sorensen (2006)<sup>5</sup>, who provide arguments on the effects of the shadow economy in the Balkan region.

#### IV. State of the art

Considering the thesis authors such as Mary Kaldor and Herfried Münkler helped us to better understand the contemporary conflicts and the future challenges of problems which arise from the study of the thesis question.

The pressing issue that arises from these conflicts is that even after the wars, violence is likely to continue because there are economic factors associated with the transformation of the *new wars*. They can be characterized as a war of greed, increased corruption, violence against civilians, driven by the advantages that some actors can profit from the continuation of the war. Weakened nation-states are characterized as states who have suffered erosion, have lost the control over most of the areas of state responsibility such as the monopoly of violence, basic institutions, Parliament and the Judiciary, but also the education and health sector. Consequently, chaos is present in the social, political, and economic dimensions. The state is

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<sup>2</sup> HUMPHREYS, Marcatan (2003). "Economics and Violent Conflict." Harvard University. Retrieved:[https://www.unicef.org/socialpolicy/files/Economics\\_and\\_Violent\\_Conflict.pdf](https://www.unicef.org/socialpolicy/files/Economics_and_Violent_Conflict.pdf)ven (retrieved in 2/5/2019).

<sup>3</sup> STUDDARD, Kaysie. "War Economies in a Regional Context: Overcoming the Challenges of Transformation." *International Peace Academy*. 2004, March. Available at: <https://www.ipinst.org/wp-content/uploads/publications/wareconomies.pdf> (accessed 8/3/2019).

<sup>4</sup> PETERSON, Jenny, H. "Transforming a war economy: learning from the case of Kosovo". In Peterson, Jenny, H. "Building a peace economy? Liberal peacebuilding and the development-security industry" Manchester University Press, 2014: 69-84.

<sup>5</sup> SÖRENSEN, Jens, S. "The Shadow Economy, War, and State Building: Social Transformation and Re-stratification in an Illiberal Economy (Serbia and Kosovo)". In: *Journal of Contemporary European Studies*, n° 14(3), 2006: 317-351.

no longer capable of maintaining order and provide security as a legitimate entity of national security. Instead, a range of diverse non-state actors emerged and gained control over power and authority over the failed state. Such non-state actors are usually formed by irregular armed forces, such as guerrillas, terrorists, bandits, and robbers, who are capable of developing networks with mafia groups, organized crime networks, and private security companies to obtain the necessary funding and training in these types of conflicts. For a weakened nation-state, the emergence of the non-state actor is a problematical factor because they can extend the duration of conflicts, even making them challenging to end.

Mary Kaldor<sup>6</sup> who was one of the strongest influences for this work, argues that warfare has changed in the past years, which is evidenced in the increasing number of intrastate wars and the decreasing number of interstate wars. That is, wars have mainly been fought within the nation-states rather than between nation-states. A peak in the intrastate wars has been registered during the 1990s, a period of several newly forming nation-states. Conflicts might appear to be domestic, internal, and exclusive of a nation-state. However, in the contemporary setting, conflicts can be said to have gained a new force because they can spread more quickly and are more challenging to control. Africa, Asia, Latin America and Europe are the continents that have faced most of the contemporary type of wars, termed by authors as the *new wars* of the end of the twentieth century.

The discussion on new wars is based both on theory and empirical evidence. Herfried Münkler (2005) is one of the primary references who wrote on the theory of new wars and focuses on the economy of war in his book called *The New Wars*, 2003, Münkler<sup>7</sup> argues that after the 1990s, the amount of the intrastate wars has been increasing and the interstate wars have been decreasing. According to Richard Jackson (2007), in his article *Towards an Understanding of*

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<sup>6</sup> KALDOR, Mary. *New and Old Wars: Organized Violence in a Global Era*, 3rd Edition, Cambridge: Polity Press, 2012.

<sup>7</sup> MÜNKLER, Herfried. *The New Wars*, Oxford: Polity Press, 2005.

*Contemporary Intrastate War*, intrastate war accounts for "more than 90 percent of all international conflicts since the early 1990s" (Jackson, 2007: 212). Also, according to Kaldor, wars nowadays are characterized by a "minimum number of battle deaths" (Kaldor, 2012: vii). Additionally, to emphasize the distinction between intrastate and the interstate wars, Kaldor finds that actors, aims, methods, and goals are different from the logic of the *old wars*, which is a theoretical framework based on the works of Clausewitz. Therefore, the current geopolitical context is characterized by a new logic of warfare, termed as the *new wars*. The new wars are an intrastate type of war, which can be distinguished from the 'old wars,' or wars between nation-state. Mary Kaldor argues that 'new wars' are different from the past classical wars, and for this purpose, Kaldor explains this distinction by analyzing the type actors involved, goals, aims, and methods. In the *new wars*, actors are associated mainly to the emergence of several non-state actors, but also, to different goals, methods, and finance. Non-state actors became part of a complex mix of interests of actors who partake in the conflict.

At the same time, critics, such as Kalyvas (2001), Newman (2004) and Singer (2002) argue that new wars are not new. For them, the nature of conflict has not changed, which means violent conflict is the same as in the past. For instance, new wars share many similar characteristics with the wars of the pre-modern state period, such as the Thirty-Year War period. In response to the critics of the new wars, Mary Kaldor considers that new wars are new because critics overlook some essential distinctions between concepts such as identity politics and ideology and hybrid warfare and mixed warfare (Kaldor, 2012: 5). Furthermore, Kaldor argues that globalization is a crucial element in the dynamics of new wars. There are dangers associated with globalization, such as conflicts spreading across borders. The spread of conflicts is associated dramatically to the complexity of actors. For instance, Münkler argues that state power has fragmented among distinct actors. These actors are termed by Münkler as "war entrepreneurs" to describe a range of new wars actors whose primary motivation is greed.

These war entrepreneurs take advantages in the disintegration of the state and the breakdown of existing democratic institutions. These circumstances create an opportunity for the warlords to start profiting in economic ways and further allowing them to hurt the state capacity. Therefore, over time, these wars tend to spread, persist, and recur for decades.

One of the leading causes in the new wars is the long existent ancient hatreds that lead to ethnic conflicts. However, authors such as Jenny Sorensen in the journal titled as *The Shadow Economy, War and State Building*, 2006,<sup>8</sup> as well as the analysis in the article titled as *The Economics of War: the intersection of need, creed and greed*, 2001, by Jake Sherman<sup>9</sup>, both consider that there is not enough focus on the economic aspect of the conflict. In this sense, these studies explain that the issue affecting the economic aspect of new wars is the development of the shadow economy. That is, the shadow economy contributes to state erosion because parallel institutions replace state institutions. Overall, state erosion is associated with issues such as corruption of political and legal authority, weak economic development, and political unrest.

Therefore, as *Münkler* (2005) argues, war entrepreneurs, become an enterprise which is led majorly for economic reasons, other than for political or ideological reasons. Besides, according to Kaldor (2012), the “new wars are a war rather violent enterprise framed in political terms” (Kaldor, 2013: 6). That is, politics is an instrument used by war entrepreneurs for economic reasons. According to Kaldor (2013) is that new wars are about disintegration because war entrepreneurs use violence to maintain power over the territory and civilians for their benefit.

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<sup>8</sup> SÖRENSEN, Jens, S. “The Shadow Economy, War, and State Building: Social Transformation and Re-stratification in an Illiberal Economy (Serbia and Kosovo)”. In: *Journal of Contemporary European Studies*, n° 14(3), 2006: 317-351.

<sup>9</sup> SHERMAN, Jake. “The Economics of War: The Intersection of Need, Greed, and Greed. Woodrow Wilson International Center for Scholars.” In: Woodrow Wilson International Center for Scholars. Washington, D.C. September 10, 2001.

In the book, *Shadow Globalization, Ethnic Conflicts, and New Wars*, 2003, Dietrich Jung,<sup>10</sup> argues that the age of globalization marks the gradual erosion of state authority. In addition to the state erosion, the phenomenon of “globalization has been accompanied in the emergence of violent war economies rather than pacified market structures” in the developing countries (Jung, 2003: 2). Furthermore, Jung argues that the financial assets of the war economy enter the liberal market, which is a consequence of a blur between the formal and the shadow economy. This blur makes it challenging to detect a war economy’s financial structure (Jung, 2013: 3). Additionally, Kaldor argues that globalization is also responsible for the creation of the blur between state and non-state, public and private, external and internal, economic and political, war and peace; For example, there is a blur between legitimate armed forces and paramilitary groups. In their place, privatized agencies hire mercenaries to fight in the conflict. Some examples are Zaire, Angola, Rwanda, Tajikistan, Armenia, Azerbaijan, Afghanistan, and former Yugoslavian Federation (Adams, 1999: 103).<sup>11</sup>

The transition to democracy is a challenge to modern democracies, politically socially, and economically. For instance, the implementation of privatization without a healthy state institution allows criminal groups and warlords easy access to the liberal market. According to Jung (2003) “the dynamics of commerce, the impact of aid, and the structures of capitalism can just as easily feed mafias, warlords and civil wars“ (Jung, 2003: ix). Therefore, globalization, privatization, and fragmentation of state power have led to the emergence of a range of war entrepreneurs who develop into regional and later into global networks. It is considered that by cutting the chains of trade of the criminal networks, then failed states will

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<sup>10</sup> JUNG, Dietrich. (2006). *Shadow Globalization, Ethnic Conflicts, and New Wars: A Political Economy of Intra-state war*, London, Routledge, 2006: 1-6

<sup>11</sup> ADAMS, Thomas, K. “The New Mercenaries and the Privatization of Conflict.” in: *Army of War College Quarterly*. vol. 24, no.2 (Summer 1999): 103-16.

be able to recover from the vices of a war economy. However, to bring these networks to an end is a commonly difficult task in failed states.

All of these author's studies claim that the main challenges with stopping the armed conflict in "new wars" is that warring parties rely on the advantages of state disintegration. It seems that stopping the conflict is not a good enough incentive, especially for non-state actors. Instead, they benefit from the continuation of violence, and so their methods will usually translate in the use of violent political, economic, and social projects. This is where the ethnic conflict comes as a central topic in the discussion of the "new wars". It is a method of violence which is intentionally directed at innocent civilians of other ethnicities within a territory. A weak state cannot provide security and good institutions and representation for all the population and especially the minorities living within an ethnically diverse society. Conflicts tend to break out even more often in a nation-state in which chaos predominates. In the "new wars", players take advantage of the vulnerable situation within the territory where a state is unable to execute its essential functions. The political violence is mobilized deliberately by groups interested in maintaining power, mainly for economic benefits. They become an enterprise which is led majorly for economic reasons, other than for political or ideological reasons. Therefore, "new wars" are about disintegration, and they continue to weaken the states. For the warlords and criminal groups, violence has become the instrument with which they can maintain flows of revenue.

When discussing the intrastate wars, authors tend to emphasize the ethnic conflict as the leading cause of contemporary conflicts. However, others find essential the study of the dynamic of the economy of war, especially when conflicts tend to spread across borders. Therefore, policymakers must consider looking at conflicts from a new approach to mitigate the effects of the shadow economy.

## V. Structure of the thesis

In order to answer the question whether war economy is the most relevant feature of new wars, I decided to divide the thesis in three parts, namely the characterization of the “new wars” theory in chapter I, the analysis of the war economy in chapter II and finally the case study on Kosovo’s war economy in chapter III.

To sum up, the quote by Emerson is a relevant quote because violence is never the solution to solving problems. Instead, violence can negatively affect societies and human relations at large, on an individual as well as on a global level, where besides ethnic causes, the economic causes can be detrimental for peacebuilding in most frail states.

## **Chapter I: The “New Wars” Theory: characterization, critique and defense**

“Never, never, never believe any war will be smooth and easy, or that anyone who embarks on the strange voyage can measure the tides and hurricanes he will encounter. The statesman who yields to war fever must realize that once the signal is given, he is no longer the master of policy but the slave of unforeseeable and uncontrollable events.”

— **Winston Churchill**<sup>12</sup>

In different periods of world history, war has always had the power to shape and significantly affect the course of human affairs. The term opposite to war and violent conflict is Peace. The concept of peace is defined simply by the absence of war and a desire for harmony. According to the *Handbook of Peace and Conflict*, peace can be defined “both as means of personal and collective ethical transformation and an aspiration to cleanse the planet of human-inflicted destruction.” (Galtung, J. & Webel, C., 2007: 7). However, everlasting peace is difficult to put into practice as new challenges arise in a continuously changing geopolitical context. As the quest for peace continues, new approaches for solving war must be adopted against the emergent new threats. These new threats indicate that war has indeed suffered a transformation and pose new challenges for peacekeeping, which seem to encourage violence, poverty, as well as local, regional, and global insecurity<sup>13</sup>. In order to understand the contemporary conflicts, policymakers must consider approaches to contemporary wars different from the ones based on the logic of past warfare. Therefore, if an old theoretical framework will continue to be a guide for policymakers on regulating contemporary wars, subsequently efforts to contain violence will be inadequate and ineffective.

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<sup>12</sup> Jones, B. A. (2019, April 15). Winston Churchill Gave One of the Most Poignant Quotes Ever About Warfare. Retrieved from <https://taskandpurpose.com/winston-churchill-gave-one-of-the-most-poignant-quotes-ever-about-warfare>

<sup>13</sup>. Efforts to understand the new challenges of the current geopolitical context have been expressed in the 1992 document by the Secretary-General Boutros Boutros-Ghali. The document provides with recommendations to the United Nations on how to approach contemporary conflicts, through preventive diplomacy, peacemaking, and peacekeeping (Boutros-Ghali, 1992).

### 1.1.The decline of intrastate war and the increase in interstate war

The emergent new challenges have not only transformed warfare but also shaped the events in the current geopolitical context. The transformation began to be most apparent by the post-Cold War period that left behind a vacuum of power along the peripheries of the two major superpowers. Additionally, with the emergence of globalization, not only the state power began to suffer fragmentation and erosion but also, constitutes new challenges and repercussions for the international order. Meanwhile, International Organizations have been increasingly devoted to solving conflicts among different nations. However, war has continuously proved to be a significant concern because of a rise in inequality, poverty, high inflows of refugees, and armed conflicts for ethnic reasons within a territory. All these issues create a sense of insecurity, which is present in regions such as across Africa, Asia, and Eastern Europe. The insecurity felt in many parts of the world can be attributed to the changes in warfare. While the wars of the past were about battles between states, contemporary warfare can be said to have gained a new logic. However, even if old wars thesis is now obsolete, the theory provides a theoretical background to traditional wars.

The most referenced philosophy of war is the book *On War*, written by the Prussian general<sup>14</sup>, Carl von Clausewitz (1780-1831). Clausewitz was the most prominent theorist on military and classical warfare, and his book *On War*, written one year following the Napoleonic wars. According to the book *On Wars*, wars were mainly decisive battles between nation-states, the state was a centralized power over the administration, economy, and military structures. Besides, states were in a period of the state-building process, especially in the seventieth to nineteenth centuries to reach consolidation. An essential element of this achievement is the ability of the state's control over the monopoly of violence. Likewise, the war became the

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<sup>14</sup> Clausewitz who was a professional soldier and took part in military campaigns, drawing his inspiration mainly from the Frederick the Great campaign and the Napoleon military campaign.

legitimate instrument of state policy. Kaldor (2012) argues that for Clausewitz, the act of violence was only legitimate when war was fought between sovereign States. That is, sovereign states are entities that act in their national interest, with a clearly defined goal. Additionally, for the state as an entity to achieve its political end, it had to compel the enemy to “fulfill the will” through waging war against one another, likewise a sovereign State (Kaldor, 2012: 18). In this sense, Clausewitz defines war as rational, national, and instrumental, because political authority resides in the sovereign state power.

Furthermore, Clausewitz theory of war analyses main elements that define the nature of classical warfare<sup>15</sup>. Clausewitz definition of real war, which differentiated from the war on paper, was the result of the constraints between the political goal and the practical limitations of unforeseen circumstances. Clausewitz also distinguishes between the physical and moral aspect of war, both required to succeed in war. For Clausewitz, war, in theory, tends to towards extremes, yet war is also a social activity which bonds together “reason, chance and strategy, and passion” which in turn are linked respectively “to the state or the political leaders, the army or the generals, and level of people”, which are elements that constitute the “trinity of war” (Kaldor, 2012: 23). Moreover, in order to win battles, the commander must master the arts of attrition and maneuver. Both theories complement one another<sup>16</sup>. Attrition means the strategy of offense and maneuver is the strategy of defense. However, these aspects of war that Clausewitz discusses are mainly part of the types of direct and decisive battles, most predominantly among states. Therefore, Clausewitz theory is classified as an intrastate war of the modern state consolidation period. However, few are mentioned in respect to the small wars

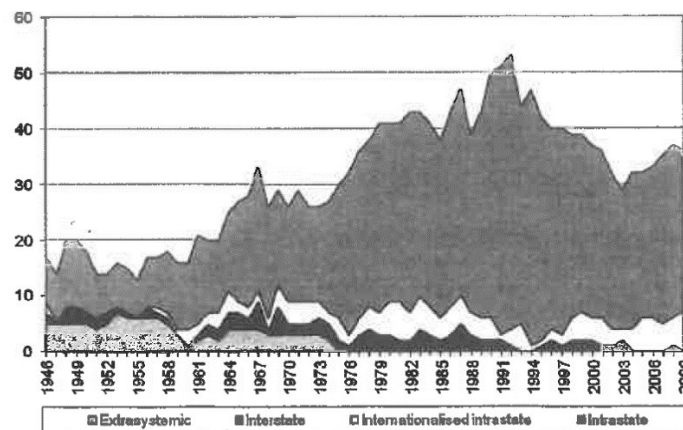
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<sup>15</sup>. According to the analysis by Gardner (2009), war is an interrelation between the "the inevitability of friction and fog, the relationship between military strategy and political objectives and the "paradoxical trinity" (Gardner, 2009, 120). Friction and fog, for instance, characterizes the aspects of war that can be unpredictable to achieving victory for the army, such as problems of logistics, imperfect information, uncertain weather, indiscipline, steep terrain (Kaldor, 2012: 24)

<sup>16</sup>. While Attrition in battle is meant to achieve victory by wearing down the enemy, the maneuver theory in battles is meant to take the enemy by surprise and anticipation.

or low-intensity conflicts<sup>17</sup>, which, for instance, have increasingly gained importance in the contemporary type of warfare. Therefore, when characterizing the contemporary wars, one must distinguish the type of war most prevalent in the given period.

According to Richard Jackson (2007), in his article *Towards an Understanding of Contemporary Intrastate War*, intrastate war accounts for "more than 90% of all international conflicts since the early 1990s" (Jackson, 2007: 212). Jackson adds that since the year 1945, there was an increase in 70 % of the Intra-state wars, and by 1990s there was about 90%; and 30-40% of conflicts were highly probable to recur at any moment, anywhere in the world (Jackson, 2007: 121). Furthermore, according to graphic bellow from the book *Theories of Violent Conflict*, seven out of one hundred and eighteen armed conflicts were interstate between 1989 to 2004. (Demmers, 2016: 3).<sup>18</sup> Furthermore, the intrastate conflicts can be further categorized into the internationalized intrastate armed conflicts, which accounted for about seven out of thirty-six registered intrastate conflict between 2004-2009.



Source: Demmers, 2016: 3

Besides, Herfried Münkler (2005), in his book called *The "new wars"*, argues that after the 1990s, the amount of the intrastate wars has been increasing and the interstate wars have been

<sup>17</sup> Instead, the book focuses on the military armed conflict between nation-states in the Imperialist period, in a time when there was a frequent ambition for conquest beyond state borders.

<sup>18</sup> In figure 0.1, the 1990s represent the peak of intrastate conflict.

decreasing. The intrastate wars are different from the modern state-building period, characterized as the interstate wars. The later symmetrical war was waged between states who were wholly acting under the state interest. On the other hand, the intrastate wars are an asymmetrical type of wars. Münkler states that the one aspect of the symmetrical warfare was that there existed limitation in the use of force, and therefore a state would not wage war against an unmatched opponent (Münkler, 2003: 20). However, Münkler argues that the intrastate wars are the opposite of the wars of the international system<sup>19</sup>. That is because Münkler defines intrastate wars as transnational wars, whose aspects are leading reasons for concern in conflicts today and many parts of the world. The strategies such as guerrilla-style conflicts and global terrorism are part of these transnational wars, and they are wars which are part of the asymmetry strategy because a weak state becomes capable of inflicting damage against a state with superior power capabilities. Also, the Geneva Conventions have become obsolete to the cases in the contemporary armed conflicts<sup>20</sup>. Armed conflicts became "wildly unbalanced" which make even the most technologically sophisticated powers to be vulnerable to the attacks of the irregular combatants, paramilitaries and criminals who "intermingle and terrorize local population to achieve their own goal" (Nevers, 2006: 369). The International Intervention solution to providing aid in zones of conflict has usually followed the logic of the traditional war. In worse cases, Humanitarian Intervention becomes an essential center for sustaining the criminal and violent groups in the new war.

Moreover, overall international intervention in "new wars" is argued to be inefficient and ineffective because international intervention and aid comes too late for the failed states and

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<sup>19</sup>. According to Williams (2008), "While interstate disputes (its original justification) will always pose threats to international order, intrastate conflicts – often linked into global arms, trade and drug trafficking networks – are widespread and constitute substantial threats to regional and even global stability." (Williams, 2008: 338).

<sup>20</sup>. The Geneva Convention did not apply against the war on terror, as their non-state actors are not considered to be a "side" that can enter an international agreement that governs wars. That is because the state is a failed state it has an insufficient status to be recognized as a legitimate government that can be recognized by the international community ( Nevers, 2006: 373)

other times there is a lack of necessary resources for peacekeeping. For instance, peace enforcement has not always been successful<sup>21</sup>

In conclusion, the trend in Interstate armed conflicts has been decreasing both in frequency and in intensity. However, the sharp increase in intrastate armed conflicts have increased and have impacted civilians, which gives rise to insecurity, both locally and globally. One of the main concerns of “new wars” is that there are elements that reinforce and perpetuates the violence, making these wars seem endless. Despite the external efforts and attention by the international community in these armed conflicts of “new wars”, they tend to persist. The next part will characterize the “new wars” and the primary aspiration of the “new wars”, which in fact might be driven more for economic motivations rather than the political and ideological aspirations.

## **1.2.Characterization of “new wars”**

In the book on *New and Old Wars: Organized Violence in a Global Era*, Mary Kaldor argues that the contemporary nature of wars has changed compared with the Clausewitz classical warfare. Kaldor's main argument in the thesis of "new wars" is that:

during the last decades of the twentieth century, a new type of organized violence developed, especially in Africa and Eastern Europe, which is one aspect of the current globalized era (Kaldor, 2012: 1).

The type of armed conflict which Kaldor emphasized is the intrastate wars, which are also termed as the “new wars”. To emphasize the distinction between intrastate and the interstate wars, Kaldor (2013) in the article *In Defense of New Wars Stability*, argues that actors, aims, methods, and goals are different from the logic of *old wars*. Therefore, the current geopolitical context is characterized by a new logic of warfare, termed as the “new wars”.

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<sup>21</sup>. Such failed attempts were according to Lacina and Gleditsch, "the UN deployment to Somalia ended in humiliation, as did missions to the Balkans and Rwanda," with some significant humanitarian crises in West Africa and the Democratic Republic of Congo even being ignored (Lacina and Gleditsch, 2004: 160).

According to Kaldor (2013), the actors of the “new wars” involve a network of state and particularly, non-state actors, with the goals which are often directed for reasons of identity politics. Identity politics is different from ideology and geopolitics. Identity politics is associated with globalization and the development of communications technology, as well as with increases in migration and the erosion of inclusive ideologies.

The **aims** of the actors usually revolve around the access to the state for particular groups who might be local or even transnational. However, none of the actors carry a policy which will benefit the broader public. A central aim of the actors also becomes the waging of war for the construction of identity politics, and therefore, political mobilization becomes focused around identity politics. The **methods** by which “new wars” are to achieve these political goals, rarely occur through the battles against one enemy. Instead, actors focus on capturing the territory through political means and take control of the population. The methods for controlling the population are violent, involving such acts for the forcible removal of a different identity or a different opinion. However, violence is also used with interest to continue violence for economic motives. Lastly, the **forms of finance** which are associated to weak states come from loot and pillage, diaspora support, humanitarian aid taxation, kidnapping or smuggling in oil, diamonds, drugs, and people, in order to finance the political activity. Ultimately the consequences of the failed states and regional criminal networks gradually give way to a globalized war economy.

The “new wars” goals, aims, and methods of finance are associated with these issues. Therefore, the economic aspect is important to analyze to understand the nature of the “new wars”. By taking into consideration the theme of the thesis, it also becomes essential to follow Herfried *Münkler* (2005) book on *The New Wars*, since he focuses mainly on the topic of the financial aspect of “new wars”. First, to understand the financial aspect of the “new wars”, it is essential to discuss the main changing patterns of “new wars” in contemporary conflicts and

their relation to the financial factor. In the “new wars”, several changes in warfare have been associated to the multilateral interventions, to the emergence of new actors, to an increase in civilian casualties, to the blurring between the military and civil spheres<sup>22</sup>, to the complexity of war aims and last, but not least, with the information technologies.

**Multilateral interventions** have become more frequent in conflict areas because the “new wars” are not only local but also global wars. The international actors<sup>23</sup> have become more involved by creating select units and committees and their networks have multiplied. Münkler argues in the article *The Wars of the 21rst Century*, that failed states are unable to resolve its internal conflict once its lost power to the warlords. In this case, only outside powers are capable of intervening in the internal conflict. However, as *Münkler* notes, there is doubt whether outside powers will contribute to peace, or instead become part of the conflict (Münkler, 2003: 16). The consequences of such interventions are that these conflicts might become transnational conflicts. Münkler argues the transnational war is related to the emergence of globalization and the blurring of state boundaries. Münkler, argues that the main features of transnational wars are the networks among the criminal groups which help to fragment the monopoly of violence and break down the state institutional authorities. With an increase in intrastate and transnational wars, there is also an increase in civilian casualties. Münkler argues that since the end of the twentieth century the profile of the victims has dramatically changed, with there being more than 80% of those killed and wounded were civilians, and only 20% being soldiers on active service (Münkler, 2005: 14). There are no confrontations between enemies because there is no need to wage war for a decisive military

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<sup>22</sup>Additionally, in new wars, there is a blur between public and private, internal and external, economic and political, civil and military and the legitimate bearers of arms and the non-combatant or criminals have become blurred (Kaldor, 2012: 22). These distinctions also call into question the distinction between war and peace (Kaldor, 2012: 31). It means that the act of violence cannot be easily distinguished as legitimate and non-legitimate.

<sup>23</sup> According to Duffield (2001), NGOs became increasingly related to conflicts, as well as donor governments, international financial institutions (IFIs), intergovernmental organizations (IGOs), and the UN.

confrontation. Instead, violence constitutes a benefit for the continuation of the war. As Münkler argues that in the logic of “new wars” war must continually feed war," and therefore these types of wars can meet no precise end (Münkler, 2005: 17).

With the movement and concentration of people from rural areas to the urban cities, the population became pluralistic and intermarried. As a result, a plurality of religions coexists within one area, which is “new wars” results in ethnic conflict and grievances. Therefore, there is more conflict in the main cities of the failed states. However, the ethnic conflict is greatly affected by another essential aspect of the “new wars”, which is the emergence of the complexity of actors. The state once was the primary entity for waging war for national interest, with own standing armies and clear distinctions among several spheres<sup>24</sup>. However, in “new wars”, the state has difficulties in maintaining domestic order. Besides the emergence of several **non-state actors** who illegitimately use force to attain control over the territory have further promoted state failure and economic underdevelopment. Furthermore, the complexity of actors in “new wars” is highly dependent on external support, which is responsible for eroding the state power and ends up prolonging conflict (Kaldor, 2012: 125). The complexity of actors can produce an ongoing conflict through the development of networks. These networks can work as a source of private support, such as the diaspora networks, NGO's, private security companies, mercenaries, local warlords, guerilla groups and agents of organized crime, and as a source from public support from actors such as sponsor states and international agencies.

From the several emergent non-state actors, another significant issue which arises in “new wars” is the mix of interests. The complex interplay of players in an armed conflict, encourages the emergence of war economies, in regions of high informal economic activity. Therefore, the

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<sup>24</sup>. Distinctions between the public and private; internal and external; economic and political; civil and military; legitimate bearer of arms and the civilians or criminals; which according to Mary Kaldor have become blurred during the 20<sup>th</sup> century and further in the new wars.

complexity of players is termed as the *war entrepreneurs* because war is a "highly profitable and lucrative for individuals and groups within a society" (Berdal, 2004: 484). For instance, the blur between the political and economic motivations means that it is hard to identify the immediate interests of the agents involved, be it political or economic reasons. That is because some agents might act for economic interests which are disguised employing political violence, and then there are those who gain access for political interests through funding from illicit activity (Kaldor: 2013). Since the activity of criminal groups and elites are intertwined, the "new wars" dynamic depends on these state-based and non-state groups which interrelate their interests to achieve a specific goal out of the conflict. Besides, the developments in warfare technologies further create concerns when these can be appropriated by non-state actors.

In the book *Dehumanization of Warfare* by the authors, Wolff Heintschel von Heinegg Robert Frau, and Tassilo Singer, the **new warfare methods** are increasing and presenting with new implications from an ethical perspective.

From an ethical perspective, it can be questioned whether or not the decision over life and death of a human can be delegated to a machine or a computer process and if autonomous weapons or code are able at all to act in an ethically correct manner. (Heinegg, Frau, & Singer, 2018: 7)

The new warfare is characterized by a high technological development, and the use of technologies such as drones, weaponized robots, and sophisticated computer programs that function at high efficiency and speed while employed in war. The rapidity and the complexity with which the machine can automatically make decisions becomes an attractive new method for waging war without human help. Moreover, these authors define the autonomous process as "dehumanization of warfare," which means that humans are needed less and less in the process of war-making. Also, if the process of decision making becomes automated, the less will the human partake in the vital decision of war, which consequently leads to humans everywhere become exposed to the dangers of war technology.

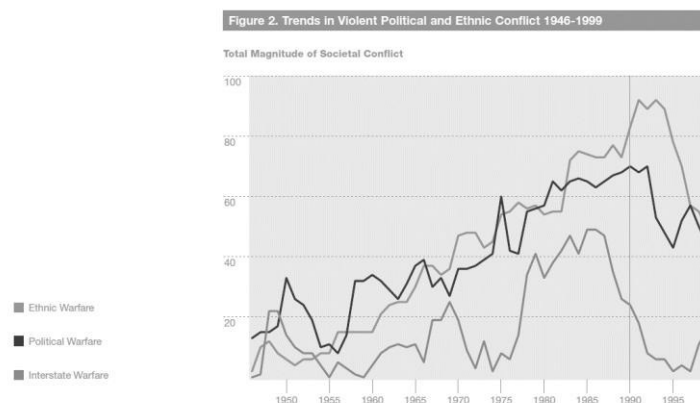
Considering that there is an emergence of a range of actors in the intrastate conflicts, the technologically developed mode of warfare becomes an effective means to asymmetrical warfare. In the *Report of the 2016 Informal Meeting of Experts on Lethal Autonomous Weapons Systems (LAWS)*, the concern on the development of the LAWS in warfare. A concern is that LAWS could be potentially acquired by non-state actors who can easily take advantage of these new war methods.

On the other hand, the democratic states have also been attracted in using these means to fight against the guerilla type of warfare, by replacing human soldiers for the new methods. Democratic states also engage, according to Heinegg, W. H., Frau, R., & Singer, T. (2018) in the “remote piloting, automated attack technology and cyber techniques into the array of instruments applied by states in order to address perceived threats more effectively” (Heinegg, Frau & Singer, 2018: 208). Nevertheless, the primary concern of these authors is to analyze whether international law can adequately regulate the development of these autonomous weapons and weapons system. According to the article on *Taking on Killer Robots*, it is a current subject of concern for many countries because these automated methods are very likely to undermine human dignity in the future. It is essential that their development is controlled for the use of war because machines cannot have human and moral reasoning (Docherty, 2014). At the same time, the critics of autonomous weapons systems discourage the idea of there being a completely autonomous system that could go offhand because there is always human involvement in their commands. However, considering that human involvement will still be widely present in controlling the autonomous systems, the insecurity arises from the potential hacking attacks on these autonomous systems, by non-State actors (Michael, 2013a).<sup>25</sup>

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<sup>25</sup> MICHAEL, Schmitt, N. “Autonomous weapon systems and international humanitarian law: a reply to the critics.” *Harvard Law School National Security Journal*. 2013, February 5. Available at: <http://harvardnsj.org/2013/02/autonomous-weapon-systems-and-international-humanitarian-law-a-reply-to-the-critics/> (accessed 7/06/2019).

In the “new wars”, the used methods for achieving political goals rarely occur through the battles against one enemy. Instead, the local actors in a territory rely upon of forcible removal of a different identity or a different opinion. For instance, Fig. 2, a graphic on the *Trends in Violent Political and Ethnic Conflict 1946-1990*, shows the magnitude of societal conflict in three types of warfare trends: ethnic warfare, political warfare, and Interstate warfare. Ethnic warfare<sup>26</sup> Has been on the increase and reached a peak during the early 1990s period yet remaining higher than the Interstate conflict. The survey also adds that this graphic is constructed based on every major conflict which is rated on a 10-point scale: “The Rwandan genocide rates a 7 on this scale, ethnic war in Kosovo is rated 4 the U.S. and UK air campaign against Iraq in 1998-1999 rates a 1.” (Gurr & Khosla, 2001).



Source: Gurr & Khosla, 2001

Additionally, it can be argued that there are reasons for **economic greed** are a cause of high civilian casualties. According to Münkler, “In new wars, extreme violence is used to intimidate an unarmed civilian population into doing whatever the armed group commands.” (Münkler, 2005: 15). In “new wars”, methods for achieving goals are usually violent and deliberately

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<sup>26</sup> Humanitarian law violations occur from the ethnic cleansing, meaning the "expulsion of an undesirable population from a given territory due to religious or ethnic discrimination, political, strategic or ideological considerations, or a combination of these" (Bell-Fialkoff, 110). The definition includes such violations as forced emigration, population exchange, deportation, and genocide.

targeted at civilians, which is noticeable through the refugee flows, poor districts, and starving populations. In addition to these, according to Kaldor, 2012, "expulsion can be done through mass killing and forcible resettlement, as well as a range of political, psychological and economical techniques of intimidation" (Kaldor, 2012: 9). Frequently, armed violence is associated with the epidemics and starvation issues; that is, those who possess arms get to control the unarmed people to get food and services foreign aid services in the first place. The purposes for the use of violence against civilians according to Münkler include the displacement from a specific area of a group of ethnically different population and methods such as "annihilation of the whole sections of the population, force it to supply and support certain armed groups on a permanent basis" (Munkler, 2005: 14).

Also, the poor living conditions, the use of violence sustains the continuations of war, which becomes a profit activity for local warlords and transregional entrepreneurs as they begin to claim areas of control within a failed state power. Added to this, the recruitment of members from the refugee camps, warlords also have on disposition a cheap instrument for wielding violence against civilians. Warlords and terrorists often rely on children to carry out missions. These child soldiers do not have the same awareness of the consequences of the use of force against civilians. For warlords, they become a cheap option because they do not need to be trained for long periods. Children are given weapons, specially designed for their little dimensions. The development of firearms developments led to decreased weight and size, yet with a fast-firing frequency. Child soldiers become criminals, and holding weapons is an opportunity to obtain food, clothes, status, or other desirable things. However, children are victims that are dragged into conflicts without understanding the consequences they action. For effect, criminal groups drug children which makes them violent. According to Nevers, the table on the next page represents the list of conflicts in which children are used as combatants by state or non-state actors (Nevers, 2006: 383). These actors are divided under the following

categories: *Governments, Paramilitary Organizations, and Armed Opposition Groups* during the years 2000-2001.

TABLE 3  
Conflicts Involving Child Soldiers\*  
Forces Employing Children, 2000–2001

Governments	Paramilitary Organizations	Armed Opposition Groups	
Afghanistan	Afghanistan	Afghanistan	Papua New Guinea
Angola	Algeria	Algeria	Peru
Burundi	Colombia	Angola	Philippines
Chad	East Timor	Burundi	Republic of Congo
Democratic Republic of Congo	India	Colombia	Russian Federation
Eritrea	Indonesia	Democratic Republic of Congo	Rwanda
Ethiopia	Mexico	East Timor	Sierra Leone
Iran	Sierra Leone	India	Solomon Islands
Iraq	Somalia	Indonesia	Somalia
Israel and Occupied Territories	Sudan	Iran	Sri Lanka
Myanmar	Yugoslavia (former Republic of)	Iraq	Sudan
Republic of Congo		Israel and Occupied Territories	Tajikistan
Rwanda		Lebanon	Turkey
Sierra Leone		Mexico	Uganda
Somalia		Myanmar	Uzbekistan
Sudan		Nepal	Yugoslavia (former Republic of)
Uganda		Pakistan	

\* If children are employed by more than one type of group, the state appears in multiple columns.  
Source: "World Map of Child Soldiers, 2000/2001," <http://www.un.org/works/goingon/soldiers/childsoldiermap.html>.

Source: Nevers, 2006: 383

These wars result from **mixed interests** that are hard to pin down, which makes these types of war even more complex to deal and bring to peaceful negotiations among players. As discussed before, the complexity of actors usually functions as private enterprises and take advantage of a region's natural resources, trade of illicit goods and services, and support from external sources. These paramilitary groups must find ways to finance themselves, apart from the state apparatus. Therefore, violence is directed against civilians.<sup>27</sup> It is often overlooked that the ethnic cleansing campaigns are often part of the economic motivations and are not “carried out by government troops but rather by irregular civilian forces” (Bell-Fialkoff, 1993: 119). Moreover, since most of the **combatants** can be of any background, including mostly criminals these result consequently in undisciplined armies, who are willing to use force on civilians because there is no military code to punish these paramilitary groups. Another aspect that Kaldor argues that in “new wars” it becomes hard to distinguish between “combatants as the legitimate bearer of arms and non-combatants, or between soldier or policemen and the

<sup>27</sup> Since these players act based on economic reasons, innocent civilians, especially young children, women, and older people are the most vulnerable in these circumstances (Münkler: 2005, 20).

criminal” (Kaldor, 2012: 6). These criminal soldiers often practice looting, robbery, raping, and mutilation of victims. They also limit access to the unarmed people the foreign aid provision of food and basic needs, making them live in starvation and poor hygiene conditions and disease.

The international intervention solution to providing aid in zones of conflict has usually followed the logic of the traditional war. In worse cases, Humanitarian Intervention even becomes an essential center for sustaining the criminal and violent groups in the new war. For instance, warlords profit significantly from the provision of humanitarian aid by taking control over aid camps for people in need. Besides, any negotiations that try to bring compromise from these criminals of war can result in the legitimization of their war operations. These operations are often based on exclusivist traditions, which further worsens the conflict (Kaldor, 2012: 11).

The **international relief**, according to Münkler, constitutes "an inexhaustible source of profit to the warlords" as these warlords also get mixed among the suffering unarmed population and get to assert their control from possessing arms. (Münkler, 2005: 18). Therefore, international aid contributes to a local war economy in the context of failed states. That is, the international member states have too often not been able to see through the state as 'failed.' Consequently, it often helped to "resuscitate failed states by sponsoring elections and committing to long-term security protection" (Ignatieff, 2005: 138).

According to Kaldor, wars used to be symmetrical, since battles were among similar opponents, but with the technological development, the war became more destructive and difficult to win. However, by the second half of the twentieth century a new type of organized violence emerged, that is, the rise in a mixture of small intensity conflict strategies<sup>28</sup>. The “new wars” borrow from the techniques of **asymmetrical warfare**, which becomes especially influential

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<sup>28</sup> It is usually argued that the Cold War period of the arms race obscured the existence of low-intensity conflicts.

in the era of globalization. Theorists such as Mary Kaldor and Martin Van Creveld argue that Clausewitz logic of warfare has become obsolete to the contemporary wars<sup>29</sup>. In the place of armies organized and controlled by sovereign states are getting replaced by illegitimate groups such as terrorists, guerillas, bandits, and robbers, who are more likely to be motivated by fanatical, ideological-based loyalties, within the growing ethnic and religious type of conflicts (Williams, 2008: 155).

These types of wars were called according to Kaldor, “uprisings, insurgencies or, more recently, low-intensity conflicts” (Kaldor, 2012: 17). The new type of wars derives from the type of war termed as low-intensity conflicts. This form of military conflict is characterized using light and easy to acquire weapons and “unconventional military strategies” from the engagement of state agents but also of non-state groups, and para-soldiers, such as mercenaries enrolled by war entrepreneurs (Jackson 2007: 121). Since conflicts are part of the internal disputes, and there are **multiple actors**, the military forces involved have been increasing considerably, especially in the 1990s. According to Kaldor (2012), “the new wars are characterized by a multiplicity of types of fighting units, both public and private, state and non-state, or some kind of mixture” (Kaldor, 2012: 96). Also, the armed forces and security services are provided by **private security companies** to the complexity of actors<sup>30</sup>, including UN multilateral peace operations (Williams, 2008: 411). Therefore, in the “new wars”, there are more and more private security services while state military forces are in decline. According to Williams, the private security companies provide with “services in operational support<sup>31</sup>, military advice and training, and logistical support...international security services, crime

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<sup>29</sup>. Although there have always existed forms of warfare such as terrorism and guerilla wars, these types of armed conflicts seemed to be obsolete because the decisive battle was a central part of war during the seventeenth and the eighteenth century.

<sup>30</sup> According to Williams, military, and security services are provided "to states, international organizations, NGOs, global corporations and wealthy individuals" (Williams, 2008:441).

<sup>31</sup>, For instance, Sandline Executive Outcomes (EO) have deployed armed personnel in countries such as Sierra Leone and Angola (Williams, 2008: 443).

prevention, and intelligence" (Williams, 2008:443). Since the PCSs have become more mainstream in the internal conflicts, so is the need for an international regulation for these private security companies. Initially, the Geneva Convention was designed for the type of the old wars termed by Kaldor, fought by regular state armies. However, the Geneva Convention is still essential in times of guerrilla warfare and global terrorism. (Nevers, 2006: 374). An essential point that the Geneva Convention should incorporate is the international regulation of private security firms, as this is a global industry so that private security companies do not commit war crimes<sup>32</sup>

The **information technology** becomes a significant factor in the "new wars", particularly in the underdeveloped world, because technologies allow a rapid spread of information and bringing attention to the effects of the conflict. The new forms of communication allow for an extension of global connections among criminal networks, diaspora links, international organizations, non-governmental organizations, and journalists (Kaldor, 2013: 4). The Global connections among different organizations and the 'communication' become a new tool of war, that is, for instance, to spread panic and conflicts usually become not only local but also global. According to Williams, the paramilitary movements "use the new media to publicize their actions, promote their cause and air their grievances" (Williams, 2008: 181). The fast communications allow for identity politics to become not only local and global but also transnational, and its main effects are the diaspora community support (Kaldor, 2012: 8). Besides, criminal networks exist, spread, and communicate regionally and globally in multiple locations at the same time. The information technology has also become a part of new criminal

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<sup>32</sup>. Furthermore, in addition to the Convention on the Rights of the Child, prohibits the participation of children under fifteen years old armed conflicts, which otherwise is considered a war crime under the statute of the International Criminal Court (Nevers, 2006: 392).

opportunities and led to the formation of transnational criminal networks<sup>33</sup> (Williams, 2008: 455).

In conclusion, the context of the “new wars” is different from the old wars in the methods, aims goals, and finance. The main challenge becomes their persistence and recurrence. Therefore, “new wars” are characterized to have no clear beginning with no end in sight. The complexity of actors and their motivations encourage state destruction and failure because there is more benefit for the criminal groups to keep benefiting from the political and economic ways from the violence. Therefore, in “new wars”, there is a dismantling of the state rather than state-building. However, there are some critics of the theory of “new wars” that argue that “new wars” are not new.

### **1.3.Critique and defense of the “new wars” theory**

The “new wars” theory has critics point to whether the “new wars” are a new category or are the same as the traditional wars. Most of the critics find that there are especially many similarities with the Thirty Years War period, before the modern state-building process. Thirty wars are similar in a lot of aspects because there was a mixture of private enrichment, hunger for personal power, political ambitions for expansion beyond its borders into the neighboring territory, intervention to save certain values and internal struggles for power<sup>34</sup> (Münkler, 2003: 3).

Critics of “new wars” point the opposite. For them, violence is decreasing, and the casualties associated with civilians. While the twentieth century has been considered the most turbulent

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<sup>33</sup> Furthermore, is that crime networks create links among other dangerous transnational networks related to terrorist groups and weapons proliferation (Williams, 2008: 456)

<sup>34</sup>. The collapse of Yugoslavia and Afghanistan is such examples of wars like the Thirty Wars period. Also, Newman (2004) argues that “new wars” aspects are not peculiar to the new wars, but rather, they have manifested throughout all periods of history (Newman, 2004: 181).

period in rising levels of violence, this fact is not valid. According to James L. Payne in the article *Violence in the Twentieth Century*, argues that violence has been decreasing compared to previous periods in history<sup>35</sup>. Just like Payne (2002), Rosling (2018) argue that today's conflicts are mediatized, which creates widespread fear. Mass media is willing to cover conflicts and give the “impression of a highly violent world, no matter the actual trend” (Payne, 2002: 454).

At the same time, critics, such as Kalyvas (2001), Newman (2004) and Singer (2002) argue that “**new wars**” are not new. For them, the nature of conflict has not changed, which means violent conflict is the same as in the past. Singer (2002) argues that “new wars” are the same as old wars only they have been put into an "amalgam of different types of "old wars" (Singer, 2002: 166). Newman (2004) argues that the apparent changing patterns of “new wars” are in fact, not real or have been overstressed. Moreover, academics seem to be more engaged in understanding the dynamics of conflicts, especially, because of the emergence of media and communication, which tend to broadcast the most violent conflicts (Newman, 2004: 179). According to Kalyvas (2002), aspects such as looting were already practiced well before the twentieth century (Vietnam War and French Revolution), old civil wars were not always not always ideological (p. 107), rebellions were not always based on widespread popular support (p.110), and extensive violence against civilians existed in the past wars as well (p.110). For Kalyvas, there is still no "exact mechanism that link funding and war and how they affect how civil wars are fought remain inadequately specified" (Kalyvas, 2002: 117). Additionally, according to Kaldor, critics such as Mueller and Berdal do not consider “new wars” as a war, because they see the “new wars” to be purely based on privatizes and criminal violence (Kaldor, 2013: 7).

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<sup>35</sup> As Payne argues "it is misleading to treat this one-hundred-year period as if it were a single point in time..." (Payne, 2002: 499)

Mary Kaldor considers that “new wars” are new because critics overlook some essential distinctions between concepts such as identity politics<sup>36</sup> And ideology and hybrid warfare and mixed warfare (Kaldor, 2012: 5). Most importantly, many of the critics are comparing “new wars” to civil wars, which they are not because they include the state as well as non-state actors (Kaldor, 2013: 2). Furthermore, Kaldor argues that globalization is a crucial element in the dynamics of “new wars”. There are dangers associated with globalization, such as conflicts spreading across borders. The spread of conflicts is associated dramatically to the complexity of actors. For instance, Münkler argues that state power has fragmented among distinct actors. These actors are termed by Münkler as "war entrepreneurs" to describe a range of “new wars” actors whose primary motivation is greed. These war entrepreneurs take advantages in the disintegration of the state and the breakdown of existing democratic institutions. These circumstances create an opportunity for the warlords to start profiting in economic ways and further allowing them to hurt the state capacity. Therefore, over time, these wars tend to spread, persist, and recur for decades.

In conclusion, the elements that Kaldor considers that defends that “new wars” are new, are the phenomenon of globalization, technology, and the changing patterns which were characterized above. The new wars are the asymmetrical type of war which uses the methods which globalization brought to the new era of increased interconnection and state erosion, especially of the weaker states. Asymmetric strategy tends to spread the violence and “permeate all domains of social life” (Münkler, 2003:20). The asymmetrical warfare uses the "community as a cover, and a logistical base" (Münkler, 2003: 20)<sup>37</sup>. The next part deals with the issues of the

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<sup>36</sup> According to Kaldor, “identity politics is about the right to power in the name of a specific group” unlike the conquest based on an ideology” (Kaldor, 2013: 6).

<sup>37</sup>. The **insurgency** is a guerilla type of strategy that uses destabilization techniques which seek to create fear and hatred, especially using civilians as targets which points to the issue to the violations of human rights against innocent civilians. In the book by William Patterson (2016), Insurgencies are active on a grassroots level and involve outside assistance, which is the most crucial factor for succeeding (acquire manpower, supplies and moral support). On the other hand, there is usually a ‘Metropolitan state,’ which helps the host state to fight against insurgents and keep control against a sudden escalation of the conflict (which affects the public welfare).

state erosion and the breaking down of institutions, that also has a strong relation, to the political, social and especially to the economic domain.

#### **1.4.State erosion and the breaking down of institutions**

One of the most important aspects to understand the “new wars” and the shadow economy is the state erosion and the breaking down of institutions. A robust state means that there is a healthy democratic, institutional and economic development<sup>38</sup>. However, the increase in intrastate wars and globalization<sup>39</sup> After the Cold War period have both negatively contributed to the developing countries. While major capitalist networks have concentrated within the Western World and the Northern regions of the world, the South remained in disparity. In the case of the developing countries, the inability to build a stable state and maintain internal order because of continued poverty and conflict has created global instability<sup>40</sup>. Developing states in Asia, Africa<sup>41</sup>, Latin America and Eastern Europe have been struggling in achieving a stable democratic state with stable economies as the Western countries. That is because the process of state-building is difficult and time-consuming. It also largely depends on the decisions of the leaders of the state. It is argued that many economies, especially on the peripheries during the Cold War period, were not successful in transitioning into a market economy as expected

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Counterinsurgencies vary region to region where cultural and geographic conditions are different and must mainly engage in protecting the local population. In Counterinsurgency just as in insurgencies, the population is the objective. Therefore, when possible, counterinsurgencies often engage in limited military warfare in guerilla wars. Through the establishment of a secure environment for the civilians, the state legitimacy is built, and less is the possibility of an increase in insurgent groups.

<sup>38</sup> According to Williams “economic development is critical to sustaining the peace in states that have just ended a civil war” (Patterson, 2008: 239).

<sup>39</sup> Globalization is seen as a contributor to expanding criminal networks, illegal markets, and put a burden on the state's economy, which according to Moises Naim "makes the task of fighting global networks more difficult" (Naim, 2003:20).

<sup>40</sup>. This instability arises from the shift in the North-South relations regarding development. According to Duffield, social transformation is accompanied by "bringing together governments, NGOs, military establishments, and private companies in new ways" (Duffield, 2001: 13).

<sup>41</sup> In Africa and Asia, especially the major challenge for internal state order are ethnic conflicts (Diamond, 1987: 117).

after the end of the Cold War period<sup>42</sup>. According to Diamond (2008) argues that poor people lack a channel for political participation:

Elsewhere in the developing post-communist worlds, democracy has been a superficial phenomenon, blighted by multiple forms of bad governance: abusive police and security forces, domineering local oligarchies, incompetent and indifferent state bureaucracies, corrupt and inaccessible judiciaries, and venal ruling elites who are contemptuous of the rule of law and accountable to no one but themselves...There are elections, but they are contests between corrupt, clientelist parties.(Diamond, 2008: 38).

It is generally argued that the phenomenon of globalization has contributed to a noticeable state erosion and the fragmentation of the monopoly of violence. That is, through the increased alliances, institutions, organization, and global interconnectedness, the state has less decision power. According to Kaldor, the state's monopoly of violence has eroded, from above and from below, because of globalization. There is the erosion of the state monopoly of violence from above because states became part of various international organizations which have become "increasingly embedded in a set of international rules and institutions" (Kaldor, 2013: 4). That is the state gives up some of its sovereign power to the international institutions which decide for the whole international community.

Besides, Kaldor argues that the state **monopoly of violence** got eroded from below because the state becomes increasingly weaker under the globalization inequality among states. Moreover, the state loses power over its necessary competencies as the monopoly of violence gets eroded by weak institutions that cannot provide the necessary public services in such authoritative sector as the armed forces, police, and legal courts. In consequence, the state is incapable of providing the same level of defense, security, and justice within the territory. The power of the

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<sup>42</sup>. For instance, Kaldor (2012) states that "the end of the Cold War could be viewed as how the Eastern bloc succumbed to the inevitable encroachment of globalization..." (Kaldor, 2012: 9).

monopoly of violence is an essential feature of the modern state, but once it is lost, the state competencies get fragmented through non-state actors. According to Duffield:

When the competence of nation-states begins to change, and they become qualified and enmeshed within non-territorial and networked relations of governance, one can assume that the nature of war has also changed (Duffield, 2001: 13).

Kaldor argues that "the establishment of standing armies under the control of the state was an integral part of monopolization of legitimate violence which was intrinsic to the modern state"<sup>43</sup> (Kaldor, 2012: 19). However, armed forces are replaced by another type of soldiers, such as mercenary armies who are employed by private entrepreneurs. **Warlords** get blurred with state authority when the state collapses. Consequently, warlords begin to take control of the state's government to target the civilians in order to enrich themselves. In the case of the contemporary type of wars, these involve a complex web of both state and non-state actors<sup>44</sup>. One such example of how the range and complexity of actors can eventually fragment the state power is the case of Afghanistan. In this case, the warlords were part of local and regional networks, and they derived from tribes or clan leaders. De Nevers (2006) gives the example of Afghanistan, where a range of warlords started to compete against one another for power.

Consequently, these warlords have divided the country into local and regional warlords (Nevers, 2006: 379). Besides, these warlords became war entrepreneurs. That is, Afghanistan continued to struggle even after the overthrow of the Taliban control from the capital, as these warlords' power and violence were continued because of the opium economy (De Nevers, 2006: 379). The conclusion that can be taken from this case is that ongoing violence is

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<sup>43</sup>. " The state armies fought these battles against other state armies.

<sup>44</sup>. Therefore, the Just war, or *jus ad Bellum*, can never be conducted in the name of the state interest and therefore, war cannot be legitimate tool under such conditions.

associated to the inexistence of law and because of the fragility of a failed state, the territory becomes an ideal place for sheltering warlords and terrorists.

Furthermore, according to S. Haggard and R. R. Kaufman, new democracies find it hard to manage political and economic challenges, this can mean democratic breakdown. If the state loses control over the territory and the monopoly of violence gets fragmented, the state becomes 'weak' or 'failed' and is incapable of providing necessary security and order through legitimate and trusted authorities. As Diamond argues in the article *The Democratic Rollback*, although there was a definite rise in democracies after 1974, many democracies could not consolidate and "meet their citizens' expectations for freedom, justice, a better life, and a fairer society" (Diamond, 2008: 37). Effort applied for state consolidation is a task that is conducted in different for every country. The **transition to democracy** is different because economic liberalization is not a universal rule which could be applied in the same way everywhere in the world, as structures will always be different from those of the United States. (Diamond, 1995: 26).

However, there is an essential element in the transition to democracies, which is a civil society. The benefits of globalization are only viable for those states that can get a strong and independent civil society along with internal peace and form strong regional alliances (Williams, 2008: 323). For Larry Diamond (1995), the transition to democracy can be achieved when there is a "revival of civil society, and the mobilization of all manner of independent groups and grassroots movements" (Diamond, 1995). A robust civil society has the effect of destroying nondemocratic regimes. Democratic consolidation can be only achieved through a healthy political society and its core <sup>45</sup> However, Diamond ( also finds some major caveats concerning Civil Society's degree of autonomy. That is, when there is too much autonomy, can

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<sup>45</sup>political part institutions, legislatures, elections, electoral rules, political leadership, and interplay alliances.

create such consequences as to a point where the State can no longer impose order. For instance, the "social and economic decay, along with the massive political corruption weakens the hold of the authoritarian-corporatist state, undermines the legitimacy of its sponsored associations, and may give rise to revolutionary movements like the Islamic fundamentalism" (Diamond, 1995: 237). Therefore, in a robust state where diversity of colliding groups of civil societies, there must be the mediation of the various interests and balance of claims, as the state and its laws must maintain discipline among different civic groups. In "new wars", a failed state is the result of the identity politics under the group in power, which seeks to impose their label on the rest. That is the ethno-nationalist elites give protection only to those who are members of the same ethnicity within a territory.

Griffiths (2007) argues that in the setting of the new war, the elites do not democratically define the boundaries of the territory. Instead, the elites try to homogenize the population within the territory. For this, ethnic cleansing is commonly practiced, which constitutes a violation of human rights (Griffiths, 2007: 59). Moreover, warring groups benefit from the condition of a 'failed state' which is unable to provide the essential public goods and service. These circumstances are "characterized by violence, corruption, deteriorating infrastructure, and predatory ruling regimes...., rule by the gun wipes away any pretense of public authority" (Ignatieff, 2005: 137). Failed states are incapable of keeping economic development as there is an evident drop in the gross domestic product. Duffield (2001) explains that in failed states the current economy only amounts to about half or less the size of the total economic activity (comprises formally regulated investment, production and trade deals) in conflict countries.<sup>46</sup> According to Kaldor, the low GDP in a failed state occurs because it becomes harder for state authorities to keep control over the territory. Consequently, the collection of taxes decreases,

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<sup>46</sup> According to Duffield the amount of GDP in some of the African countries is Angola with only a 10 % GDP, Mozambique with about half of the GDP, Kenya 40% of the GDP, and in Somalia with no official economy.

and there is a higher tendency for tax evasion, as well as increased corruption, identity politics, emergence in private agencies services. Besides, external pressure encourages to cut government spending and military fragmentation, which create more stress along with the continued decrease of state revenue (Kaldor, 2012: 96).

As the state continues to weaken, the higher is the consolidation of the private forces of violence. Kaldor also notes that the broad mix of actors goes beyond the special forces, which can involve not only private but also state actors or non-state, which usually constitutes a combination of public and private actors. These actors then interrelate their economic activities and develop **shadow economies** which exist outside the economic governance systems, such as organized crime group of actors within political governments. The collusion between political and judicial authorities, for instance, creates opportunities for evading the rule of law, which works for a mutual economic benefit. Extralegal economies allow political actors to receive profits without prohibition and punishment. Elites gain from the circumstance of state failure because they get to control the export of valuable commodities, such as the export of drugs from Afghanistan. In “new wars” and ethnic conflicts, it is usually a wealth disproportion between the elite and the rest of the population, living in degraded conditions and violence.

According to Goodhand (2000):

today's conflicts are characterized by innovative long-term adaptations to globalization, linked to expanding networks of parallel (illegal) and grey (semi-legal) economic activity (Goodhand, 2000: 87).

State failure is a consequence of the development of shadow economies which are characterized by the war economies of the “new wars”, which disrupt the vital process of state-building capacity. This disruption constitutes an incentive for the emerging actors who benefit from the situation for financial gain. With the failure of the state power, the warring parties

find new ways to finance themselves through predatory exploitation of precious resources, through the illicit trade networks and the informal economies.

In conclusion, the trend in Interstate armed conflicts has been decreasing both in frequency and in intensity. However, the sharp increase in Intra-state armed conflicts has had a significant impact on innocent civilians, which gives rise to insecurity not only on a local but also regional and global level. “New wars” are driven by economic aspirations, with political or ideological motivations playing only a minor role. This political economy of "new wars" reinforces the perpetuation of violence. Despite the external efforts of the international community, these types of war tend to persist. This circumstance creates additional challenges for the International community related to the role of economic motivations and agendas. In the next chapter, the war economy and shadow economy are going to be defined and discussed as to why the economic aspect plays a vital role in the perpetuation of violence.

## **Chapter II: War Economy and Transnational Networks**

We ask for peace and freedom for the many men and women subject to old and new forms of enslavement on the part of criminal individuals and groups. —  
**Pope Francis, 2015**<sup>47</sup>

The emergence of the shadow economy is closely connected to state failure, which is the incapability of the state to sustain the physical control and physical coercion over the territory. The economy of war has the main issue, which is a war which encourages the persistence of violent conflict. Authors argue that greed and grievance are both the primary sources of conflict in a war economy, which are further exacerbated by other variables.<sup>48</sup> Therefore, apart from political and social motivations, the economic factor is most associated with greed, as a primary cause to explain the endurance of the conflict that has no end in sight. In the “new wars”, the various intertwined interests of the various actors involved in a war economy are a complex dynamic which affects all spheres: social, economic, political, military. Besides, the continuation of violence and exclusivist policies are a sign of a connection to criminal networks which are tied to the economic underdevelopment, political crisis, and social disruption. The paramilitary groups<sup>49</sup> become part of the politics of identity, as the monopoly of violence gets captured by political parties, who are eager to maintain their power at all costs. Therefore, it is considered that the contemporary wars should be characterized through the political economy approach to understand their persistence and adopt practical solutions.

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<sup>47</sup> "Urbi et Orbi Message of his Holiness Pope Francis" *Central loggia of the Vatican Basilica*. 2015, April 5. Available at: [https://w2.vatican.va/content/francesco/en/messages/urbi/documents/papa-francesco\\_20150405\\_urbi-et-orbi-pasqua.html](https://w2.vatican.va/content/francesco/en/messages/urbi/documents/papa-francesco_20150405_urbi-et-orbi-pasqua.html) (accessed 7/07/2019).

<sup>48</sup> According to Sherman, such as "Poverty, social inequality, rapid economic decline, large numbers of young unemployed males, and polarized identity politics...illegal or extralegal behavior on the part of governments" (Sherman, 2001: 1).

<sup>49</sup> are exclusivist and extremist in nature and are part of the blurring between legitimate and non-legitimate armed forces

## 2.1– Definition of War Economy in “New wars”

As discussed in the previous chapter, the “new wars” follow a political economy approach to war, which considers the economic agendas. The discussion includes such definitions as **war economy** that can be defined as a set of economic activities which deliberately finance the war. According to Philippe Le Billon, this approach also includes the analysis on the collateral economic impacts of war, which negatively affect the economy and the economic strategies of war, which is a use of economic weapons directed to weaken specific groups (Le Billon, 2000: 1). The main concerns that this author tries to bring to attention relate to the effects of the perpetuation of conflict by analyzing the issues in the wealth and power distribution. Furthermore, Le Billon also argues as Mary Kaldor and Herfried Münkler, that globalization has a significant impact on state failure, and considers that war profits is essential in understanding contemporary conflicts. According to Münkler, the economy of wars is characterized by

high unemployment, high levels of imports and a weak fragmented and decentralized administration: ‘It could be said the war economy represents a new type of dual economy, typical of peripheral regions exposed to globalization’ (Münkler, 2003: 13).

In addition to this, Münkler also considers there is not enough consideration given to the globalization processes because there is an interweaving of intrastate players, whose interests result in the continuation of war. Therefore, globalization opened the doors for the belligerents to the world economy from which they benefit through the creation of networks and profit in economical ways. The world economy is usually linked to the phenomenon known as the shadow economy and works as a source of finances to the continuation of war (Münkler, 2003: 10). Globalization affected the conflicts in this sense, especially since the end of the Cold War, when political constellations became more fragmented and contradictory. While during the Cold War, the two superpowers controlled the surrogate wars, in the post-Cold War period,

wars started to be more autonomous wars, whose duration no longer depends on the political goals but the availability of the continuation of the exploitation of resources. Therefore, as Le Billon argues, while contemporary conflicts are often characterized as internal conflicts or civil wars, the "dynamics of these conflicts are rarely purely 'internal' "(Le Billon, 2000: 3).

The war economies which characterize so-called civil wars are in many cases sustained by links between belligerents and the global economy. To a large extent, it is because of global changes in the international economy and the associated weakening of the role of the nation-state that many contemporary conflicts last so long. (Le Billon, 2000: 3).

The state becomes an instrument of power, and its capacity is directed at the benefit of a ruling party. This leads to the economic system to also be further informalized, and the shadow economy becomes an incentive to rulers, according to Le Billon "to counterbalance state failure by expanding their client networks...it has become easier for private interest groups to take over" (Le Billon, 2000: 4).<sup>50</sup> Once, the criminal networks are confident in their power, the state of destruction continues, and war becomes a profit.

According to Peterson, it is difficult to transition from a *war economy* to a *peace economy*. Following the definition given by Peterson, **war economies** contribute both to physical organized violence and political violence and are related to the extraction of revenue at the cost of violence and illicit activities. The opposite is the peace economies which are not reliant on economic relationships which benefit from the physical and organized political violence. The issue with a developed war economy is connected to peaceful economies, even if geographically distant. For instance, the trade of goods and services provided by criminal networks often enter the global market and brings financial benefit to the criminal groups.

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<sup>50</sup> According to Le Billon, "The profits generated by these informal economies, controlled by personal interests within states, mafias, armed groups, and western multinationals, escape public scrutiny and serve no broad societal objectives (Le Billon, 2000: 4).<sup>50</sup>

According to Peterson, when addressing the economy of war, positive peace<sup>51</sup> It is harder to achieve because eliminating the actors behind the violent conflict is not enough for ending a more severe structural issue affecting at a broader level. Therefore, as Peterson argues that:

In order to transform economies of war into economies of peace, both the structural facets (for example global inequalities and power relations which facilitate and encourage illicit economic activity) and physical facets of violence related to war economies (the more observable and tangible processes of economic exchange) must be addressed (Peterson, 2014).<sup>52</sup>

In the report on *Economics and Violent Conflict*, according to Macartan Humphreys, **inequalities** should not be generalized. Instead, inequalities are specific to each country. They are grievances usually concerning the inequalities between ethnic groups or between the regions, also referred to as `horizontal inequality. According to Humphreys, in Figure 2, the graphics represent the income of people in a country related to the share of the population<sup>53</sup>. The horizontal inequality can be found in such countries as in the case of the African countries have the largest sizes of the shadow economy in the world and high horizontal inequality, which is attributed mainly to the monopolization of the political power by one group (Klugman, 1999: 8). For instance, in Zimbabwe, the largest ethnic group is the Shona ethnicity, and even though the society is highly pluralistic, the country was led by a one-party system from the 1980s until the 1990s, which resulted from the merging of the two parties<sup>54</sup> in the formation of a one-party system.

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<sup>51</sup> Also, there is a distinction between **negative peace** and **positive peace** economy. According to Peterson, while the negative peace prioritizes stability and an absence of immediate physical violence” with limited success, a positive peace economy is achieved when there is “no obvious association with direct/physical violence, and they are free of structural violence and support a just and sustainable peace” (Peterson, 2014:7).

<sup>52</sup> Peterson defines the forms of structural violence as the "process of accumulation of capital and power relations and imbalances in the geopolitical landscape; periphery regions, or persons exploited in order to ensure the status quo for more dominant, powerful actors" (Peterson, 2014: 6).

<sup>53</sup> The author shows that in the first graph *The People form the North* have a distribution among the 20% abysmal and 30% poor; and *The People form the South* are among the 30% rich and 20% very rich.

<sup>54</sup>. The agreement between the parties (Zimbabwe African People's Union-Patriotic Front and ZANU PF), was settled in 1989. They were responsible for waging a guerilla war. “Zimbabwe African National Union (Patriotic

Moreover, in the report by Jeni Klugman (1999), the Complex Humanitarian Emergencies (CHE)<sup>55</sup> have increased during the 1980s and early-mid-1990s, which is attributed to the causes according to the author to "failed development, political and institutional policies" (Klugman, 1999: vi). Besides the political and economic factors, Klugman relates the increase of CHE to an increase in horizontal inequality<sup>56</sup>. That is the horizontal inequality encompasses such factors as the unequal distribution of assets, state jobs, and social services among the social groups. For instance, the horizontal inequality is present in areas where there is a restraint of groups from the peripheries of the region to the economic opportunities, access to education and income-earning opportunities (Klugman, 1999: 8).

According to the graphic by Humphreys, the distribution of income inequality is low among income classes between the North and the South, it is high in horizontal inequality, which means there is the poor distribution between the South and the North areas of the country. In the second graph, the opposite happens.<sup>57</sup> The general income inequality is high, where 60% of the people are either too poor or too rich, and the middle constitutes 40%. However, **horizontal inequality** exists according to the first graph, because wealth is concentrated mainly in the North area of the country, as overall income inequality stays low, with instead 40% being very poor or very rich. The effect of this distribution produces a higher chance of a rebellion surge caused by the created grievances (Humphreys, 2003: 4).

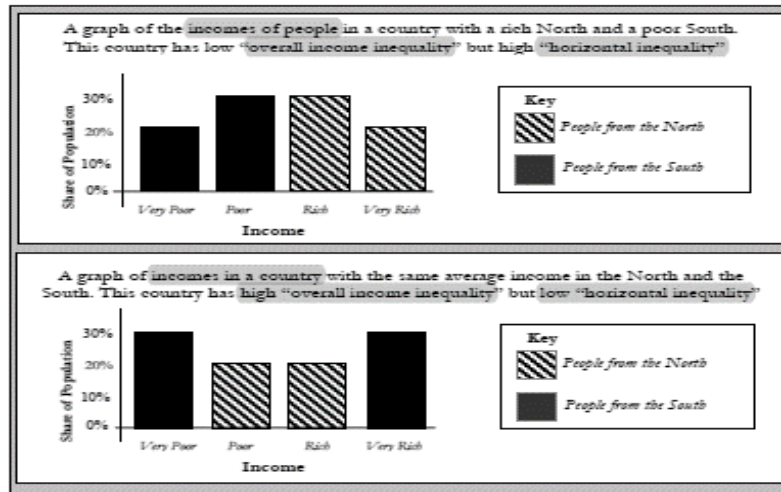
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Front)." *African Democracy Encyclopedia Project*. 2000, February. Available at: <https://www.eisa.org.za/wep/zimparties1.htm> (accessed 2/04/2019).

<sup>55</sup> According to Klugman the definition of Complex humanitarian emergencies as the "deep social crises in which large numbers of people die from war, displacement, disease, and hunger, owing to man-made disasters, although some may benefit" (Klugman, 1999: 1).

<sup>56</sup> Factors that contribute to an ongoing conflict are the horizontal inequality, failure of political institutions, state crisis, economic crisis, and external shocks (Klugman, 1999: vi).

<sup>57</sup> Where another country with the same average income has a different distribution. *People of the North* are distributed by the 20% poor and 20% rich, and *The People from the South* are represented by the 30% very poor and 30% very rich.



Source: Humphreys, 2003: 3

Moreover, according to Humphreys, during civil conflicts, governments usually tend to spend the state revenue on the military sectors rather than the social sectors. The government is also responsible for choosing policies during the conflict, which can be damaging for the economy on purpose so that political leaders extract profits for themselves and contribute to an increase in horizontal inequality among the ethnic groups or religious groups (Humphreys, 2003: 7)<sup>58</sup>. In addition, international corporations such as NGOs and foreign governments have both contributed to the war economy<sup>59</sup>. At the same time, the administrative state institutions collapse, and the foreign exchange losses over the natural resources create inflation. The consequences which result from a combination of decisions taken by the government in conjunction with the foreign actors, resulting in a higher probability of conflict, which affects and causes damages mostly to the rest of the poor population. Furthermore, when discussing the concept of war economy other concepts whose aspects relate to the war economy most pointedly, is the development of the shadow economy and its aspects affecting the economic development in states, the level of employment and the productivity of the country.

<sup>58</sup> The examples of these types of destructive economic policies, according to Humphreys are "weakening the state institutions ...and destroying infrastructure for production, leaders may make rebellion more attractive" (Humphreys, 2003: 6).

<sup>59</sup> These foreign actors tend to direct sanctions which instead affect civilians than the policymakers; they can aid with military support and trade arms, and in the case of NGO's there is support by the oil corporations to the governments (Humphreys, 2003)

According to the *OECD Statistics Brief*, the concept of the non-observed economy (NOE) is often interchangeable with other concepts such as “hidden, grey, shadow, informal, informal and underground...can also refer to specific aspects of the NOE” (Gyomai & van de Ven, 2014: 1). Moreover, the definition used by Medina, & Schneider, for **shadow economy**, is that this type of activity "includes all economic activities which are hidden from official authorities for monetary, regulatory and institutional reasons" (Medina, & Schneider, 2018: 4). Medina, & Schneider, explain that the monetary reasons include activities such as tax evasion, escape social security contributions, while the regulatory reasons include the regulation of the governmental bureaucracy, and the monetary activity includes corruption, the weak capacity of the political institutions and the rule of law (Medina, & Schneider, 2018: 4)

According to the OECD Handbook, *The Non-Observed Economy in the System of National Accounts*, to the non-observed economy (NOE) includes **five major areas**, which are: 1. Underground production, 2. illegal production, 3. informal sector production, 4. Production of households for own final use, 5. statistical underground; (Gyomai & van de Ven, 2014: 2)<sup>60</sup>. In general, these activities are practiced outside the legal framework and develop in any formal economy. However, what usually varies the size of the shadow economy from country to country and region to region. According to the definitions of these five areas, respectively, these economic activities tend to avoid tax payment or comply with regulations, also tend to engage in unlawful productive activities, have unregistered enterprises for productive activities, the goods and services are only available for the households that produce them and lastly, there are failures in the collection of basic data of these activities by the data collection programs. Additionally, according to the 2017 report by Friedrich Schneider and Robert Klinglmaier, the definition by which they guide their study on the size of the shadow economies

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<sup>60</sup> OECD Statistics Brief retrieved from <https://www.oecd.org/sdd/na/Statistics%20Brief%2018.pdf>

is that **shadow economies** are “those economic activities and the income derived from them that circumvent or otherwise government regulation, taxation or observation” (Schneider & Klinglmaier, 2017: 4). These authors provide a table which represents the types of economic activities which are avoided from paying taxes to the state authority.

Type of Activity	Monetary Transactions		Non Monetary Transactions	
<b>Illegal Activities</b>	Trade with stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud; etc.		Barter of drugs, stolen goods, smuggling etc. Produce or growing drugs for own use. Theft for own use.	
	<b>Tax Evasion</b>	<b>Tax Avoidance</b>	<b>Tax Evasion</b>	<b>Tax Avoidance</b>
<b>Legal Activities</b>	Unreported income from self-employment; Wages, salaries and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods	All do-it-yourself work and neighbor help

Source: Schneider & Kinglmaier, 2017: 5

From this table, there are two categories from activities which are divided in the first line by **illegal activities** and the second in the **legal activities**. In the illegal type of activities, the monetary column includes some of the most profitable activities to criminals, while the non-monetary transactions illegal goods such as drugs are used in exchange with other goods, use violent methods to obtain valuable goods which are for the own individual use. In the legal activities, the shadow economy is usually the activity of tax evasion, tax avoidance, which can also be divided into monetary and non-monetary transactions. The legal activities can be practiced by employers to avoid reporting the wages and salaries given for unreported work on legal term<sup>61</sup>, or the leaving unreported the earning out of self-employment. In the non-monetary transaction, there is tax evasion through legal services and goods by other services and goods,

<sup>61</sup> Such as the example given by Navickas, M., Juščius, V., & Navickas, V. (2019): “child-minding with income not declared” (Navickas, M., Juščius, V., & Navickas, V., 2019:3).

and lastly, the *Do it yourself* work also means unregistered work and tax evasion.<sup>62</sup> Moreover, the above table shows the primary motive for engaging in the shadow economy. The tax evasion and avoidance are, according to Navickas, M., Juščius, V., & Navickas, V. (2019):

1. To avoid payment of income, value-added, or other taxes;
  2. To avoid payment of social security contributions;
  3. To avoid having to meet certain legal labor market standards, such as minimum wage, maximum working hours, safety standards;
  4. To avoid complying with certain administrative procedures, such as completing statistical questionnaires or other administrative forms
- "Navickas, M., Juščius, V., & Navickas, V., 2019: 3-4).<sup>63</sup>

In order to measure the **magnitude of the shadow economies** studies such as the IMF Working Paper on the *Shadow Economies Around the World: What Did We Learn Over The Last 20 Years*, makes estimations for “the average size of the shadow economy of the 158 countries over 1991 to 21015 is 31.9 percent” (Medina, & Schneider, 2018: 2). According to the article on *Shadow Economy Poses Policy Challenge*, an OECD report on the African countries<sup>64</sup>, Latin American countries<sup>65</sup>, and central and Eastern European countries had the largest shadow economies, during the 1999 to 2000 period. These constituted, respectively, about 41.3%, 41.1%, and 38.1% of the GDP. Moreover, Schneider & Kinglmair, find that the size of the countries in Asia is much less when compared to the countries from Africa and the Latin American States because in Asia the majority of countries are "highly industrialized and developed countries" (Schneider & Kinglmair, 2017: 9). Some of the largest shadow economies are more prevalent in the African countries, according to the following figure: <sup>66</sup>

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<sup>62</sup> According to Navickas, M., Juščius, V., & Navickas, V. (2019) “building work is done by homeowner” or with the help of the neighbor; (Navickas, M., Juščius, V., & Navickas, V., 2019:3).

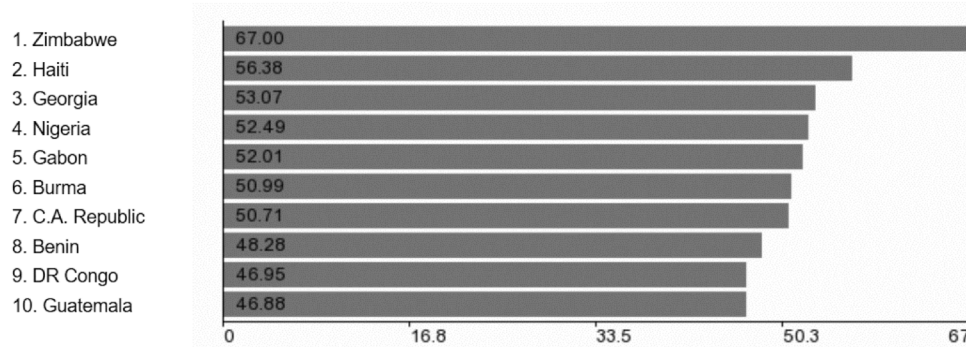
<sup>63</sup> However, their study is based only on the legal activity of the shadow economy.

<sup>64</sup> According to Medina, & Schneider the country from Africa with the largest shadow economy is “Zimbabwe with 60.6 %”, (Medina, & Schneider, 2018: 2)

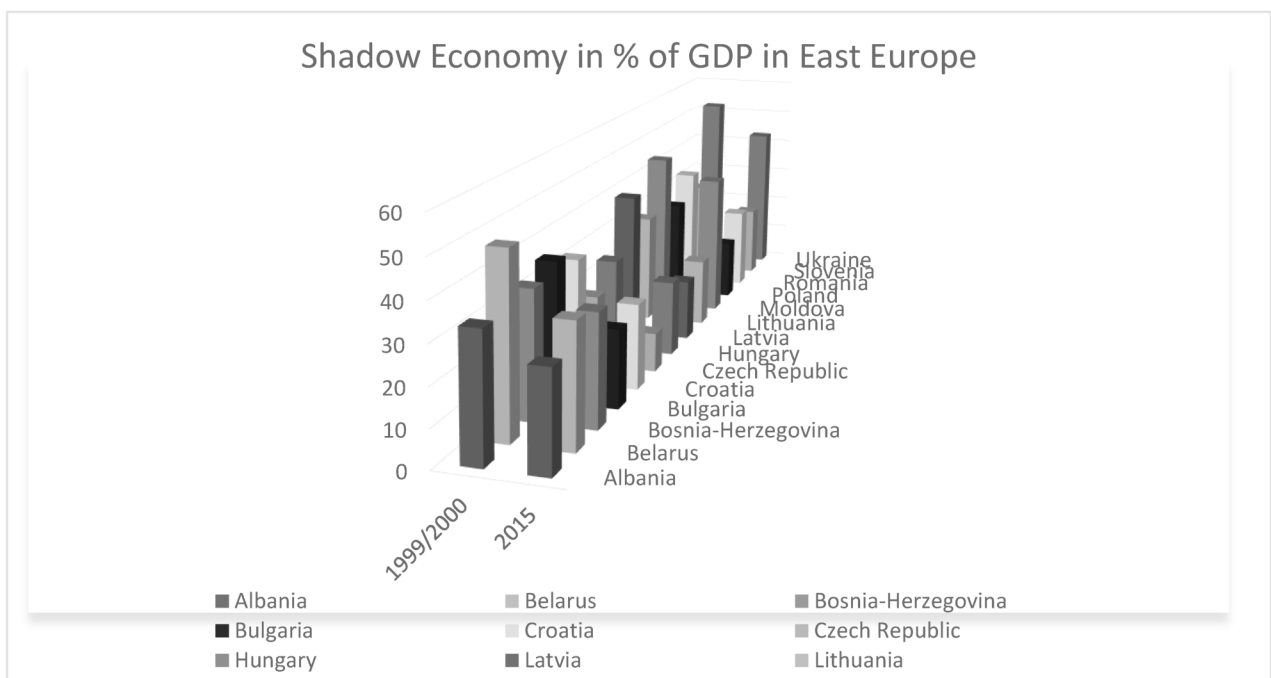
<sup>65</sup> According to Medina, & Schneider, the country within Latin America with the largest shadow economy is Bolivia with 62.3 % of the GDP". (Medina, & Schneider, 2018: 2)

<sup>66</sup> Graphic retrieved from [https://www.theglobaleconomy.com/rankings/shadow\\_economy/](https://www.theglobaleconomy.com/rankings/shadow_economy/).

**Shadow economy, percent of GDP, 2015**  
(percent, Source: Medina and Schneider (2018), TheGlobalEconomy.com)



The lowest shadow economy registered from the same source is Switzerland, with 6,94% of the GDP.<sup>67</sup> In the case of Europe, Eastern Europe has currently been measured to be of about 20-25%, and while in the European Union it is about 15-20% from the total GDP (Navickas, M., Juščius, V., & Navickas, V., 2019: 2).



This graphic is a comparison between the shadow economies during the 1999/2000 and the more recent data in 2015. In this graphic, there is a decrease in the shadow economy, with a

<sup>67</sup> Top bottom 10 countries with the lowest shadow economy are: Singapore (9,20), Austria (9,01); New Zealand (8,97), UK (8,32), Japan (8,19), Australia (8,10), Netherlands (7,83), Germany (7,75), USA (7,00), Switzerland (6, 94);Source . [https://www.theglobaleconomy.com/rankings/shadow\\_economy/](https://www.theglobaleconomy.com/rankings/shadow_economy/)

smaller decrease in countries such as Moldova and Ukraine. Data source from Schneider & Kinglmair, 2017; and the Medina and Schneider (2018)<sup>68</sup>. Furthermore, considering the focus on the **Eastern European countries**, and particularly on the Balkan region, the specificity of this region is that Eastern European countries are young states which have formed after the dissolution of the Soviet Union. The post-Soviet Republics<sup>69</sup> in the Eastern Europe had a different communist regime that left few chances of economic development, while post-Soviet Central European states had a communist regime which allowed them for instance for better economic freedom as the state was less pervasive in the area (Aliyev, 2015: 11). Informal economy is therefore higher in Eastern countries than in the Central European, and more likely to engage in corruption. The case of the Socialist Federal Republic of Yugoslavia has also been part of the communist economic model which led to later incentive in the consolidation of a larger shadow economy throughout the Yugoslavian Republics. The Socialist Federal Republic of Yugoslavia (1945-1991), received international recognition in 1945, under the communist revolutionary, Josip Broz Tito's rule. Tito's rule led to the adoption of a different economic model that from the other Eastern European countries, from the economic law passed in 1950s, in order to decentralize the economy and become market oriented (Uvalić, 2019: 7). Despite these reforms the economic system was largely guided by the socialist features of economy and it was not considered to be continually led by under the supervision of the party elites.

The shadow economy is the highest in the South Asian, Sub-Saharan Africa, and Latin America Caribbean regions whose sizes of the shadow economy vary different parts of the world. Therefore, the shadow economy must have elements and indicators which must be brought to analysis and be understood in conjunction with domestic conflict. In the first place, the shadow

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<sup>68</sup> Retrieved from [https://www.theglobaleconomy.com/rankings/shadow\\_economy/Europe/](https://www.theglobaleconomy.com/rankings/shadow_economy/Europe/).

<sup>69</sup> In the journal by Aliyev, the idea of present informal economic and institutional challenges in the post-Soviet societies comes from the conditions of shortage, that is from the “economic shortage under Soviet systems of centralized planning, individuals and households developed all kinds of complex ways of negotiating access to scarce goods, based upon networks of reciprocal exchange” (Aliyev, 2015: 12).

economy affects political institutions within the state, and therefore, the social order, which then leads to a higher probability of ethnic conflict and rebellion. The political power is more and more contested among the corrupt elite for economic benefit, which goes hand in hand with the development in the shadow economy networks. In “new wars”, the shadow economy is usually characterized as an illegal activity that extends across borders. The warring parties rely on flexibility<sup>70</sup> of the networks of the shadow economy to consolidate their power over the territory. Kaldor identifies five types of illegitimate actors<sup>71</sup> Who materialistically benefits from the fragmented state physical coercion. These forces are often constituted from the remnants of conventional armed forces. Furthermore, these private groups<sup>72</sup> are more challenging to distinguish from the legitimate armed forces, which are further delegitimized from acting on securing order within the territory. Also, political parties of failed states tend to govern<sup>73</sup> in their benefit through the continuation of violence, so people are forced to comply with the rules of a government that supports exclusivism.

One of the most evident features of the shadow economy is that the warring parties stop relying on the support from the state collection of taxes and engage in shadow activity. Shadow economy itself leads to economic decline because it contributes to the development of more straightforward trade in illegal goods and services, which then sponsors the political and violent activities of the warring groups within the territory. Additionally, the state loses its legitimacy for the collection of taxes from the citizens. The criminal groups find ways of raising revenues through the trade in illicit goods and services, and therefore, many of its activities are related

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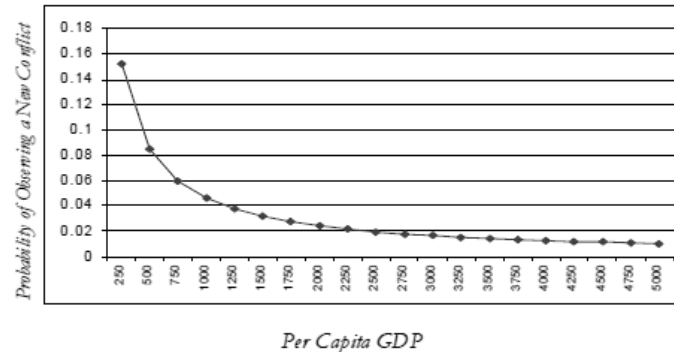
<sup>70</sup> The imposition of arms embargoes is another incentive for the arms dealer to find alternative routes by adjusting the networks to bring the demand in the supply of weapons by the rebel groups. Though parallel routes the dealer can omit information about the products' destination.

<sup>71</sup> The five types of illicit groups according to Kaldor are "paramilitary groups; self-defense units; foreign mercenaries; and finally, regular foreign troops, generally under international auspices" (Kaldor, 2012: 96).

<sup>72</sup> The reinforcement of the regular armies creates the opposite effect on the private security agencies, because there is less need for mercenary armed forces.

<sup>73</sup> Governments create their paramilitary groups and consolidate them as regular armed groups.

to violence and an economic crisis. Humphreys finds the relation between conflict and decrease of GDP.



Source: Humphreys, 2003: 2

As we can see in the figure above, presented in the journal *Economics and Violent Conflict*, when a country’s GDP is high, the wealthier and more prosperous is the country, the less is the possibility for conflict to occur. According to the graphic the *Probability of Conflict* decreases and remains steady as the GDP increases.

The first **indicator** for the increase in the size of the economy is the tax and social security contribution. Therefore, one of the main consequences of the shadow economy is the reduction of tax contribution to the state and social security contributions. Governments tend to increase tax rates which are caused by shadow economy and instead create the "incentive to join the shadow economy."<sup>74</sup> Furthermore, as Münkler argues the elements of destructive tribalism and the emergence of globalization, has led to more violence. In turn, the continuation of violence is dependent on the extraction of revenue in the form of shadow economies (Münkler, 2007, 10). Since the economy of “new wars” is characterized by high unemployment, higher imports than exports and weak, fragmented decentralized administration, under these conditions young males are forced to engage in the illicit activities of the shadow economies. (Munkler, 2007,

<sup>74</sup> “Shadow Economy Poses Policy Challenge.” *European Business Review*. 2005, April 22. Available at: <https://www.europeanbusinessreview.eu/page.asp?pid=243> (accessed 10/04/2019).

13). The shadow economies contribute to decreasing sense of duty to paying taxes from the increase in corruption and loss of respect for public state institutions, in the absence of legal enforcement legislation<sup>75</sup>.

According to Medina and Schneider, “The bigger the difference between the total labor cost in the official economy and after-tax earnings (from work), the greater the incentive to reduce the tax wedge<sup>76</sup>” (Medina and Schneider, 2018: 35). In this case, the costs in the labor market the hiring of employees costs more in terms of tax and social contributions that the employer must pay than the wage earner by the worker, which for instance is the case of the OECD countries (Schneider, 2000). This means that the **tax wedge** is more likely to be reduced and the more is the incentive to join the shadow economy. This type of shadow economy involves a second job and even during hours of work, and a third category is the employment of people who cannot legally be integrated into the official economy (Schneider, 2000). Also, for the economy, the low tax revenues lead to an inefficient public sector. With less competition<sup>77</sup> in the private sector, the less is the quality of public goods in the market, which according to creates a vicious cycle, because the tax moral<sup>78</sup> diminishes and the consequences are again taking a cycle in the formal economy (Krasniqi & Topxhiu, 2012: 9).

The journal on *The Informal Economy in Kosovo: Characteristics, Current Trends and Challenges*, Florentina Xhelili Krasniqi and Rahmije Mustafa Topxhiu, illustrate the **vicious cycle** in the figure below, represented below. In this figure the vicious cycle happens when

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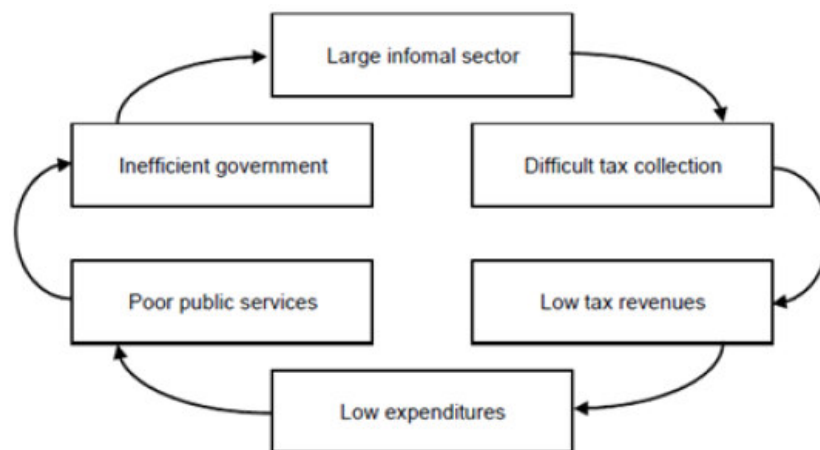
<sup>75</sup> There is usually a high tax burden, which gets continuously avoided, and it is easier for criminals to conduct illegal activities (Gaspareniene: 2015, 653).

<sup>76</sup> The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labor cost for the employer.

<sup>77</sup> Also relates to the market regulation, trade barriers mean higher prices, can cause an incentive to join the shadow economy. These increase labor costs in the formal economy. (Medina and Schneider, 2018:35)

<sup>78</sup> Tax morale is the obligation to which the taxpayers stick to their obligations and are affected by the quality of the goods and services provided by the state. There is less change in the taxpayers engaging in the shadow economy if taxpayers are treated as tax partners rather than as tax subordinates in a hierarchical relationship (Medina and Schneider, 2018: 35)

there is a large informal sector which develops from state's ineffective regulatory and enforcement practices in the formal economic sector, which creates disincentives for private sector in participating in the formal economy. The **informal sector** becomes a solution to tax burden and costs that usually should facilitate a free -market economy, as well as the creation of new jobs in the formal economy. However, while it becomes difficult for the state to collect taxes, people are more inclined to move to the informal economy, from which results in a decrease in tax revenues to the state. If the state is incapable of effectively collecting taxes to have a budget for public services and goods expenditure, then people will see a decline in the quality of the public services provided by the state. The continuation of **ineffective tax** collection by the state then leads to the incapability of supporting the investments costs of the private sectors, which is crucial in maintaining a competitive and efficient market that will eventually create jobs. Therefore, as the government becomes ineffective in the regulation of the economy the incentives remain high for people to turn to shadow economic activities which do little to contribute for productive and effective economy, and so the informal sector becomes larger.



Source: Krasniqi & Topxhiu, 2012: 9

Therefore, according to Medina and Schneider, “countries with higher tax rates achieved by lower tax rates and regulations, a better rule of law and lower corruption levels should thus have smaller shadow economies” (Medina and Schneider, 2018: 35).

The second cause is related to the **quality of the state institutions**, which measures the control of corruption government effectiveness, (because a highly corrupt government is associated with a larger shadow economy); the rule of law (through securing property rights and enforcer of contracts, results in benefits in the formal economy); and regulatory quality (if the political institutions fail to promote an efficient market economy then businesses rely on underground activity); (Medina and Schneider, 2018:35) .

The **formal economy** is associated with the level of development of the economy. If the development of the economy is low, then there will be fewer jobs in the formal economy, while the unemployment will be high, and so will the probability of people be practicing shadow economy. Additionally, people tend to be more self-employed, which means there is a type of income generated from informal employment without the employee legal norms<sup>79</sup>Besides the informal economy is also associated to low productivity, poverty, inferior working conditions, lack of social benefits, and access to the “capital, credit, technology, markets and institutions” (Krasniqi &Topxhiu, 2012: 8). For instance, the cause for increase in Eastern Europe for the shadow economy are factors such as increase in corruption, income inequality and tax burden on consumption, and what can diminish the shadow economy is the business freedom or an increase in the GDP per capita (Navickas, M., Juščius, V., & Navickas, V.,2019:12).

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<sup>79</sup> According to Annex 2.A3 by OECD Employment Outlook: these “could include an employment contract, paying tax or social contributions, earning the minimum wage or entitlement to redundancy payments in the event of employment termination. "Retrieved from [www.oecd.org/employment/outlook](http://www.oecd.org/employment/outlook)

The **international market prices** can sometimes incentive the production of illegal goods<sup>80</sup>, such as drugs which can be the alternative cropping to provide sustenance for rural farmers, and because there is a social exclusion of the poor and indigenous people, guerilla groups exploit these people for financial benefits. These criminal networks are a result of the increased privatization, in the context of the failed state, in which all economic power, even the formal economy gets captured by a variety of warlords. In a study by Martha Alter Chen (2012), the informal economy, although it was initially thought to support the poor people, in the developing countries, in order to curb the issue of the economic crisis because of the creation of jobs, the informal economy had the opposite effect. Initially, it was thought that the economic development in the developing countries would be transformed into modern economies and that traditional sector of jobs in the developing world would eventually disappear in the long run to ultimately reach a formal economy (Chen, 2012: 2).

This perspective was reflected in the prediction by W. Arthur Lewis, in the 1954 essay for which he received a Nobel Prize in Economics, that economic development in developing countries would, in the long-term, generate enough new jobs to absorb surplus labor from the traditional economy. This would lead to a turning point when wages would begin to rise above the subsistence level: what is referred to even today as the "Lewis Turning Point" (Chen, 2012: 2)

However, as Chen argues, the informal economy<sup>81</sup> kept thriving despite the efforts to develop the economy. The obstacles that arise is an imbalance between the rapid increase in population, as the rise in machines for production increased, which created few jobs to support the formal economy. Concerns about the developing countries are about the changing patterns that might take a different turn than in the developed countries. While there are positive aspects of the informal economy, the negative aspects outweigh the positive ones. The variety of factors<sup>82</sup>

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<sup>80</sup> This is the case of Peru, where prices for coffee and banana crops have dropped in the international market, which makes the production of cocaine more profitable, with free access to international markets (Sherman, 2001, 5).

<sup>81</sup> Is associated with low paying jobs and unskilled workers (Chen, 2012: 2)

<sup>82</sup> These factors are economic, social, institutional, and even phycological (Krasniqi &Topxhiu, 2012: 2).

also, their interrelation creates the complexity of an informal economy and creates losses in the formal economic system. The formal economy is the opposite of the informal economy and seeks to create economic development. However, when the formal economy fails to provide with diverse opportunities according to the law, then the informal economy is preferred in times when state's institutions, politics, and regulations create more costs and less opportunity, or less quality to the broader public. Therefore, there is an increase in unregistered activities to avoid paying taxes and avoidance to specific legal standards and administrative structures.

Countries in the transition to democracy usually face the difficulties in the long run, yet the **formalization of the economy** is an indicator of a successful stabilization of regulatory institutions (Krasniqi & Topxhiu, 2012: 2). The same happens with the transition from the informal economy to the formal economy, which must be gradual so that measures will support those existing enterprises which could be incorporated into the formal economy. In a sense, the support can lead to the reverse in the cases when the state is highly centralized and dominant to the point of giving opportunities in the formal economy only to limited elite, while in the informal economy people find opportunities by other means which, according to Krasniqi & Topxhiu, is the “a signal of entrepreneurial dynamism” Krasniqi & Topxhiu, 2012: 3).

Besides, According to Schneider:

a growing shadow economy may provide strong incentives to lure domestic and foreign workers and other resources away from the official economy. On the other hand, two-thirds of the income earned in the shadow economy is spent in, and actively stimulates the growth of, the official economy (Schneider, 2000).

However, according to Schneider, it is also considered that by reducing the shadow economy it results in “a significant increase in tax revenues, and therefore to a greater economic growth” (Schneider, 2000). While some see a positive relationship between the shadow economy and

the official economy, others support that the decrease in the shadow economy will more likely lead to **economic growth**.

In addition, the war economies represent the power in the hands of the warring groups who tend to exacerbate the identity politics, which serve as a means of survival for most people. That , according to Le Billon, the target population can be "marginalized via racist discourses and policies and denied political rights and access to resources" (Le Billon, 2000: 5). This means that usually in countries where the size in the shadow economy is large such as in African countries, the developments of this type of conflict often tend to be destructive on the economy and on the civilians wellbeing.

The impact that the war economy has on the population varied by its **type**, which according to Le Billon can be categorized as state war economies<sup>83</sup>, guerilla war economy, predatory war economy, foreign alliance war economy, humanitarian war economy, and commercial war economy. In a **guerilla type of warfare**, the armed groups are closely related to the local people and acquire their support through political persuasion or act in a strategic way and in most cases, there is less violence against civilians except when counterinsurgency<sup>84</sup> is directed at them. The guerilla type of armed groups employs the element of surprise and use light arms to bring the enemy down. An example of such war economy is the case of Sri Lanka, where an armed group by the name Liberation Tigers of Tamil Eelam (LTTE) established their own organization which requested large sums of money by force from people, businesses

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<sup>83</sup> The state war economy according to Le Billon is "organized by a structured political group (mostly states) through (quasi) legal taxation of revenues/ profits as well as foreign and domestic borrowing" (Le Billon: 2000: 7).

<sup>84</sup> When civilians are targeted because of the counterinsurgency from outside powers such as the example provided by Le Billon in the bombing incident and "relocation of population to 'strategic villages' in Indochina or Latin America (Le Billon, 2000: 8).

professionals and the Tamil diasporas abroad in Canada, U.K., France, Norway, and European countries.<sup>85</sup>

The **predatory economy** of wars, on the other hand, created a harsher effect on the populations which is forced to work in order to get the financing. For instance, in the case of Mozambique, Renamo<sup>86</sup> was recruited its members by force through kidnapping or abduction and its funds originated from the 'tax areas' from which their members would take by force goods and services, and also, encouraged violent activity in support of the rebel group, and lastly, there were no distinction between military targets and civilians (Morgan, 1990: 608).

In a **foreign alliance**, war economy is related to the neighboring economic and logistical support inside another country to maintain a military case with the assistance of a foreign country. This was the case of the Republic of Honduras in Central America. The Contras was a rebel group that opposed the Sandinista National Liberation Front, a socialist political party. The Contras, who had stated a counterrevolution, were aided by foreign support, such as Argentina's government that provided with military forces and training in Honduras, and due to the financial and military support from the US.<sup>87</sup> This form of war economy has less impact on civilians.

The **humanitarian war economy** is related to the humanitarian assistance camps which serve as sanctuaries not only to civilians in need but also, inadvertently to the armed groups, which take advantage of the assistance. In Bosnia's case the humanitarian aid is related to a criminalized conflict, because humanitarian aid can serve as an opportunity for flowing

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<sup>85</sup> GUNARATNA, R. "Is the LTTE a successful Guerilla Organization?" *Asian Tribute*. (2007/01/05). Available at: <http://asiantribune.com/node/3981> (accessed 7/06/2019).

<sup>86</sup> The Mozambican National Resistance (RENAMO) was a political movement directed against the FRELIMO party.

<sup>87</sup> Retrieved from [https://www.brown.edu/Research/Understanding\\_the\\_Iran\\_Contra\\_Affair/n-contras.php](https://www.brown.edu/Research/Understanding_the_Iran_Contra_Affair/n-contras.php)

criminal trade<sup>88</sup>, according to Andreas (2004), “safe areas...can turn into stable commercial center of black-market exchange” (Andreas, 2004: 50).

The **commercial war economy** is the most known as the trade in illicit goods and services, as well as trade in the local resources. This form of war economy is very dominant in African countries. The military control allows the warring forces to control economically profitable areas and develop networks regionally. In these war economies, civilians are often exploited to do the work and limit the choice of their participation in other sectors of the economy. This war economy leads to the criminalization of the economy (Le Billon, 2000: 9). The example to this war economy is the main sectors include mainly the extraction of oil and diamonds in Angola.<sup>89</sup> The criminalization of conflict is more likely in these types of war economy because the business of war becomes intertwined with the business of crime.

The war economies lead to macroeconomic and microeconomic consequences. War economies contribute to macroeconomic consequences such as bad distribution of goods through the population, collapse of economic regulation, low trust, reduced investment, opportunistic behavior, falling incomes, emergence in parallel economies and illicit trade, hyperinflation. The microeconomic consequences affect the individuals such as their rights and powers, access to essential goods and services in which the failed state is unable to provide.

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<sup>88</sup> The UN policing at the airport grounds in Sarajevo, and the 800 meter tunnel which was built underneath the Sarajevo airport provided a secure way to enter and exit the city and for the smuggling activities (people and materials were passing the tunnel on a daily basis, as well as flows of arms, ammunition, food, fuel) (Andreas, 2004: 39).

<sup>89</sup> The Angolan Economy is rich in natural resources but continues to have poor GDP, with about 85% of people dependent on the subsistence agriculture and the country’s 90 % of the exports dependent on the oil export SAWE, B. E. “What Are The Major Natural Resources Of Angola?” *World Atlas*. 2018, December 12. Available at: <https://www.worldatlas.com/articles/what-are-the-major-natural-resources-of-angola.html> (accessed 17/05/2019).

## 2.2 – Primary sources for revenue raising and Transnational Networks

The transnational networks are the often-called horizontal coalitions between the various groups in “new wars”, which can be pictured as a ‘**spider-web**’ which according to Kaldor characterizes the structure of the global enterprise of illegal activities. The development of transnational networks becomes accessible once the irregular forces get in control of the state monopoly of violence. Moreover, the modern communications allow fast and effective communication among the warring groups and which the development of the channels in the shadow economy allows, for instance, an easy trade in cheap arms and illegal goods for the warring parties<sup>90</sup>. The consolidation of the shadow economy also takes states until it effectively becomes consolidated.

Kaldor identifies three states in the development of the shadow economy, which is reflected in the different forms of assets. Kaldor refers to the first form of ‘asset transfer’ as the primary sources of funding which are: “looting, robbery, extortion, pillage and hostage-taking,” the second source is market pressure (Kaldor, 2012: 108). The first type of asset is the activity of the warring parties seizing civilian's houses, farms, domestic animals, money, valuables, shops, factories, and use people as hostages for exchange. The second asset is a way of revenue raising through the control of market prices, by forcing civilians to sell their assets for a meager price, and also set control over the supply of food and other necessities which lead to usually degrading living conditions affecting in great part women, children and elderly. Also, the third form of an asset according to Kaldor is termed as the ‘war taxes’ or ‘protection money,’ which are generated from the revenues of the trade of illegal resources, such as the trade in drugs, oil, arms, laundered money and other.

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<sup>90</sup> For instance, the collapse of the Albanian state in 1997 and its political instability was one of the significant factors that contributed to the conflict in Kosovo because there was a sudden availability in “hundreds of thousands of Kalashnikovs” (Kaldor, 2012: 102).

Additionally, there is often another valuable source of revenue for the warring parties, which includes the **humanitarian assistance** with food and basic needs to most devastated zones of conflict. Members of the warring groups infiltrate into the crowd of the people who require assistance, yet the ones who are part of the warring groups get to control these people by intimidating with weapons.<sup>91</sup> Furthermore, any economic incentives that warring groups could find, only act as an incentive for continuing violence and in the funding of continued political struggles.

war economies do not simply refer to the state of an economy in times of conflict but are defined as the economic relationships and transactions which cause, sustain or prolong periods of physical, political violence or instances where actors take advantage of political violence for financial gain. (Peterson,2014: 4).

Illegal trades emerge through the development of networks which become so complicated that it is difficult to follow their routes into the global market.<sup>92</sup> According to Peterson, other commodities in war economies include:

activities such as human trafficking, organized crime, diasporic funding (either through voluntary contributions or extortion), money laundering, tax evasion, corruption, and even arms the use and manipulation of foreign aid (Peterson, 2014: 4).

From this passage, Peterson identifies the four most productive activities in the shadow economy are the trade in natural resources, organized crime, human trafficking, and diasporic funding. The war economies became especially apparent after the end of the Cold War, as new war conflicts become related to economic greed and profit-seeking, especially in places where valuable natural resources<sup>93</sup> Could be extracted and traded in the global market. Peterson

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<sup>91</sup> As Kaldor argues, humanitarian assistance “might contribute to the functioning of the war economy” (Kaldor, 2012: 95).

<sup>92</sup> For instance, the Lebanese networks took advantage of the conflict in Sierra Leone and developed a complex supply chain, through which, diamonds from Sierra Leone could clandestinely enter the global market (Studdard, 2004: 5).

<sup>93</sup> Such as the exploration of natural resources: diamonds, timber, gold, oil, precious gems, and minerals like coltan. Peterson (2014)

argues that in developing countries such as Sierra Leone, Liberia, Angola, Cambodia, Afghanistan, economic development has declined because actors engage in the illicit trade of natural resources. Therefore, trade profits instead of work as an incentive for violent conflicts<sup>94</sup> (Peterson, 2014, 4). Humphreys argues that grievances are associated with high dependence on the wealth extracted from natural resources<sup>95</sup>, where there is likely to be a high inequality, from the unjustly distributed natural resource wealth<sup>96</sup>. The warring groups are interested in creating the grievances to create prejudices among people and benefit from the extraction of financial benefits of natural resources.

**Natural resources** are also an essential factor in the continuation of the war economy on a regional level. While valuable resources should contribute to economic development, they are also highly indicative of a probable conflict occurring, especially in places with ancient hatreds (Sherman, 2001, 1). Therefore, natural resources can also lead to a country's economic destruction rather than economic development and state-building. That is, if warring forces had long been able to engage in illicit activities, consequently from the consolidation of a shadow economy, then they will have exploited the natural resources to the maximum. The longer the warring parties are in control of the natural resources, the harder is to rebuild political stability and economic recovery, after constant violence and destruction (Münkler, 2007, 2).

After the trade in natural resources, the second most profitable activity is organized crime, which can be both national and transnational, made of structured organizations which conduct illegal activities. These organizations are motivated primarily by money and profit-seeking, in the benefit of criminals, and are usually associated with terrorist groups (Treverton et al., 2009:

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<sup>94</sup> war economies, the valuable resources in these countries are used in the illegal trade, for instance of diamonds, timber, oil, and opium are the most lucrative industries which contribute for the warring parties to continue to engage in violent activity, insurrection, and therefore ongoing instability in zones of conflict. (Peterson,

<sup>95</sup>. The existence of natural resources means that governments do not need to rely on citizens taxation and therefore respond to the demands of the people.

<sup>96</sup> The inequality that arises from the inequitable distribution of the wealth from a country's natural resources is another cause for forced migration in war economies.

12). Organized crime<sup>97</sup> is an activity of shadow economy that works as a source of finance for the warring parties to engage in violence for political or ideological motives. Moreover, opposing parties are willing to cooperate in the illicit trade of goods and services to receive the financial benefit, and therefore, conflict becomes an ideal status quo.

**Human trafficking** is estimated as the third most profitable organized crime which accounts to about 7 to 10 billion dollars in international monetary transactions after the trade in drugs and trade in arms (Koolae, & Esfahani, 2014: 181). Especially after the 1990s in countries of the South of Caucasus, about 80% of the victims were women who were easily trafficked for slavery labor, housework or prostitution, with the latter accounting for about 70% of the cases. One of the leading causes of an increase in human trafficking is associated with ethnic conflict<sup>98</sup>

**Transnational networks** are the fourth most lucrative source for the warring parties in a war economy. According to Studdard, networks "include familial, kinship, occupational, and diaspora groups." (Studdard, 2004: 6). In the absence of the state's security and sustenance and provision for societal necessities, family networks, and clan networks become the primary providers of the essential goods and services. Moreover, according to Kaldor, another form of assistance includes diaspora remittances, diaspora's direct assistance, assistance from foreign governments, and humanitarian assistance (Kaldor, 2012: 110). **Diasporic** funding is an external form of assistance and usually plays a critical factor in helping to raise revenue and support for the warring parties, which can either be voluntary or collected through coercion. The diaspora groups from outside can contribute to the funding of military resources of warring groups, through remittances from abroad since the failed states are not able to increase

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<sup>97</sup> gangs are part of war economies types of actors who get involved with other actors such as rebel groups, state agencies, and democratically elected leaders (Peterson, 2014: 4).

<sup>98</sup>. Besides ethnic conflict, other significant challenges that Koolae & Esfahani find to intensify the phenomenon of human traffic is divided into five groups. "1) ethnic and territorial tensions and conflicts; 2) ineffective government and political instability; 3) social and economic underdevelopment; 4) transnational and organized crimes; and 5) foreign domination, especially the competition between regional and transnational powers; (Koolae & Esfahani, 2014: 184).

production and do not collect taxes from citizens. Diaspora also provides material assistance with money and arms to the paramilitary groups. Moreover, according to Studdard, the diasporas can become almost a quasi-state, especially in the peripheral areas of weak and unsupervised territory by the state authority and feed into the regional economic complex (Studdard, 2004: 7).

Lastly, war economy is also related to **corruption**, which is related to the abuse of power for personal gain, which is also a trigger of violence. Corruption creates insecurity and is a cause of inequality, which causes distrust in legitimate institutions of government. According to Hughes, "It is a major contributor to the social, cultural and economic decline of nation-states" (Hughes, 2010: 36). Moreover, some of the related activities to corruption which contribute to war economy are tax evasion, currency violations, illegal drug dealings, illegal gambling, harboring criminals, homicide, or violence.

Moreover, in the political economy approach, there is political violence, economic violence, violence for the provision of security to the perpetrators, and the psychological violence (Le Billon, 2000: 5). Besides the physical violence, the institutional violence is also in significant part serves to inflict damage on civilians.

### **2.3.– Why violence persists and perpetuates in failed states**

Just as the state building process, the development of shadow economy is also a process takes long-term consolidation, yet when shadow economy is relatively flexible and easily adaptable to new conditions which makes it extremely hard to put an end. The shadow economies can exist in both the developed world countries and in the developing world. While there are some approaches for dealing with the criminal entrepreneurs within the local state territory, the regional dynamic is even harder to combat. According to Studdard, the "shadow networks tend

to exploit regional ties that may undermine strategies aimed at war transformation”<sup>99</sup> (Studdard, 2014: 12). In the report on the *War Economies in a Regional Context: Overcoming the challenges of transformation*, the issue of the **regional networks** between warlords point to the main challenges that have often been most neglected by the international system. The emphasis is put on the regional context because the regional networks are composed of different heads of transnational criminal networks, which are hard to track down.

Neighboring states can also present interest in invading a failed state, through providing material support to rebel group for economic reasons. For instance, they also obtain valuable resources for trade and new smuggling routes. The regional conflict complexes are a variety of regional linkages among warring groups, which can be of four types of networks, military, economic, political and social, which create a web of connections that create alliances, among a broad type of actors. This web can pose threats to peacebuilding because of the fluidity of such networks which can alter their configuration among networks throughout the conflict, which, according to Kaysie Studdard, is a war transformation which requires:

A comprehensive approach to war transformation, in this sense, must take care not to dismiss regional war economies as a monolithic set of illicit undesirables. The malleability, resourcefulness, and deep-seated survival instincts of these tenacious actors are demonstrated in Sierra Leone and Bosnia and Herzegovina (Studdard, 2014: 14).

In the context of the new war, a possible solution for peaceful ceasefire and negotiations and which could potentially put an end to violent conflict among ethnic groups is to bring each side to the negotiation table to discuss the interests of everyone involved.<sup>100</sup> Therefore, it is essential that all key states and actors that represent civilians’ interest to be part of the peace negotiations, because conflicts are interconnected and should be a regional peace talk and to combine

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<sup>99</sup> That is the region can have several failed states which imperil the states with relative peace.

<sup>100</sup> The case of the Kosovo representatives not being added in the participation of the Dayton Peace Agreement, to be able to discuss the interests of state sovereignty and put an end to ethnic cleansing strategies and future acts of violence.

national resources with cutting on external aid. Besides, in countries such as Africa and Afghanistan, where conflict goods such as diamonds and drugs are present in vast quantities, regional negotiations should reach the whole region. Besides, the International community approach to solving regional criminal network dynamics is the implementation of sanctions. However, these have proved to be ineffective because as pointed to pace with which these networks can readapt their routes of illegal activity trade is faster when compared to the non-existent monitoring and weak enforcement of these sanctions. Be it the case of the imposition of sanctions as the diamond certificate system in West Africa, imposition of arms embargoes or imposition of sanctions on a state to pay compensation to any damage responsible for the neighbor state.

The war economy is a local, regional, and global issue. In the regional context, the war economy encompasses various failed, where regional parallel economic relations of trade of illicit goods and services bring revenue for the warring groups across easily permeable borders, with barely any central state control. The economic exploitation in failed states occurs the more the economic power gets out the state control, that is where factors such as corruption are present, high taxes, expansion of the shadow networks and criminal social networks undermine state power to the point that it becomes hard to combat the borderland issues. The challenge lies in constant monitoring and offering good enough incentive for these warring groups to invest in state-building capacities. It proves to be difficult to effectively combat regional warlords through the destruction of illicit networks without central state authority. The danger of the spread of these networks to neighboring states becomes even more probable that the more punitive policies are imposed on the warring groups.

In conclusion, the “new wars” political economy of war is difficult to end because there is a complex web involving social, regional, economic, political, and military networks. A common

issue in the “new wars” is that internal economic conflicts become not only local but also regional and transnational, tend to spread across borders into the neighboring states. Besides, the complexity of actors involved in criminal networks has proved to be highly malleable and resistant to new policy implementation by the international system. Therefore, the war economy trend of “new wars” dynamics allows for actors to sustain, perpetuate, and continue the conflict over decades. The warring actors broaden their illegal activities and promote insecurity within a larger territory. The spreading of conflict from one country affect the negatively the economic sphere, destroy social order, spur contestation for power and territory. Additionally, ethnic differences are a powerful resource for exploitation by illicit actors to keep economic power among other opponents in the dispute over the valuable natural resources within the region.

### Chapter III: Case study on Kosovo's war economy

Our most serious shortcoming – and here I refer to the entire international community – is our inability to prevent crises. The United Nations was born from war. Today we must be here for peace. — **Antonio Guterres, 2016**<sup>101</sup>

The war between Kosovo and Serbia from 1992 to 2001 was chosen as the case study to analyze the political economy in Kosovo and the effects of the shadow economy in the armed conflict and the Kosovo War. The case study on Kosovo serves as an example of a war economy which has developed and consolidated over decades. Shadow economy has been one of the leading factors in the Kosovo conflict. From the regional perspective, the countries in the Balkan region present with one of the largest shadow economies in Europe, which have developed well before the breakup of Yugoslavian Federation. In the case of Kosovo and its neighbor states, shadow economy is characterized by the emergence of mafia-style economy, the creation of parallel institutions and recurrence of violence. Such violence is usually caused by several factors of the shadow economy which are: a sudden outburst of violent civil war, ethnic collusion, elite corruption, weak government, state erosion, increased privatization, economic decline, political crisis, and social disorder. The focus of this chapter is to understand how the shadow economy leads to incentives in the perpetuation of violence, war and continued economic crisis.<sup>102</sup> Kosovo has many aspects related to the emergence of shadow economy and wide criminal activity, the multiplicity of actors and interests at play. It becomes relevant to focus

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<sup>101</sup> “Today in History: António Guterres sworn in as 9th UN Secretary General – United Nations.” *Portuguese American Journal*. (2016, December 14). Available at: <https://portuguese-american-journal.com/today-in-history-antonio-guterres-sworn-in-as-9th-un-secretary-general-united-nations/> (accessed 11/04/2019).

<sup>102</sup> According to Johan Galtung the concept of violence is “seen as the outcome of untransformed conflict.” Galtung, Johan & Webel, Charles, 2007: 14. Galtung puts emphasis on the relations between actors which can lead to peace if the conflict transformations happen on peaceful terms. However, violence happens when the conflict is negatively transformed or left untransformed. These transformations depend on the level of the compatibility of goals that antagonists pursue, hence the conflict and violence, which happen from an untransformed conflict (from a problematic relation), lead to the continuation of conflict (Galtung, Johan & Webel, Charles, 2007: 15).

on authors who provide special attention to the analysis of the economic aspects of the new war in Kosovo, besides the ethnic aspects of the conflict.

### **3.1 – Ethnic conflict in Kosovo and the way to war**

The Balkans is a richly populated region by a diversity of ethnic and religious groups. Multiculturalism have existed for centuries among different nations in the region and were able to coexist in times of relative peace. However, diversity is often a fuel in disputes for territory, and therefore the Balkans are part of these characteristics. The contemporary warfare in this region becomes a representation of ethnic conflict and among different ethnic groups for political ambitions. Moreover, because the illicit activity in the former Yugoslavian region is intense the political ambitions can spread conflict and danger for the population as a whole and for the entire region.

In Kosovo population consists of a majority in Albanian Kosovans and the lesser quantity in Serbian population. By 1991, Kosovo's population accounted for approximately 2 million, from which around (82%) were Albanians; (11%) Serbs and Montenegrins, (3%) Gorans; (2%) Roma gypsies and (2%) other minorities (Thomas, N., Mikulan, K., & Pavlović, D., 2013: 31). Added to this, language and religion are two cultural aspects that set apart the Albanian from the Serbian people.<sup>103</sup> Ethnic tensions and border division in Kosovo date back to the occupation of the Ottoman Empire.

The Kosovan population originated from the Malesija region and by the mid-eighteenth century began occupation of the Kosovo territory. The successful occupation by the Albanians resulted in the gradual decrease of the Serbian population after the Ottoman rule over Serbia (Gurr,

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<sup>103</sup> The Serbian population are Orthodox Christians and speak the Serbian language. The Albanian Kosovans are, on the other hand, of a different religion and speak a different language. Albanians are of Muslim religion and speak their specific language. (Bahador, 2007: 69).

2015: xi). The distribution of the Serbian population within Kosovo, has occupied the areas of the main city of Pristina and other areas mainly in the north of Kosovo near Serbian border.

During the rule of Yugoslavian one party leadership of Josip Bros Tito, Kosovo was an autonomous province of the Republic of Serbia and was conceded additional rights by the Yugoslav Constitution of 1974.<sup>104</sup> However, after the death of Josip Bros Tito, and the start of the dissolution of Yugoslavian Federation and the fragmentation of power brought back the power over the government in Kosovo and control over the Albanian representatives.

The Serbian Federation was at that time under the leadership of President Slobodan Milosevic.<sup>105</sup> The nationalist politics program by Milosevic was directed against Albanians, to take full control of Kosovo's territory through repression and diminish rights of the Albanian population such as the access to public institution and conducted massive imprisonment of Albanian in authoritative positions and politically engaged people in Kosovo.<sup>106</sup> According to Sorensen, from 1990 to 1992, "the Serbian Parliament passed several hundred laws that, in effect ended the autonomy of Kosovo in all spheres of life" (Sorensen, 2006: 335). Facing this situation, the Albanian Kosovans were convinced that by demanding independence from the Serbian Federation their rights and political life would be better without the Serbian oppressive rule and control over Kosovo.

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<sup>104</sup> Even though Kosovo was not proclaimed as a Republic, it had the same power as the other Yugoslavian Republics because of the rights conceded to Kosovo in the Constitution of 1984. At the same time, Kosovo had the power to conduct their own internal and foreign affairs, on the other hand, the undefined power of Serbia provided grounds for a potential disintegration of the Serbian Republic. "UNHCR CDR Background Paper on Refugees and Asylum Seekers from Kosovo." *UN High Commissioner for Refugees (UNHCR)*. 1996, February 1. Available at: <https://www.refworld.org/docid/3ae6a640c.html> (accessed 10/06/ 2019).

<sup>105</sup> Serb control over Kosovo became especially prominent with the leadership of the Serbian President Slobodan Milosevic, who was responsible for revoking the autonomous status of Kosovo in order to stop discrimination against the Serb population (Bahador, 2007: 69)

<sup>106</sup> PESNIC, Vesna. "Serbian Nationalism and the origins of the Yugoslav Crisis." *United States Institute of Peace*. 2015, January 27. Available at: [https://www.files.ethz.ch/isn/30963/1996\\_april\\_pwks8.pdf](https://www.files.ethz.ch/isn/30963/1996_april_pwks8.pdf) (accessed 5/5/2019).

However, demands for independence for Kosovo were ignored in the long run. Since all nations within Yugoslavia were hit by an economic crisis, the situation was also further worsened by this fact and the political consequences in Kosovo became the start of an escalation of a conflict to even worse consequences.<sup>107</sup> The Kosovo struggle only started to show its real character from the year 1995 which it is why this conflict was chosen as a case study for a deeper analysis of the causes of ongoing violence. Internal crisis can become devastating for a state if the political, economic and social spheres are in a situation of chaos. Therefore, consequences from this chaos arise to deal with this internal conflict in the contemporary setting of the post-Cold War period. Considering this setting it is important to focus on the development of the parallel state and life while addressing the internal conflict of a weak state. Internal crisis leads to illicit activities and easier involvement of the leaders with criminal networks and well as development of guerrilla like movements which use violent means to attain their objectives. Funding is a key to the persistence of conflict though the engagement in mafia style economies. In Kosovo, the creation of a parallel state was first pursued by the pro-Albanian leader, President Ibrahim Rugova of the Democratic League of Kosovo (LDK). His policy was directed at achieving independence for the Kosovo which then remained as a province of the Republic of Serbia.<sup>108</sup> Remarkably, Rugova was convinced that a policy of non-violent approach would eventually lead the conflict in Kosovo to peaceful negotiations (Bahador, 2007: 70). According to the *Independent*, Rugova advocated for a passive resistance of Gandhi-like tactics:

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<sup>107</sup> The Yugoslavian Federation's economic situation during the 1970s resulted in a decrease in exports and in the 1990s led to a rise in unemployment, defaults in salaries, poverty, and economic and social deterioration (Le Billon, 2000: 6). Also, the economic situation led to the emergence in criminal groups and parallel economy.

<sup>108</sup> The LDK was the key to the internationalization of the conflict by spreading their ideas to the diaspora circles, collected the 3% tax, built offices in the US and maintained a strong relationship with the US-based diaspora and conducted moderate politics during the 1989-1998 (Koinova, 2012).

The slaughterhouse is not the only form of struggle. There is no mass humiliation in Kosovo. We are organized and are operating as a state. It is easy to take to the streets and to head towards suicide, but wisdom lies in eluding a catastrophe. (*Independent*, 2013 April 29).

However, by the year of 1995, the independence for Kosovo was increasingly moving into the hands of a more radical group called the Kosovo Liberation Army. At the same time the conflict between Kosovo and Serbia, was getting out of hand while demands for independence by the Albanian Kosovars, were simply put aside and excluded from the Dayton Peace Agreement for Yugoslavia, but the U.N. General Assembly approved a resolution on the human rights violations.<sup>109</sup> Considering this aspect, it is important to address the Dayton Peace Agreement of the 1995, marked a radical shift in the policy of Kosovo's approach to the conflict against the Serbian Republic.

### **3.2. The Dayton Peace Agreement**

The Dayton Peace Agreement was an intervention because it failed to prevent the conflict in Kosovo and the subsequent casualties and damages of the conflict. Consequently, tension between Kosovo and the Serbian Republic had a radical escalation associated with the negotiations after the Dayton Agreement in 1995. An initial approach to the conflict led by President Ibrahim Rugova, was the more peaceful approach which turned to a more radical and violent approach led by the Kosovo Liberation Army. The period of 1995 was the turning point because this new approach led to the escalation of conflict between Kosovo and Serbia. Moreover, the radical approach served to attract significant international attention to the struggles of the conflict which were mainly seen as an ethnic struggle with many human rights

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<sup>109</sup> According to the Centre for documentation and Research, the "Dayton peace agreement for Yugoslavia, however, did not include the question of Kosovo because 'Clinton administration officials were reluctant to press the issue of Kosovo too hard'... In mid-December 1995, the Third Committee of the U.N. General Assembly approved a resolution on the human rights situation in Kosovo, strongly condemning the measures of discrimination against ethnic Albanians... (A/C.3/50/L43, 5 December 1995)." "UNHCR CDR Background Paper on Refugees and Asylum Seekers from Kosovo." *UN High Commissioner for Refugees (UNHCR)*. 1996, February 1. Available at: <https://www.refworld.org/docid/3ae6a640c.html> [accessed 10/09/ 2019]

violations. By 1995, Kosovo reached a consolidated parallel life, which enabled to pursue political goals financed by parallel activity. Consequently, the conflict turned out to have gained incentives to a more radical approach, according to Peterson, "committed to using violence to achieve political ends" (Peterson, 2014: 73).

The Dayton Peace Agreement (DPA) initiated in November 1995. It was intended to reach a ceasefire between the Republic of Bosnia and Herzegovina, the Republic of Croatia and the Federal Republic of Yugoslavia.<sup>110</sup> The agreement was successful for ending the conflict that lasted four years in which 100,000 were killed and half of the Bosnia's' population displaced (Pasic, 2015). However, one of the mistakes of the DPA was that it encouraged a guerilla group in Kosovo to pursue a more violent approach to the conflict with Serbia. In order to make themselves heard, Kosovo's independence was a goal pursued through violent means and so would play a role in capturing attention to the conflict against Serbian domination over Kosovo.<sup>111</sup> The KLA movement was inclined to bring Kosovo's struggle to international awareness.<sup>112</sup> The aftermath of the DPA had this effect on Kosovo's approach, and as Sorensen adds "if they wanted to receive attention from the international community, they had to produce war and a humanitarian crisis, as in Bosnia" (Sorensen, 2006: 342).

Moreover, another mistake of the DPA negotiations tables was that there was no Albanian Kosovan representative to negotiate on the Kosovo struggle. The parties that signed the agreement included Alija Izetbegovic, Franjo Tduiman and Slobodan Milosevic, respectively

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<sup>110</sup> "General Framework Agreement for Peace in Bosnia and Herzegovina." (1995, November 21). Available at: <https://www.state.gov/p/eur/rls/or/dayton/52577.htm> (accessed 10/06/2019).

<sup>111</sup> The armed clashed between the KLA against the Serbian authorities started during the 1996, and in 1998, clashes transformed into guerilla warfare, which served to attract attention to the conflict which involved killing of Serbian authorities in Drenica region (Bahador, 2007 :70).

<sup>112</sup> In the "new wars" the aspect of the new forms of communications is key in bringing awareness to violent conflict. Communications allow for rapid propagation of images and video of the incidents. In this case, the objective of a radical group is to reveal the conflict as a cause of exclusive politics. Therefore, with the media coverage, the actors involved in the violent conflict have the power to mobilize support around them by documenting atrocities and bringing them to international awareness. As Kaldor argues, "communications are increasingly a tool of war, it makes it easier to spread fear and panic" ( Kaldor, 2012: 205).

by the representatives of the Republic of Bosnia, the Republic of Croatia and the Republic of Serbia. While Kosovo's struggle was left unattended by the UNO after the Dayton Agreement, President Milosevic felt confident to "pursue a policy of ethnic cleansing and repression in Kosovo" (Sorensen, 2014: 73). As the conflict proceeded in the following years, violent retaliations became common and have affected the opinions of the international public concerning military intervention in Kosovo. Therefore, the analysis of the Kosovo conflict focusses on the criminal activities of a mafia-style economy and the actors which play a role in Kosovo's war economy.

### **3.3. The flows and complexity of actors in Kosovo**

To better understand the dynamics of the war economy in Kosovo, we must pay attention to the complexity of actors and interests at play. In chapter I, Kaldor explains the factors attributed to the persistence of violence in the context of "new wars". The actors in the contemporary wars consist of both internal and external actors. When the number and the range of actors involved increase in a conflict such as the Kosovo's case, the harder it is to put end to violence. In the study of the "new wars", Mary Kaldor put emphasizes on this aspect because the complexity of actors become a significant issue in conflicts. There is resistance against ending the conflict because so many interests coexist at the same time.

According to Peterson, the war economy in Kosovo is characterized by a complexity of interests. In the following graphic Peterson relates actors to their economic motivations and activities related to Kosovo's war economy. Peterson finds that international organizations such as NATO/UN and the western governments were engaged and willing to provide help in the war in Kosovo because it allowed them to keep protection over the peacekeeping investments

in the region.<sup>113</sup> For instance, the financial and military gains in the Balkan region have already taken place in the case of the deployment of the troops in Bosnia and Herzegovina after the Dayton Peace Agreement in 1995 in order to be able to put end to violent situation between the newly created entities.<sup>114</sup> Therefore, with the case of Kosovo,<sup>115</sup> the international organizations looked forward to keep protection over the financial and military gains from the given protection to the Balkan region. According to Patterson, the logic of protection is that Kosovo's region is no exception, because as studied in the chapter II, a destabilized area can affect the rest because the conflict tends to spread across borders.

Besides, Western governments and MNC's, private military or security companies are economically motivated in the region because these actors want to ensure the safety of the route of oil through the Caspian sea (Peterson, 2014: 73). At the same time, private security actors, provide with the arms sales, military/security contracts. Therefore, Private Military Security Companies (PMSCs) also play an increasingly influential role the duration of conflicts.<sup>116</sup> Privatized Military Industry is known to provide training and arms to KLA group in Kosovo and is known to have contributed to an escalation of the conflict in Kosovo.<sup>117</sup> However, the PMSC's contributed to a significant turn of events for Bosnia, Croatia and Kosovo, as the

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<sup>113</sup> According to Hentges & Coicaud, J, the "costs of peacekeeping operations throughout the 1990s reached a total of \$19.9 billion...As, such the budget of peacekeeping operations during the 1990s far exceeded the regular budget of the United Nations, which did not surpass \$13.7 billion between 1991 and 2000." (Hentges, H., & Coicaud, J. (2002).

<sup>114</sup> After the important Dayton Peace Agreement, the investments meant to stopping the armed forces from clashes and divide territory between the Federation of Bosnia and Herzegovina and Republika Srpska. "Security thought Partnership: Peace-support operations" NATO On-line library, 2006, Feb. 02. Available at: [https://www.nato.int/docu/sec-partnership/html\\_en/nato\\_secur06.html](https://www.nato.int/docu/sec-partnership/html_en/nato_secur06.html)

<sup>115</sup> The UN peacekeeping mission in Kosovo was conducted in 1999. One of the main achievements of this operation according to Hentges, H., & Coicaud, J, is that the: UN Mission in Kosovo (UNMIK) and the Kosovo Force (KFOR) deserve credit for demilitarizing the Kosovo Liberation Army (KLA) and preventing civil war between supporters of the KLA and Ibrahim Rugova's League of Democrats of Kosovo (LDK), which threatened to break out in the chaotic and violent conditions of post-war Kosovo (Hentges, H., & Coicaud, J.,2002: 363).

<sup>116</sup> PMSC's conduct the business of military provision in arms, military and security contracts on favorable terms. The military industry is known to be the most profiting industry in such conflicts.

<sup>117</sup> The KLA armed group received Military Professional Resources Incorporated (MPRI) training. This training was conducted under the command of General Agim Ceku, who was former General of the Croatian army. He also planned a major ethnic cleansing of Croatian Serbs Carter, G. (2018, June 29). "The Role of MPRI and the U.S. connection to the KLA." Retrieved from <https://mightynose.wordpress.com/2013/03/08/the-role-of-mpri-and-the-u-s-connection-to-the-kla/> (7/05/2019).

military training provision by these private security companies also established a balance of power against the Serbian Republic. (Mohlin, 2014: 25).

Moreover, the northern area of Kosovo, the Serbia, and Kosovo have disputed control over, according to Peterson "the largest mineral deposit in the region including zinc, lignite, and coal" (Peterson, 2014: 74). The Trepca mineral which contains about 40 mines and factories today deposit has also been the reason for a dispute. It is situated at the north of Kosovo near the border with Serbia. After Tito's death, the authority in Belgrade monopolized the exports of the production of minerals and took away an important source of economic development from Albanian Kosovan. Once the Serbian authorities took control over the mineral deposit, Albanian Kosovar workers were expelled, creating vast unemployment<sup>118</sup>

The war economy was also exacerbated by the implementation of sanctions directed against the Yugoslavian Federation.<sup>119</sup> In order to mitigate the conflict, international sanctions were imposed to prevent from armed violent conflict. The imposition of arms embargo was meant to give an incentive for all sides to choose to negotiate on peaceful terms. However, these sanctions also caused unemployment, extreme inflation, which consequently, made essential services unaffordable for most of the population.<sup>120</sup> Serbian side was considered as the main culprit for starting the conflict because Serbia opposed to the creation of separate identities in the FRY. That, is the Serbian minorities within Yugoslavia was composed mostly by Serbian ethnic groups, which accounted according to the Thomas S. Szayna, to about 36,30%, while in Bosnia-Herzegovina the Serbian population was about 32,02% in comparison to the Muslim

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<sup>118</sup> "Trepca: Making Sense of the Labyrinth." *International Crisis Group (ICG)*, 1999 November, 26. Available at: <https://www.refworld.org/docid/3ae6a6de8.html> (accessed 19/05/2019).

<sup>119</sup> GARFIELD, R. (2003). "Sanctions and the Federal Republic of Yugoslavia: assessing impacts and drawing lessons." *HPN*. Available at: <https://odihpn.org/magazine/sanctions-and-the-federal-republic-of-yugoslavia-assessing-impacts-and-drawing-lessons/> (accessed 10/07/2019).

<sup>120</sup> According to Peterson "sanctions, and the effect they had on the availability of goods, led to inflation of 1000 by 1993" (Peterson, 2014: 74).

population of about 39,52%.<sup>121</sup> The considerable number of Serbian populations everywhere in Yugoslavia, constituted a resistance force against the forming of the new identities by undergoing the process to independence. As the Serbian nationalism grew the more ethnic cleansing became a method of violence against innocent people. Therefore, harsh sanctions were imposed on the Serbs, according to Hejsek:

Economic sanctions of May 1992, which UN Security Council a year later made stricter and expanded to the territory controlled by Serbs in Croatia and Bosnia, prohibited total export from the FRY and de facto prevent total imports to the FRY together with the transit of good through the territory of Serbia and Montenegro (Hejsek, 2012: 3).

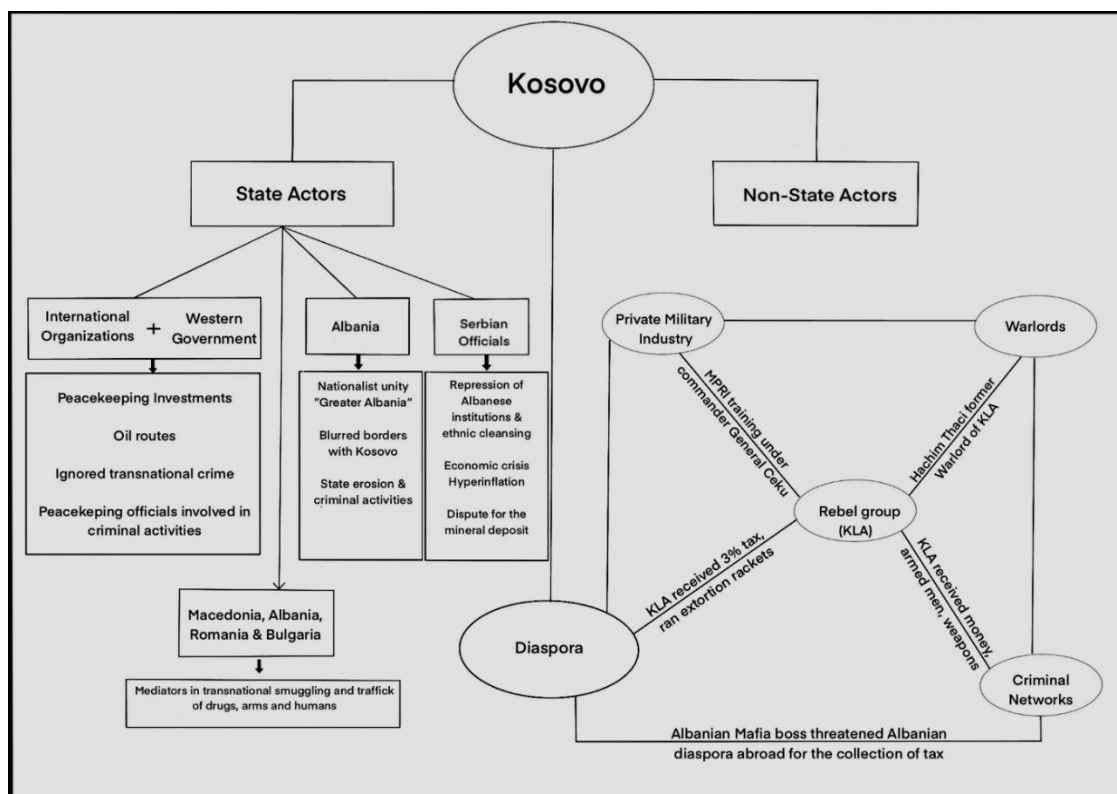
The table below represents the economic motivations of different actors discussed above.

Actors	Economic motivations or activities
International organisations (NATO/UN) and western governments	Protection of peacekeeping investments already made Installation of neo-liberal economic regimes
Western governments and MNCs, private military companies/private security companies	Ensuring safe route for oil from Caspian sea westwards Arms sales, military/security contracts
Serbia and Kosovo	Control over mineral deposits in Kosovo (Trepča mining complex)
Serbian officials, organised crime groups, informal traders, various foreign actors	Sanctions-busting: provision of oil, medical supplies, luxury goods for profit, and the consolidation of political power
KLA and Diaspora	'Homeland is Calling' fund to support KLA
KLA and organised crime groups	Drug smuggling, extortion/protection rackets, human smuggling for profit and to support armed uprising
Informal traders and citizens throughout region and internationally	Smuggling as a form of employment/livelihood strategy; 3% tax

Source: Peterson, 2014: 76

<sup>121</sup> Additionally, the other most populated regions in Yugoslavia by the Serbian minority, were in Serbia's two autonomous provinces of Kosovo (13,22%) and Vojvodina (54,42); In Croatia (11,55%), with Bosnia-Herzegovina with the biggest percentage and therefore, ethnic conflict broke into a violent war which ended in the Dayton Peace Agreement in 1995. (Szayna, Thomas, S. 2000).

Considering that the situation within the Federation of Yugoslavia was on the verge of war, sanctions, economic crisis, and precarious conditions, a commercial war economy started to develop, where political groups and rebel groups started to amass wealth for private benefit. For instance, KLA received the called *Homeland is Calling* fund to support KLA activity. KLA maintained relations with organized crime groups from which drug smuggling, extortion and protection rackets and human smuggling supported armed uprisings. For many, smuggling was a way of earning money to survive. While many people joined the KLA movement to fight for Kosovo's independence, the KLA movement also became a way of life and survival. (Peterson, 2014: 76). Additionally, the funding for the *Homeland is Calling* fund came from a collection of 3% tax from Albanian diaspora.<sup>122</sup>



Source: graphic elaborated by me

<sup>122</sup> The 3 % tax was created by the Kosovo government in exile, with the funds coming mainly from Western Europe and North America. The 3% tax was requested from Kosovans living abroad, to contribute from their incomes into the fund called Homeland is calling, which was established in 1998-1999 to fund the KLA. DEMI, Argon. 2018, April 19. "How to build a parallel state". Prishtina Insight. Available at: <https://prishtinainsight.com/build-parallel-state-mag/> (accessed 4/05/ 2019).

In Kosovo and Serbia, as well as in Croatia, Bosnia-Herzegovina, the emergence of the non-state armed actors, such as rebel groups, criminal networks, warlords and militias were involved in smuggling activities, both as a way of survival and to conduct armed resistance. Kosovo was the least developed area and therefore, it was highly dependent of the subsistence agriculture, diaspora support and the grey economy. Besides it is often the case of the non-state actors working as a supporting tool for the state actors. These dynamics between the flows of the actors in the Kosovo war economy are represented in the **graphic** in the previous page: From the graphic above, we can see that in Kosovo there are both, the State Actors situated on the left and the Non-state Actors situated on the right. The **State Actors** are divided in the five boxes. The first part is the *International Organizations + the Western Governments* box showing the main activities and motivation involving the Kosovo's conflict, explained before according to Jenny Patterson from the article *Building a Peace Economy*. The second box represents the Republic of Albania and its motivations. For instance, as it will be explained later, its intentions for including Kosovo into the formation of a "Greater Albania". Also, another important point is that the burring of borders between Kosovo and Albania made criminal activities and arms trade easy for the KLA. The third box represents the Serbian Officials, seen as the main aggressors in Kosovo and as a cause for economic underdevelopment in Kosovo (such as the economic hyperinflation and disputes over the region's natural resource mines). Lastly, on the left side, the fifth box represents the other regional countries such as Macedonia<sup>123</sup>, Romania<sup>124</sup> and Bulgaria, including Albania, who engaged in and facilitated the criminal activities related to Kosovo.

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<sup>123</sup> Macedonia's economy was limited to the exports to Serbia after the war with Croatia and Bosnia-Herzegovina, and so illegal arms trade was the activity with involvement of state ministers (Hajdinjak, 2002: 17).

<sup>124</sup> In Romania, the economic decline was attributed to the Ceausescu's authoritarianism, also created conditions for the development of a black market, in which cigarettes, drugs, arms were practiced beyond borders, especially the export in arms across Yugoslavia, by the secret police forces called *Securitate* (Hajdinjak, 2002: 20).

However, there is a distinction from the state actors and the non-state actors, and the later are equally important in the understanding of the Kosovo conflict. As we have seen, the above actors are *State Actors* because they are defined state entities, which means they are nation-state actors that contain the monopoly of violence and uphold basic functions such as maintaining security services for its national protection of the territory and for protecting its national interests (Grassiani & Ben-Ari, 2011: 7). On the contrary, *Non-State Actors (NSA's)*, are separate from the state entities. However, their organization is political in nature and they have greatly affected the state's internal affairs post-Cold War period. Intrastate conflicts within a weakened state results out of the non-state actors "bargaining between antagonists" (Pearlman & Cunningham, 2012: 3). Non-state Actors are also dominant in the conflict because they have affected the destiny and the duration of the conflict in Kosovo. According to the graphic, on the right side, the *Non-state actors* can be identified in warlords (Hachim Thaci), illegitimate armed groups (KLA), private security companies (Private Military Industries), criminal networks, as well as, diasporas. For instance, the rebel groups (KLA) received its support from various non-state actors such as from the Private Military Industry provided with MPRI training under the General Ceku for the warlord, Hachim Thaci.<sup>125</sup> On the other hand, the criminal networks provided with money, armed men and weapons to KLA in addition to the financial help and support from the diaspora situated in the Western countries. As Kaldor and Munkler argue, the emergence of NSAs is related to the globalization process, in which, the free flow of people and goods, the erosion of the state and blurred borders, open more opportunities in the development of large shadow economies.

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<sup>125</sup> Hashim Thaci, was born in the Drenica valley, in the west of Pristina where KLA group was formed, is an influential figure in politics, also a leader of the KLA. He was the Prime-Minister in Kosovo (2008-14) and is currently the President of Kosovo since 2016. He is allegedly considered to have been involved in organized crime. ANDREJEVICH, Milan. "Hashim Thaçi, President of Kosovo." *Encyclopedia Britannica*. 2019, June 21. <https://www.britannica.com/biography/Hashim-Thaci> (retrieved on 11/05/2019).

### 3.4. The causes and development of the shadow economy in Serbia and Kosovo

In the 1990s, there was an active merging between the political elite and organized crime and grey economy had already spread to the least developed areas previously to the Yugoslavian War.<sup>126</sup> The parallel economy was created as an alternative system and offer alternative protection against the deteriorating rule of law. From the parallel system, the political elites could extract revenues to pursue political activities. Moreover, as we seen in the last chapter, a parallel economy can survive if it receives funding from illegal activities thought the regional and transnational networks. Transnational networks are known to be complex and extremely flexible in their reconfiguration of criminal channels and for their difficult to identify the leaders of these networks. According to Sorensen, the phenomenon of the illiberal economy has often been ignored when analyzing such conflicts. Therefore, the aspect of the shadow economy is important to analyze, because as Sorensen argues:

the considerable consolidation of illiberal economies in Serbia and Kosovo (as elsewhere in the post-Yugoslavian space) have been intimately connected to politics, political violence and conflict in the region and produced a transformation of wealth and resources. (Sorensen, 2006: 317).

Circumstances in Serbia were marked by war, sanctions, economic crisis, high hyperinflation, refugee crisis and the authoritarianism of Slobodan Milosevic. Besides, another indication of being a weak state is the collapse of the legal system and criminalization of economy (Sorensen, 2006: 329).<sup>127</sup> As we have seen, Kaldor also focuses on the problem of a failing state as source for both violent conflict and the development of illegal economic networks. Therefore, in the Republic of Serbia met all the conditions of a weak state in a period of economic decline.

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<sup>126</sup> Grey economy is the type of economy that includes both informal and formal activities, which is often practiced when there is "inadequate means of legal enforcement" (Krasniqi & Topxhiu, 2012: 7).

<sup>127</sup> According to Sorensen "Serbian society in the 1990s, with hyperinflation, war and sanction, experienced a large-scale breakdown of the legal system in which the state led the way, and the economy was severely criminalized." (Sorensen, 2006: 328).

The economic crisis was exacerbated by sanctions because they contributed to the decline of the Serbian economy and from this point there was an especially rapid increase in the grey economy and black market. According to Michael Pugh, the sanctions gave way to organized crime which "opened up new opportunities and incentive structures for ruthless, predatory and socially destabilizing mafia networks and corrupt rentiers to gain from clientelism" (Pugh, 2006: 120). Moreover, the economic crisis spread affected Kosovo during 1993 to 1999s. Therefore, it became increasingly evident that the trade of illegal goods and services were an option in order to survive throughout this period. As a result, during the 1990s, the economic crisis in Serbia forced people to choose either engage in grey and the black sector or to emigrate to another country (Sorensen, 2006: 331). Any immigrant that came to Serbia would also serve as a source of cheap labor inside Serbia. <sup>128</sup>

Considering these consequences, there was a need for the creation of a parallel economy. According to Sorensen, around 270, 000 new private enterprises were registered under Milosevic's government. This new parallel economic, social, legal institutions created new opportunities for the new group of emergent entrepreneurs.<sup>129</sup> The several groups engaged in the illicit activity in Serbia, which is characterized as a mixture of a grey and black economy.

<sup>130</sup> Illicit activities were often under direct state control and its top officials. The financing from the revenue of the trans-border trade did not go directly to the federal government. Instead, revenue was controlled by the Head of Customs and sent to the State Security Police.

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<sup>128</sup> According to Sorensen, Serbia "received an influx of between 600,000 and 1,000,000 refugees from Bosnia, Croatia and Kosovo, which due to their uncertain situation provided a further recruiting base for cheap labor in the black-market sector." (Sorensen, 2006: 330).

<sup>129</sup> During the 1990s, Serbia was considered as a kleptocracy, in which a small percentage of the population grew very rich (1-2%) in contrast to the majority which remained very poor and was reliant on the grey and black economic activities. (Sorensen, 2006 :322). In this period, a new middle class of private entrepreneurs was emerging out of the opportunities created from war and sanctions and was able to accumulate capital out of illegal channels. According to Miladen Lazic, these emergent entrepreneurs were the ruling group of Serbia, under Slobodan Milosevic's rule, that were able to control the most important economic resources (Lazic, 2015: 535). According to Lazic these new economic elite was divided in three subgroups: "members of the *nomenklatura*, 'wartime entrepreneurs', and people from middle strata" (Lazic, 2015: 540).

<sup>130</sup> The illicit activity involved the smuggling of petrol, smuggling of cigarettes, pharmaceuticals, narcotics, human trafficking.

The State Security Police worked in connection with the command of President Slobodan Milosevic, to finance armed activities against Kosovo. For instance, the revenues were connected to the financing of select units, known as the "Red Beret", who were provided with the best equipment.<sup>131</sup> These specialized units were formed by criminals, who conducted operations such as ethnic cleansing in Kosovo (Sorensen, 2006: 329). Beside ethnic cleansing, there was large-scale looting of the house property from the Albanian Kosovans and even from the Serbian people in Kosovo. According to Sorensen, these operations were “undertaken by paramilitary groups to supply themselves and their patrons with resources” (Sorensen, 2006: 329).

### **3.4.1. Independence Claims**

The 1990s was a period characterized by high unemployment to about 20%, with 60% of the Yugoslav population living at below poverty line (Pugh, 2006: 118). The cause for inflation was the inadequate economic policy approach in time of crisis, which was based on a system of one-party political system, a nonmarket economic system and discretionary economic policy. Yugoslavia’s external debt led to hyperinflation throughout the 70s and 80s, and by 1991, the external debt reached about \$20 billion. According to Predrag Rajsic:

Despite the pumping of huge amounts of foreign funds into the country, household income declined sharply in the second half of the 1970s. The annual inflation rate was measured by two-digit numbers, and a few years before Tito’s death, it accelerated and reached 40 percent per year (Rajsic, 2014).

Yugoslavian economic situation was already showing signs of no developments in the future, leaving the Republics in a continued struggle. Inflation further grew worse after Milosevic’s Parliament secretly ordering the Serbian National Bank to issue \$1.4 billion in credits, which

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<sup>131</sup> These select units were led by Milorad Ulemik-Lukovic. The ‘Frenki’s Boy’, or ‘Red Berets’ were an army group in Kosovo.

destroyed the economy in the then Yugoslavian Federation (Hanke, 1999). Also, during the 1990s, economic crisis and the repression from the Serbian regime over Kosovo led to the development of a parallel system which have similarly worked as a survival strategy and provided funding for the armed groups against Serbia. In Kosovo, the GDP decreased to 50% until 1994. One of the main consequences of the decrease in the GDP is that the increase in the provision of necessities to people are not satisfied and there are no economic conditions that could promote a strong state, stability, economic and financial flows of the trade in the formal economy. A high unemployment is a strong indicator of issues in weak states, where there are low salaries and incentives to join the shadow economy. In addition, these worsening conditions were accompanied by the rule of the President Slobodan Milosevic, who used violent means to suppress the Albanian majority in Kosovo (Bahador, 2007:80 xxi). According to Peterson, parallel political economy in Kosovo was caused by two key triggers: the decisions taken by the Serbian Parliament and the “increase of the Serbian state control over Kosovo” (Peterson, 2014: 71). Milosevic stripped Kosovo of its autonomous rights in 1987 to have more control over Kosovo.

However, at that time Kosovo’s majority were Albanians, while Serbs were a minority. Milosevic wanted to undergo ethnic cleansing in Kosovo, and the violations against the Serbian minority in Kosovo was considered as a pretext used by Milosevic to deny Kosovo’s autonomy. During the 1990s, the representatives of the Provincial Assembly demanded for Kosovo Independence.<sup>132</sup> In 1991 there was a referendum for independence and presidential elections in 1992. However, in these elections the Serbian government sent an order to arrest the elected Albanian leaders for the attempt to create a ‘Republic’ in Kosovo.

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<sup>132</sup> In the aftermath of the elections and the independence claims, the Serbian authorities arrested LDK members.

Nevertheless, Kosovo's Albanian leader **Ibrahim Rugova** was responsible for creating an "alternative political structure and government" which could be built outside the Serbian polity. (Sorensen: 2006, 334). Rugova was a dedicated to the Albanian studies ,which had a “focus on the growing ethnic Albanian opposition to Serbian rule” (Prentice, 2006). His political program was uncontested and because other Kosovar political parties did not have a strong national program as LDK. Therefore, LDK became a hegemonic party which supported a parallel society for Albanians.<sup>133</sup> Only later, after the 1995, did the KLA challenge LDK leadership, and put forward an alternative strategy. According to the article “Unifying the Kosovar Factions: The Way Forward”: “Kosovo Albanians could no longer continue to support Rugova's stance and that a more active resistance to the situation was needed” (*International Crisis Group*, 1999, Mar 12).<sup>134</sup>

However, Independence claims for Kosovo Albanians started during the period when the political party's leader Ibrahim Rugova, became the president of the self-declared “Republic of Kosovo”. Since its status was not recognized, Kosovo became a parallel state, a project of funding and support for the Albanian institutions in Kosovo, which was possible under the leadership of the LDK party. According to the article “Yugoslavia: Information on the Democratic League of Kosovo (LDK).”:

The LDK obtained 76.44 per cent of the vote, which translated into 96 seats in the 140-seat assembly. Fourteen seats reserved Kosovo's ethnic Serbian minority remained empty as a result of their boycott of the vote” (*Canada: Immigration and Refugee Board of Canada*, 1994, May 1).<sup>135</sup>

The parallel system meant that underground institutions were created and separated from state institutions, which existed in Kosovo before the 1990s (Sorensen: 2006, 334). For society to

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<sup>133</sup> LDK promoted an ethnic society', rather than 'civil society' (Sorensen, 2006: 333). The parallel society focused on creating Albanian institutions in Kosovo.

<sup>134</sup> Vide: <https://reliefweb.int/report/albania/unifying-kosovar-factions-way-forward>

<sup>135</sup> Vide: <https://www.refworld.org/docid/3ae6aad498.html> (accessed 17/05/2019).

survive and function, Kosovo parallel economy and society were dependent on international and transnational networks. LDK was responsible for the creation of the parallel institutions which were funded through the creation of the Central Council for Financing in Kosovo (KQFK) in 1992. In addition, a 3% tax came from the diaspora, from which, about 111,5 million were gathered in Duetsche mark. (Demi, 2018 April 19). Therefore, it was possible to develop, according to Sorensen "complete or partial networks of social, political, union, healthcare, sports, media, and cultural associations" (Sorensen, 2006: 335).<sup>136</sup> Besides, the parallel structures were a form of protection for the Albanians in Kosovo, as life conditions worsened in all sectors of society (i.e. poor medical assistance and poor supply of pharmaceutical supplies), the population was reliant 20% on humanitarian aid as another 20% fled Kosovo (Sorensen, 2006: 336).

According to Kaldor (2014), the significant factors that played a critical role in the case of Kosovo Albanians to financing of the parallel economy, was the **diaspora**.<sup>137</sup> The Albanian Kosovan diaspora was mainly localized in Germany and Switzerland (Kaldor, 2014: 89). Also, according to Sorensen, the diaspora "played a crucial role in lobbying for the Albanian 'cause', as well as in the financing of political parties, organizations and parallel institutions" (Sorensen, 2006: 339). For instance, finance would then come from the creation of a 'state treasury' for the Republic of Kosovo, established in Switzerland", where large Albanian group sent money back to their families (Sorensen, 2006: 334). Diaspora solidary money was an essential source of income for the families that lived in Kosovo. These remittances came mainly from Western Europe and the USA, but also from Croatia and Macedonia and Kosovo itself<sup>138</sup>, as well as for

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<sup>136</sup> They also had to create a parallel University for the students, which were expelled from the University of Pristina by the Serbs. Albanian Kosovars had to create networks of primary and secondary schools as well.

<sup>137</sup> The Albanian diaspora was primarily distributed in Western countries (Switzerland between 30, 000 - 100,000; Germany with more than 100,000; USA between 250,000 – 500,000) (Sorensen: 2006, 339).

<sup>138</sup> The parallel institutions were financed by a system through a parallel tax system which collected 3% of income tax from Albanians working abroad and in Kosovo, also from Albanians in Macedonia. The collection of taxes was entirely voluntary, yet pressure was used to pay these taxes with personal visits to collect the taxes.

Albanian humanitarian organizations.<sup>139</sup> Later, the diaspora helped finance the KLA, whose remittances alone amounted to around \$163 million, which came mainly from the diaspora living in North America and Western Europe (Peterson, 2014, 77). Besides diaspora transfers, the **smuggling of drugs**, according to Sorensen constituted “the most important pillar in financing the parallel institutions in Kosovo through the 1990s” (Sorensen, 2006: 336).<sup>140</sup>

<b>Paradoxical Serbian – Albanian pax mafiosa (Stratazzi, 2006: 145)</b>	
<p><b>Zeljko Ražnatović (Arkan &amp; Darko Asanin)</b> (Serbian criminal boss and a paramilitary chief) &amp; <b>Momcilo Mandić</b> (member of the Karadzic government in Rep. Serbia) &amp; <b>Enver Hajin</b> (Albanian criminal boss operating around the Skhoder lake)</p>	<ul style="list-style-type: none"> <li>• The flux of heroin from Plovnic (Bulgaria) society was controlled by an Albanese mafia boss (Nazim Delegu) → known to have expanded former Yugoslavian territories (Stratazzi, 2006: 146). While the Serbian boss (Arkan) schemed the “protection of the route through Bulgaria, Serbia, Budapest, and Bratislava” (Pught, 2006: 1118).</li> <li>• The evidence according to Stratazzi is that “In December 1996, at the border post of Dimitrovgrad-Gradina, the Yugoslav police intercepted 365 kilograms of heroin on board a truck carrying green peppers from Plovdiv.” Stratazzi, 2006:145).</li> <li>• Lake Skholder: two hundred boats (fuel smuggling) during the 1993-1994, worth \$1 million/day;</li> </ul>
<p><b>Italian ‘Ndrangheta’ Mafia</b> &amp; <b>Kosovar Mafia</b> (emerged between 1995-1998)</p>	<ul style="list-style-type: none"> <li>• Heroin trade controlled by the so-called <i>15 Families</i>, territorially divided clans; who were part of KLA.</li> <li>• Kosovo Albanians asserted control of the heroin traffic</li> <li>• Kosovo was linked to the Adriatic sea ports &amp; became the center of the transport of the heroin traffic from Turkey;</li> <li>• seventy percent of heroin was sold to Germany, Austria, Switzerland and Check Rep.</li> <li>• The profits from the heroin trade were about \$250 million (Peterson, 2014: 76).</li> </ul>

Table elaborated by me based on (Stratazzi 2006: 145), (Peterson, 2014: 76) and (Pugh, 2006: 76).

<sup>139</sup> The Albanian structure relied on community solidarity and diaspora remittance. According to Sorensen "at least 30% of Kosovo Albanians depended on direct support from their relatives abroad" (Sorensen: 2006, 336).

<sup>140</sup> Also, financial gains obtained from different forms of smuggling was transferred as diaspora remittances into Kosovo. (Sorensen, 2006: 336).

The table above portrays the individuals and their criminal organizations and relations to the criminal activities within Kosovo and how funding was obtained to help support the rebel group, KLA. As we have seen before, the development of a parallel system, promoted the emergence of a *pax mafiosa*. The *pax mafiosa* was a reciprocal relation among three criminals between “Zeljko Ražnatović (Arkan) in Serbia; Momcilo Mandić, a member of the Karadžić government in Republika šrpska; and Enver Hajin of the Albania Secret Police” (Pugh, 2006: 118). According to Edgardo Rotman, in the Journal on the “Globalization of Criminal Violence” the concept of *pax mafiosa*, which is theorized by Claire Sterling, means that organized crime is a multilateral agreement between the crime syndicates from all around the world, and that now they constitute a new criminal class that have, at least, spread on a transnational level (Rotman, 2000: 17). According to Stratazzi, there was a *pax mafiosa* in Kosovo, where a cooperation among the Albanian mafia bosses and the Serbian mafia bosses was discovered through the apprehension of the heroin trade, such as the case mentioned by Francesco Stratazzi, in December of 1996. Besides this cooperation, the Albanian Kosovars were able to control heroin traffic by establishing networks with Italian ‘*Ndrangheta*’ Mafia, allowing to make profit in approximately \$250 million in the trade of drugs sold to western European countries.

In addition, because of the consolidation of illicit activity that provided with funding and enough capabilities, the KLA armed group was able to keep some control over Pristina from the Serbian armed forces. However, provocation from both sides of the conflict developed in a violent conflict during 1998-1999. For instance, after the collapse in 1990s of the Albanian state, Tirana’s central government lost control over borders and it became easier for Albanians in Kosovo to get guns and ammunition into Kosovo for a cheap price<sup>141</sup>. Therefore, it is argued

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<sup>141</sup> According to Peterson “unlimited supply of cheap weapons became readily available to emerging armed groups in Kosovo” (Peterson, 2014: 73).

that KLA was at the same time a militant movement for the Kosovo independence against Serbian control. However, the emergence of the movement also coincided with the increase in criminal networks, smuggling, trafficking of drugs, weapon, and humans.<sup>142</sup> The provision of cheap ammunition and weapons was only part of the Albanian contribution to the Kosovo armed group. There was in fact an active mafia networks among Kosovo, Serbia, Albania and Macedonia.

### **3.4.2. The role of the Albanian Mafia**

The parallel economy also relies on the transnational networks, which operate beyond Kosovo borders, and money from criminal activities circulated among different regions of "Albanian lands" (Albania proper, Kosovo, Macedonia.) (Sorensen, 2006: 338). Smuggling and organized crime were the most profitable activity, and these included the smuggling of drugs. According to the following passage:

The Albanian Mafia operates in all fields of smuggling, including arms, human trafficking, cigarette smuggling, and narcotics (heroin, cocaine, synthetic drugs, and cannabis). Some estimates suggest that the value of this is about US\$2 billion per year (Sorensen, 2006: 337).

The Albanian criminal networks were most active in Europe and the USA. Criminal activities which brought the most financial profit were drugs and arms trade. Albanian mafia had access too cheap arms and explosives and traded these to the Italian mafia. The trade of small arms proved to be a profitable business, as well as human trafficking and prostitution worth in millions of euros per annum in revenues. Heroin trade expanded during the 1990s beyond Central Asia (Afghanistan, Pakistan, and Turkey). The trade found its way into Western Europe via Turkey route, or through northern, southern routes, including the Balkan region.

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<sup>142</sup> The income from drug and goods trafficking and relations with Italian mafia helped fund an insurgency by KLA, and under the leadership of Hashim Thaci, KLA became a black-market economy structure which became mixed with the parallel system of Ibrahim Rugova (Pugh, 2006: 118).

The Albanian Kosovar, in collaboration with the Italian mafia controlled the drug traffic, which helped to finance insurgency. The profits from the heroin trade were about \$250 million (Peterson, 2014: 76). The Albanian mafia was in control of a "large part of the heroin trade in Western Europe", to the extent that:

By the late 1990s it was estimated that they controlled some 70% of the markets in Italy, Germany, Austria, Hungary, the Czech Republic, Switzerland and Belgium and about 80% of the Scandinavian market (Sorensen, 2006: 337).

Furthermore, according to Sorensen, the KLA movement "controlled much of the heroin trade and thus financed the organization through, among other things, the drugs trade and smuggling" (Sorensen, 2006: 34). The role of the existing clans in Kosovo was necessary for this part because these clans, especially in the poorest, the Drenica region, controlled the trade of illicit activities. For example, as Sorensen (2006) finds:

A report by the 'US Senate Republican Policy Committee' (RPC) from 1999 refers to newspaper articles which state that about half of the funding for the KLA came from drug trafficking and that around 900,000,000 German Marks (of which half was drug-related) had reached Kosovo since the beginning of the guerrilla campaign. (Sorensen: 2006, 341).

However, KLA was not only intending to bring to life the idea of the Albanian nationalist movement to unite all Albanians and territories into a 'Greater Albania' (large parts of Macedonia, south Serbia, part of Montenegro and parts of Greece) (Sorensen: 2006, 341). The following map illustrates the idea of a Greater Albania and its borders:<sup>143</sup>

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<sup>143</sup> Map retrieved from: <https://www.dw.com/en/greater-albania-bogeyman-or-a-pipe-dream/a-3870522.7>



Additionally, Francesco Stratazzi (2006), analyses the conflict in Kosovo, through the dynamics of the criminal networks existing in neighboring countries affected Kosovo's future developments in the conflict. That is, according to Stratazzi, Kosovo "grew into a crossroad for all sorts of trades that were able to engender large profits."<sup>144</sup> (Stratazzi, 2006: 145).

As Stratazzi analyses, the conflict in Kosovo until 1997 was deceptively peaceful in the way that it spurred only later violent incidents. The International sanctions were a contributing factor to the increase in the illicit activities. Serbian, Albanian, Montenegrin and Kosovar territories became an area of illegal trade in illicit drugs and oil, and there was a development in criminal organizations that were able to provide with a broad range of commodities. Tirana was the center of the illicit activity. According to Stratazzi, Tirana, the city of Albania was “explosive admixture of politics, private interests, and illicit transactions was being prepared” (Stratazzi, 2006:145). Additionally, in Kosovo, the Albanian Kosovars enjoyed three times higher than the average salary when compared to the Serbian Kosovars in Pristina, because of the existence of a dense network of private activities. However, there was a period when leaders

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<sup>144</sup> However, intense criminal activity is associated with the Albanian state project of building a parallel system: state, economy, and society. Efforts in the building of a parallel system eventually were costly for the Albanian Kosovar elite to continue to support Kosovo.

in Albania gave less support for Kosovo's struggle, and so the route of the Turkish heroin was deviated from Kosovo (Stratazzi, 2006: 146).<sup>145</sup> However, one of the crucial findings is the relation between the trade-in heroin and the financing of Kosovo's insurgency, since 1997. According to Klebnikov et al.:

As the war in Kosovo heated up, the drug traffickers began supplying the KLA with weapons procured from Eastern European and Italian crime groups in exchange for heroin. (Klebnikov et al., 2017).

The illicit trade has contributed in great part on the funding of the KLA and its insurgency, which broke into frequent violent incidents and clashes against the Serbians.

### **3.5. Interventions from international organizations**

After the Dayton Peace Agreement, the KLA armed resistance grew and began retaliation against the Serbian armed forces, which brought increased international and media attention to Kosovo's struggle and the human rights violations practiced by Serbia. The rise of KLA in the 1996 gave way to a network of militants that operated in various areas of Kosovo. The year 1997 was a turning point in the political approach to the Kosovo's struggle as radical Albanian Kosovan networks sought after power and challenged Rugova's leadership. While Rugova tried to strengthen his position by negotiating with Milosevic an education agreement for the students of the University of Pristina, the attempt did not secure Rugova's power for much longer after the rapid rise of KLA radicals support.<sup>146</sup>

Besides, after the power struggle, political unrest and governmental collapse in the Albanian Republic, KLA and other rebels in Kosovo gained easy access to arms trade through Kosovo-

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<sup>145</sup> The new route that took shape under the auspices of the Kosovo warring factions connected Bulgaria with Macedonia and Albania (Stratazzi, 2006: 147).

<sup>146</sup> Because of the failed negotiations on the access by the Albanian Kosovan students to the University in Pristina, students revolt was strong enough, so their support was also turned towards KLA radical group (Sorensen, 2006: 342).

Albanian borders and so were able to arm the KLA fighters. As a result, provocations intensified and because KLA's activity was related to criminal networks and because they followed a violent approach, there was an increased sense of fear and insecurity among Albanian Kosovans. While KLA terror activities were mainly directed at Serbian police and Serbian civilians, so was the violence directed towards the Albanese civilians that supported LDK and the FARK. However, the Albanian-American diaspora community kept directing their political and financial support from LDK to KLA. Besides, tens of thousands more people joined KLA and as members anybody would be allowed to hold a weapon and call themselves a supporter of KLA. Moreover, the result of the provocations by KLA resulted in an escalation of violence against innocent civilians, because KLA could not protect and defend Albanian civilians against Serb counterattacks.

In March of 1998, a major violent incident, known as the Drenica Massacre was the first of the most violent events that received media attention in Kosovo.<sup>147</sup> This incident was the beginning of subsequently violent incidents among the Kosovan KLA's resistance and provocation and Serbian armed forces more powerful counterattacks. The KLA rebels killed four Serb police officers in clashes because they wanted to protect the Drenica region, as it was the center of their parallel economy. However, the Serb counterattack followed on 28 February, hit back and killed 26 people in Drenica, more 58 deaths, after the attack on 4 March, by arresting an Albanian guerilla leader, Adem Jashari (Sörensen, 2006: 343). The second major incident happened on September 26, 1998, known as The Gronje Obrinje Massacre. In this attack by the Serb forces, according to Bahador about "36 civilians, including women, children, and the

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<sup>147</sup> Separatism was started by KLA through an armed struggle against Serbia during the 1997 and 1998, with violent retaliation by Serbs on KLA in the villages of the central Drenica Region. According to the article "Kosovo: The Historical and Political Background" the international sanctions against Serbia by the "Contact Group" was limited, as the Serbian side continued to provide reinforcement into the Drenica region which caused a displacement of about 200,000-300,000 Albanians from the region. ("Kosovo: The Historical and Political Background". In "Kosovo/ Kosova As Seen, As Told: An analysis of the human rights findings of the OSCE Kosovo Verification Mission, October 1998 to June 1999" OSCE, 2003 May 12: 26. Available at: <https://www.osce.org/odhr/17772?download=true> (accessed 12/06/2019).

elderly were brutally killed" (Bahador, 2007: 83). International system began condemning both sides for using violent and terrorist actions and hoped for KLA to eventually reach a ceasefire and instead chose to engage in peaceful negotiations, which have never happened and therefore, only led to conflict escalation to Kosovo's War in 1999. At first KLA was thought to be a terrorist organization but later these perceptions changed after Richard Holbrooke denying such accusations against the KLA, and "in June, Richard Holbrooke, held meetings with KLA representatives" (Sorensen, 2006: 343). This was important for KLA as, later a major international intervention led to a military operation against Serbian armed forces.

To better understand how the KLA's provocations worked against the Serbian armed forces we need to analyze the concept given by Babak Bahador in the book *The CNN Effect in Action*, is also relevant to Kosovo's case because the power of media coverage combined with the propaganda of media images and videos, was a major method of influence on the government's decisions on promoting foreign military intervention.<sup>148</sup>

For instance, between 22 April 1996 to 28 February 1998, the type of conflict was low-intensity warfare, intending to create unrest, and provoke Serbian side to react with brutal force. The KLA armed forces employed classic guerilla hit-and-run tactics and avoided direct confrontations. The guerillas directed simultaneous attacks at the Serb police and civilians and have also assassinated Albanian Kosovans who collaborated with the Serbian operations (Thomas., Mikulan, & Pavlović, D., 2013: 47). The Serbian counterattacks in the same year,

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<sup>148</sup> The CNN effect can be understood as the influence that shapes the assertion in pursuing a foreign policy in relation to military intervention by the West such as, the Kosovo case. The CN, according to Bahador, affects all the three components (reason, passion, probability, and chance) of the Clausewitz trinity of war and are in a complex interplay all of which shape warfare. Military intervention was often opposed to US foreign policy. However, the "CNN effect" means that it is an effect created to influence the policy change, which then turned military intervention to become favorable to the US foreign policy.

were stronger because Milosevic ordered a reinforcement of the Serb armed forces. According to Thomas., Mikulan, & Pavlović:

By Feb 1998 the 10,000-strong VJ Pristina Corps had tripled to 30,000 (percentage of total VJ strength), and the 6,500 Serbian Police, PJP and SAJ were tripled to about 19,500 with reservists and extra units. (Thomas., Mikulan, & Pavlović, 2013: 47).

With this reinforcement, the Serbian armed forces were able to hold a massive operation in the Drenica region, burning several villages, and therefore, displaced a large size of the Albanian population. Moreover, Serbian armed forces were able to seize the Drenica area and the area beyond the heartland, that is, about 30% of Kosovo's area (Fish, 2006: 47). The KLA was forced to abandon most of the territory, as Serbs managed to retake 90% of Kosovo by August 1998. The casualties and damage were enormous according to Thomas, Mikulan, & Pavlović:

hundreds of fighters and civilians were killed, and about 360,000 civilians (percent of total Kosovan population) were driven from their homes, many fleeing to Albania and Macedonia (Thomas, N., Mikulan, K., & Pavlović, D., 2013: 48).

After these incidents the Serbian armed forces were threatened by NATO airstrikes.<sup>149</sup> However, there were attempts on settling for a peaceful negotiation. Milosevic chose to comply with the agreement<sup>150</sup> by withdrawing the Serb forces from Drenica, and according to Thomas & Pavlović, for this the Kosovo Verification Mission (installed a NATO aircraft and 2,000 OSCE personnel) was responsible for ensuring that the Serbian armed forces were abiding by the agreement (Thomas & Pavlović 1992-2001, 2013: 48). However, later Serbian forces, the

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<sup>149</sup> The airstrikes of 24 March 1999 represented a significant event in international relations because it was a major humanitarian operation. The operation was intended to end the human violations and crimes against by the Serbs on the Albanian Kosovars. According to Adam Roberts, the intervention started on the basis that "some crimes so extreme that a state responsible for them, despite the principle of sovereignty, may properly be the subject of military intervention." (Roberts, Adams, 1999: 103). However, the at the time this operation was quite controversial, as actors and individuals opposed the *Operation Allied Force*, on the ground that the operation's effectiveness had shortcomings in the long-term prevention of humanitarian violations, and whether the use of force was legitimate to use against a state (Roberts, Adams, 1999: 103).

<sup>150</sup> At the time Milosevic was already criticized by the Serb population for resorting to violent means against civilians in Kosovo. A Serb general who disagreed with Milosevic methods was General Perisic, he was the one him who signed the agreement with NATO to withdraw from the Drenica region.

Armed Forces of Serbia and Montenegro (VJ) and the MUP units attacked another KLA ambush, which caused the death of four Serb policemen. In the end, The KLA provocation strategy had paid off and the level of international attention that the KLA received brought NATO's military intervention in 1999.

Before the intervention, the Kosovo Albanian struggle was portrayed through television images of the massacres which directed attention to the atrocities of the Serbian armed force against Albanians Kosovans. So later it was thought that interventions were a deliberate strategy of KLA to put pressure on the pursuing of a military international intervention. According to Bahador:

Although the Albanian community of Kosovo experienced much suffering, some observers questioned whether the images of carnage were part of a deliberate strategy by an insurgency group called the Kosovo Liberation Army (KLA) to gain the West's attention and sympathies for its independence cause. (Bahador, 2007: xxi)

The report of images proved to be incredibly impactful and effective in raising support for the Kosovo Liberation Army (KLA) (Bahador, 2007: 67). KLA was further aided by KVM forces to prepare and organize KLA for a NATO intervention. The violence by KLA reoccurred in a confrontation in the village of Rabak where about 45 Albanians have been massacred by Serbian troops, who were warned with military intervention by NATO forces. According to Sorensen, (2006), the push for the West's intervention in Kosovo and support for KLA was also the result of heavy lobbying of groups in Washington by "organizations as the International Crisis Group (ICG), the Balkan Institute ..., and the United States Institute for Peace (USIP)" (Sorensen, 2006: 344).

NATO's military intervention, 79-day Operation 'Allied Force' air strike campaign,<sup>151</sup> on 24 March, resulted in the "1999 NATO air campaign against the Federal Republic of Yugoslavia (FRY) over the Kosovo issue, in tacit alliance with the KLA" (Bahador, 2007: xxi). NATO bombing operation led to the cease-fire and the Serbian side was left with major damages. after the NATO's military intervention on March 24, 1999, together with the Kosovo Liberation Army (KLA), this was the second time in history when the Serbian side retreated from Kosovo (Gurr, 2015: xi).<sup>152</sup>

### 3.6. Post-Kosovo War

Following the period after NATO's intervention, Kosovans were only successful in becoming an independent state in 2008. However, the shadow economy continues to be predominant in Kosovo.<sup>153</sup> Even though the KLA was forced to demilitarize, the underground illicit activity still relates to the KLA radical elements<sup>154</sup>. Also, in times of solidarity, when the diasporas from abroad provided with tax remittances for the survival of the Albanian Kosovans at home, after the war, the fund was discontinued because of continued issues with corruption ("How to build a parallel state", 2018). Besides, the unemployment is high, and wages are low, and the economy had few incentives to transition to a formal economy. According to article "Rebuilding after the war" published in the World of Work Magazine:

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<sup>151</sup>Vide:[https://archive.org/stream/ReporttoCongressKosovoOperationAlliedForceAfterActionReport/Report%20to%20Congress-Kosovo%20Operation%20Allied%20Force%20After-Action%20Report\\_djvu.txt](https://archive.org/stream/ReporttoCongressKosovoOperationAlliedForceAfterActionReport/Report%20to%20Congress-Kosovo%20Operation%20Allied%20Force%20After-Action%20Report_djvu.txt)

<sup>152</sup> According to Le Billon "the Kosovo Liberation Army, when primary resources of its war economy shifted from heroin trafficking and diaspora remittances to NATO and UN support (Le Billon, 2000: 9).

<sup>153</sup>Kosovo is the third poorest country of Europe according to the source: <https://www.worldatlas.com/articles/the-poorest-countries-in-europe.html>

<sup>154</sup> In addition, because of the peripheral character of the Balkan region and the development o- long existing mafia clans, Kosovo Albanians have continued to practice illicit trade and grew into a global drug trafficking channel. KLEBNIKOV, Peter. "Heroin Heroes." 2017, June 28. *Mother Jones*. Available at: <https://www.motherjones.com/politics/2000/01/heroin-heroes/> (accessed 3/05/2019).

among Kosovo's working-age population – around 1,330,000 people– only 35 percent (approximately 469,000) can be described as economically active, while 65 percent (861,000) are economically inactive or unemployed (World of Work Magazine No. 32, 1999: 12).

According to the periodical analysis the rebuilding of Kosovo the labor market was defined as 'catastrophic.' The labor workforce in the aftermath of the Kosovo War has mainly continued to be within the grey economic sector and vast unemployment in the formal economy. Agriculture constituted the most significant employment rate of about 23% of the workers, from which are formed mainly by a male contingent, while women were employed in fewer numbers. Besides, the preexistent weak administrative and legal institutions, malfunctioning social, labor, and judicial systems, in addition to war's widespread destruction, caused slow transitioning to formal economy. These causes are related to according to the World of Work Magazine:

can be traced back to several interacting factors, including discriminatory legislation and hiring practices of the Federal Republic of Yugoslavia during the 1990s. The adoption of the FRY's Labor Act for Extraordinary circumstances resulted in the dismissal of 145,000 Kosovo ethnic Albanians from civil administration, public services and economic enterprises (World of Work Magazine No. 32, 1999: 13).

Considering this scenario, the International Labor Organization developed strategies to the reconstruction of the labor market in Kosovo, through the labor-intensive reconstruction projects, assisting in economic processes which generate employment, and reestablish the systems of unemployment and pensions.<sup>155</sup>

Moreover, during the period of 2004-2006, Kosovo still had little progress. The active workforce in the informal economy constituted about 50%, with most people being young

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<sup>155</sup> "Kosovo's Labour Market in a 'Collapsed' State ILO Calls for Labour Intensive Reconstruction Effort." Kosovo's Labour Market in a "Collapsed." *State ILO Calls for Labour Intensive Reconstruction Effort*, 1999, Oct. 19, Available at: [www.ilo.org/global/about-the-ilo/newsroom/news/WCMS\\_008826/lang--en/index.htm](http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_008826/lang--en/index.htm). (accessed 8/05/2019).

adults under the age of 24 years old. That is unemployment continued high, about 48% rate, while the market had a particularly difficult capability of absorbing the increases per year of the young adult population, which means that considering another important economic factor are few offers and more demands in the employment market in Kosovo, and therefore there is few choice and competition among employers, as wages continue low and young people, are either inclined to engage in shadow economy apart from the day job or to leave the country.

The low wages and failure in implementing policies which can absorb people into the market lead to high unemployment. Besides the informal economy often means poor working conditions and poor benefits. For instance, about 73% of the young adult workers were not covered by social security benefits (Krasniqi &Topxhiu, 2012:14). The main activities of the informal economy include work in construction, foresters, trade, services, transport, and agriculture sectors. Moreover, there is a strong correlation between the decline in education and the decline in the employment of young adults in formal economy jobs. That is, the recommendations given in the article by Krasniqi &Topxhiu, are focused on the development of new businesses and promotion of self-employment, which in this way could be made more accessible to potential employers if the government and policymakers decide to lower costs for enterprises and remove obstacles from the enterprises in the informal economy, and instead allow them to progressively become part of the formal economy (Krasniqi &Topxhiu, 2012:19).

In conclusion, shadow economy is hard to combat and continues to be a challenge for solving domestic conflicts where economic factors, have particularly been associated to a long history of shadow economic development. Informal economy aspect is prevalent when the state disintegrates and loses power to a range of alternative ways for economic survival in a society. However, this gives way for criminal groups to benefit from the degraded conditions there is

further incentive in the perpetuation of the shadow economy, as a consequence of past economic dynamics, relations and conflicts which brought incentives to the development of criminal networks, not only in Kosovo, but also other post Yugoslavian nation-states.

## Conclusion

While organized crime is not a new phenomenon today, some governments find their authority besieged at home and their foreign policy interests imperiled abroad. Drug trafficking, links between drug traffickers and terrorists, smuggling of illegal aliens, massive financial and bank fraud, arms smuggling, potential involvement in the theft and sale of nuclear material, political intimidation, and corruption all constitute a poisonous brew—a mixture potentially as deadly as what we faced during the cold war.  
— R. James Woolsey<sup>156</sup>

The analysis of the “new wars” theory and the war economy approach shows that contemporary wars have changed and has intensified in many parts of the world. Globalization is not a new phenomenon, yet the latest developments in technologies and communications have opened doors to opportunities that had strong effects on society, such as, having developed global awareness on global issues. This tends to draw people closer together to finding solutions for the common worldwide issues. On the other hand, the new forms of mobility and communication also expanded opportunities for crime and terrorism and influence the way wars were fought and perpetuated. The phenomenon of globalization is particularly associated to the emergent new non-state actors, who have greatly benefited from blurred borders and eroding state power. These emergent new actors form the criminal links and emerge as a new criminal class. Criminal actors are known to be flexible in the creation and maintenance of economic channels, associated to illicit activities. For this reason, channels constitute a reliable source for the warring groups for the development of war economies in weak states.

The main question of the thesis was whether the economic factor is the most relevant factor to understand the persistence and ongoing nature of the “new wars”, namely in the case of Kosovo’s armed conflict. After analyzing the new and changing patterns of conflicts, and the

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<sup>156</sup> In this quote, the issue of organized crime is the prime concern for strong states, who are challenged by the security threats born out of economies of war associated to the trade of drugs, terrorism, and organized crime. Quote retrieved from HESTERMAN, Jennifer, L. & USAF, Colonel. *Transnational Crime and the Criminal-Terrorist Nexus: Synergies and Corporate Trends*. Alabama: Air University Press, Walker Paper no. 1, May 2005.

growth of the shadow economy, we can conclude that the economic factor has a significant impact in the continuation of violence and conflict within those countries with a large shadow economy. The spreading of conflicts can be noticed because the neighboring countries usually share the same economic issues and in general, when economic development is low, there is dissatisfaction among workers in society, there are more ethnic disputes, social unrest and political chaos. These circumstances are usually a sign of war economies which are developed in order to fight for a political cause. War economies are developed in the long-term and for this reason, their aspects end up weighting on societies because war economies bring destruction and are a cause for the proliferation of non-ending violence. At the same time, the aspects of the ethnic conflicts, also play an important role because war economies tend to exacerbate the divide among an ethnically diverse population. Therefore, in the contemporary conflicts, the economic aspect has been a growing issue because the general development of mafia-style economies tends to create a *pax mafiosa*, and therefore, brings the cooperation between mafia bosses, from diverse ethnicities into a mutual economic benefit, through the creation and maintenance of transnational criminal networks. At the same time, the emergent new warring groups tend to relate to the criminal networks, whose illegal arms trade can bring a general violent oriented approach rather than to rely on the legal ways to settling a conflict.

In the long term, the war economies tend to be destructive for the state institutions and economic development. War economies tend to open doors to criminalized economy which is designated as illegal sector of the economy. These economies exist outside of the state's formal economy, in cases when the state cannot provide the basic goods and services to the people. A parallel society develops out of the scarcity of the necessities, and to survive a large part of the society tends to engage in criminal activity. In a state of chaos, the warring groups tend to take advantage of the people and use the state's territory as bases for the development of criminal networks. In this sense, globalization is a driving force for the development of alternative

economic systems, in which money is raised through internal and external funding through illegal means. The conflict spreads across borders and warring forces threaten the peace near the borderland regions with other states. Therefore, if the war economies are not addressed appropriately, they spread and create a greater level of insecurity.

The dissertation discusses the topic of “new wars”, which is relevant to the analysis of war economies because the thesis points to these new changing patterns and alerts for the need of a new approach to intrastate conflicts. Furthermore, the topic of shadow economy addressed the aspects which affect the development of the economy, and in this case shadow economy is also a sign of weak state, corruption, ineffective policies and perpetuation of violence. It has often been pointed out in case studies that conflicts are mainly a consequence of identity politics. However, conflict for causes such as pure greed are often overlooked and international interventions have often failed to comprehend the intrastate conflicts, and so failed to address the conflicts from an economic approach. This made it difficult to prevent conflicts from spreading among the most vulnerable states, as we conclude suggesting that a new approach regarding war economy should be dared.

As we have seen in Chapter I, the “new wars” thesis can be understood as the result of an emergence of new patterns, which is apparent in the increase of intrastate wars. According to Mary Kaldor, in these types of wars, the state is no longer seen as the sole legitimate bearer of arms, because in poorer regions globalization accelerated state erosion, both from above and from below. The state loses control over the territory as its monopoly of violence, one of the state’s main and most important basic functions, gets eroded. In the place of the state, a multitude of actors emerge and create complex interconnections among them, and so the conflict and violence tend to last with no end in sight.

In the “new wars”, warlords conduct ethnic cleansing across inhabited areas by different ethnicity groups in order to homogenize the population within the territory, and so mass migration and displacement of people is evident in these conflict zones. The main targets are innocent civilians, with the most vulnerable being women, children, and the elderly. Another feature of “new wars” is that these wars are asymmetrical wars, which means that in the contemporary wars, the warring groups can be even effective than the powerful states, who are technologically and military superior. A characteristic of “new wars” is that forces are dispersed in space and time based on the guerilla principles, and therefore conflicts can flare up anywhere.

This assumption is connected in Chapter II, on the discussion on the war economies. The war economies prevalent in intrastate conflicts and are important to understand because they address the motivations of war and the distribution of resources in times of war. Flexibility and resilience are the two main characteristics of contemporary war economies, because they can continue to work even after the end of a violent conflict. The war economy can be understood as an intent to mobilize resources for military resources originating from people's contributions to the state. However, leaders allocate the state revenue for war purposes, which benefit the economic interests of a small elite. In turn, less public goods and services are provided to civilians and create poverty. War economy does not create economic benefits for the rest of the population. Instead, according to the article *The Political Economy of War: what relief Agencies Need to Know*, 2000 by Philippe Le Billon, war economies damage the macroeconomy which explains the bad distribution of goods through the population, the collapse of economic regulation, low trust, reduced investment, opportunistic behavior, falling incomes, emergence in parallel economies and illicit trade, hyperinflation. The war economy also has microeconomic consequences which affect the individuals, such as, their rights, access to essential goods and services.

According to the article *War Economies in a Regional Context*, 2004 by Kaysie Studdard, the primary resources for raising revenue for the warring groups are the natural resources and are considered an essential factor in the continuation of the war economy, especially on a regional level where neighbors become involved in the trade through complicated routes. Other the other most profitable sources of revenue are human trafficking, organized crime and diasporic funding. These sources play a significant role in many war economies as well help fund insurgencies and insurgent groups. Besides, factors such as state corruption, tax evasion, and manipulation of foreign aid also contribute to the continuation of war economies. The increased elite corruption of these failed states has broken apart from the development of a consolidated economy. The state revenue often decreases and there is little domestic production. For the elites, to sustain the costs of war and interests, finance came mainly from illicit activities and involved financial manipulations, predatory practices conducted by state entities, to ensure the control over the productive resources. The population is forced to engage in the illicit activities of shadow economies.

It is especially challenging to end these types of conflicts whose primary motivation is based on greed. The appropriation of resources gives power to an elite and creates degradant conditions for the rest of the population. The international interventions have imposed policies and sanctions; however, these can constitute an incentive for engaging in shadow economies. When warring actors networks are consolidated enough on a regional level and they can easily create and readapt and redirect the trade in illicit goods and services through different channels. Also, it is difficult to trace the leaders of these networks because activity records on them are ambiguous.

In Chapter III we focus on the case study on Kosovo's war economy. Kosovo's war economy can be characterized as a predominantly commercial war economy that has shifted from the

acquisition of funds from illegal trade in the shadow economy and diaspora contributions to the military support provided by NATO. The conflict has elements of ethnic cleansing, economic crisis, political, institutional weakness, a power struggle over the territory, complexity of actors with varied interests and high numbers of displaced people, victims, and violent incidents. The political and economic violence are present and are further exacerbated when the state is fragile, which creates more vulnerability towards the opening of opportunities for criminal activity. Therefore, the shadow economy is also a crucial element in the analysis of conflicts because from these, especially illegal activities the situation in some Eastern European countries is still plagued by corruption, low economic development with the presence of a large shadow economy.

To sum up the analysis on war economies, the case study provided a good insight into the types of new war conflicts, because it addresses the problem of the “new wars” aspects in the late twentieth century. While the Kosovo case study showed a clear relation to the changing patterns of the “new wars” and the existence of a well-consolidated shadow economy. Therefore, the motivations of the war in Kosovo can be understood as a mix of ethnic motivations, higher ambitions, and development of a large shadow economy and engagement in illicit activities. Therefore, more attention and resources should be drawn to the prevention and elimination of illicit economy in order to achieve a more sustainable peacebuilding and life improvements for thousands of people fallen victim to violent conflict.

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