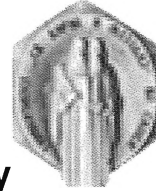




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THE RELATIONSHIP BETWEEN POVERTY AND ARMED CONFLICTS; SOCIO-ECONOMIC PERSPECTIVE

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THE RELATIONSHIP BETWEEN POVERTY AND ARMED CONFLICTS; SOCIOECONOMIC PERSPECTIVE

Short summary of the Master thesis in International relations - Conflict Resolution

This master thesis highlights the relationship between poverty and armed conflicts. Given that this area is still not enough scientifically and theoretically explored, particularly in Western Balkan region where a series of armed conflicts occurred during the last 20 years, the paper provides a scientific description and detailed elaboration of these two constructs through sublime and comprehensive research. The conceptual framework of the study is tailored to examine the concepts of poverty and armed conflict in Western Balkans, to investigate the negative consequences of these phenomena, but also looks into the nature, dynamics and complexity of the links between armed conflict and poverty.

For the realization of the goals of this study, a qualitative research methodology is applied. In terms of research design, a multiple case study approach is implemented. Three countries are chosen as case studies for the project: Bosnia and Herzegovina, Serbia and Macedonia because each of them has experienced an armed conflict. However, the theoretical-descriptive aspect of the research is supplemented by appropriate statistical documentation of some socio-economic parameters in order to display possible disparities in poverty levels before, during and after the armed conflict.

The findings of this study reveal relation between the armed conflict and poverty. Research data obtained from the descriptive-statistical analysis showed that armed conflicts can cause poverty and consequently can provoke strong negative political and socio-economic effects. Nonetheless, the results cannot confirm that poverty provoked armed conflicts in the Western Balkan countries. Limitations, recommendations and conclusions are also suggested as a referent point for some future projects.

Keywords: armed conflict, poverty, socio-economic parameters, relationship, effects, Western Balkans...

DECLARATION

I, the undersigned hereby declare that this dissertation "*The relationship between poverty and armed conflicts-Socioeconomic perspective*" is my own unaided work and that all the sources I have used and quoted have been indicated and acknowledged by means of complete references.

Date:

Daniel Trenchov, MA



ACRONYMES AND ABBREVIATIONS

BiH - Bosnia and Herzegovina
CEFTA - Central European Free Trade Agreement
CICS-Centre for International Cooperation and Security
DPA - Dayton Peace Agreement
EU - European Union
EUFOR - European Union Forces
FBH - Federation of Bosnia and Herzegovina
FDI - Foreign Direct Investments
FRY- Federal Republic of Yugoslavia
GDP - Gross Domestic Product
HDI - Human Development Index
IC - International Community
IDPs - Internally Displaced Persons
IFOR - Implementation Force
ILO - International Labour Organization
IMF - International Monetary Fund
KFOR - Kosovo Force
KLA - Kosovo Liberation Army
KMTA - Kumanovo Military Technical Agreement
LSMS - Living standard Measurement Survey
MTDS - Medium Term Development Strategy
NATO - North Atlantic Treaty Organization
NLA - National Liberation Army
NRC - Norwegian Refugee Council
OECD – Organization of Economic Co-operation and Development
OFA - Ohrid Framework Agreement
OHR - Office of the High Representative
RS - Republika Srpska
SAA - Stabilization and Association Agreement
SEE - South Eastern Europe
SFOR - Stabilization Force
SFRY - Socialist Federal Republic of Yugoslavia
SIDA - Swedish International Development Agency
UCDP - Uppsala Conflict Data Program
UN - United Nations
UNDP - United Nations Development Program
UNESCO – United Nations Educational, Scientific and Cultural Organization
UNHCR - United Nations High Commissioner for Refugees
UNICE - Union of Industrial and Employer's Confederation of Europe
UNMIK - United Nations Mission in Kosovo
USCRI United States Committee for Refugees and Immigrants
USAID-United States Agency for International Development
Wc - Wealth Coefficient
WTO - World Trade Organization

List of Tables

Table1 Poverty rate in Macedonia.....	p.25
Table2 Poverty rates in Serbia during 2002-2010.....	p.30
Table3 GDP per capita in Macedonia, Serbia and BiH, US dollars, 1990-2011.....	p.40
Table4 Export of Macedonia, Serbia and BiH, in billion US \$), 1990-2011.....	p.44
Table5 Unemployment rates in Macedonia, Serbia and BiH, 1997-2011 (in%).....	p.48
Table6 Foreign direct investments in Macedonia, Serbia and BiH, 1993-2011 (in million US).....	p.53
Table7 Estimated numbers of internally displaced people in Macedonia (2001 - 2009).....	p.58
Table8 IDPs from Kosovo in Serbia 1999-2009.....	p.60
Table9 Estimated numbers of internally displaced people in BiH from 2001 to 2009...p.62	
Table10 Changes in the wealth coefficient for Macedonia, Serbia and BiH, (in %).....	p.67

List of Figures

Figure 1 Change in Real GDP per Capita from 1990-2011 in Macedonia, Serbia and BiH.....	p.41
Figure 2 Trend lines of the export from 1990-2011 in Macedonia, Serbia and BiH.....	p.45
Figure 3 Trends of the unemployment rates, 1997-2011, for Macedonia, Serbia and BiH.....	p.49
Figure 4 Trends of the FDI, 1993-2011, Macedonia, Serbia and BiH (in billion US\$)...p..55	
Figure 5 Trends of IDPs from Kosovo in Serbia 1999-2009.....	p.60

CHAPTER I INTRODUCTION

1.1 Goals of the research	11
1.2 Research questions	11
1.3 Methodology	12
1.4 Limitations of the study	13
1.5 Structure of the paper.....	14

CHAPTER II: THEORETICAL FOUNDATION OF THE RESEARCH

2.1 Poverty.....	15
2.2 Armed Conflict.....	18
2.3 Relevant theoretical and empirical research.....	20

CHAPTER III: POVERTY AND ARMED CONFLICT in Macedonia, Serbia and Bosnia and Herzegovina

3.1 Poverty and armed conflict in Macedonia.....	24
3.2 Poverty and armed conflict in Serbia.....	28
3.3 Poverty and armed conflict in Bosnia and Herzegovina.....	33

CHAPTER IV: THE RELATIONSHIP BETWEEN ARMED CONFLICT AND POVERTY

IV.1 THE IMPACT OF ARMED CONFLICTS ON POVERTY; Statistical comparative analysis of some socio-economic parameters

4.1.1 Gross Domestic Product (GDP).....	39
4.1.2 Export.....	43
4.1.3 Unemployment rate	47
4.1.4 Foreign investments (FDI).....	52
4.1.5 Forced displacement	57

IV.2 THE IMPACT OF POVERTY ON ARMED CONFLICTS

CHAPTER V: *DISCUSSION*

- 5.1 Armed conflicts cause poverty and/or poverty causes armed conflicts?.....68
- 5.2 What role for the authorities?.....72

CONCLUSION

REFERENCES

CHAPTER I INTRODUCTION

It is a historical fact that poverty and armed conflicts have always been the two major problems of the social order that have been challenging humankind's survival, have constantly been testing the existence of nations and have regularly been touching the roots of the societies. Similarly, history has shown that conflicts and poverty are inevitable, the more we know about them the better we will be at fighting their devastating nature, and so the better the outcome for humanity. Although, poverty has traditionally been a part of development studies and economics while armed conflict has been a component of security and peace studies, these phenomena are not considered as separate branches of the academic inquiry. Given the fact that some 16 of the 20 poorest countries in the world have had a major civil war in the last 15 years (Hillyard et al., 2005), but also considering that the countries emerging from an armed conflict have 44 % more chance to plunge back into another armed conflict within the first five years of peace (UNDP, 2005), it is a good starting point to prove that they are two sides of the same coin. Any strategy to tackle poverty must also work to transform conflicts while poverty alleviation programs and development strategies cannot afford to neglect issues related to conflict (Teshome, 2011). On the contrary, the practice of isolating conflict and poverty has long ignored their double causation and cyclical relationship. Poverty and conflict are often seen as independent phenomena with little or no impact on one another (Teshome, 2011). In spite of the different forms of poverty as well as the various repercussions deriving from the armed conflict, we can, however, analyze them within the framework of one and unique study concept. It is well known that there are different positions around the (im) possible nexus between poverty and armed conflicts, but what still remains unclear is the causal order of these two constructs. Having in mind that scholars have rarely reached a consensus and a common theoretical and practical position concerning this complex issue, we can easily conclude that the debate on the relationship between poverty and armed conflict is still open.

The relatively great body of foreign research papers emerged especially from the 90s onwards, the realistically small domestic theoretical and empirical data base reduced mainly to some articles in journals and to short paragraphs in textbooks and the lack of attention paid on this topic is a sufficient motivation to study the relation between poverty and armed conflicts in Western Balkan context. Conceived as a study consisting of five chapters, this master thesis shows that it is quite possible from two different global phenomena to create one conceptual research model. Despite the fact that poverty and armed conflicts differ among themselves in the scientific area to which they belong and considering that they are divergent in terms of their constituent elements, both phenomena are intertwined in the point of their negative consequences. In fact, this research thesis provides insights on poverty, carefully analyzes the armed conflicts, briefly captures their essence in the Western Balkans social-security context, but also provides statistical data on both variables for three countries taken as case studies. More significantly, this paper attempts to examine the causal relationship between these two constructs with a particular focus on macro socio-economic aspects of their relationship. As a matter of fact, the main goal of this research paper is, by exploring the international and domestic literature, to analyze the relationship between poverty and conflict in the Western Balkans using various approaches from social, conflict resolution, developmental, economic and security aspect. Understanding the relationship between poverty and conflict would help to bridge the conceptual gap between the two constructs and would develop a new framework that will bring them even closer.

1.1 Goals of the research

The need to conduct scientific research in the area of poverty and armed conflicts inevitably requires a determination of appropriate research objectives. The overall objective of this research is acquisition of certain scientific knowledge on the relationship between poverty and armed conflicts as well as providing applicability of the research in order to gain social legitimacy. In other words, the general objective of this paper is to present a theoretical and analytical framework that will help us to understand the processes leading to association between poverty and armed conflicts. From a theoretical point of view, this study represents an integrated methodological tool that will help scholars, students and practitioners to enhance their knowledge in this challenging topic. Moreover, this research will represent a material which would be basis for further development, improvement and amendment of the scientific understanding on poverty and armed conflict, and it will be an incentive for conducting additional studies in this specific domain.

When it comes to the specific goals, ***the aim of this research is:***

- to investigate whether there is a connection between poverty and armed conflicts in each of the examining country: Bosnia and Herzegovina, Serbia and Macedonia.

Moreover, based on the data gained from the analysis of socio-economic parameters, this study attempts:

- to determine if armed conflicts caused a higher level of poverty in Western Balkan countries or poverty caused the armed conflicts.

1.2 Research questions

On the basis of the objectives of this research paper, two specific hypotheses and several research questions have been formulated. The hypotheses to be tested are the following:

H1: *“The poorer is the country, the higher is the probability that an armed conflict will occur”* and

H2: *“The level of poverty after the armed conflict is higher than the level of poverty before the armed conflict”.*

In this research, the term “*poverty*” is considered as a resultant of the results gained from the analysis of four economic and one sociological indicator (parameter). Given that these indicators determine the socio-economic picture of a given country, it is assumed that they reflected its poverty/wealthy status.

The study structure is built around three specific questions whose answers will help us to accept or to reject the above postulated hypotheses. The three questions to be addressed are the following:

- 1. Is there any connection between the armed conflict and the poverty in Western Balkan countries?***
- 2. Does the armed conflict influence on poverty and/or poverty influence on the armed conflict?***
- 3. Which developmental, political and security instruments can be used by the state authorities in order to tackle poverty and manage conflict?***

1.3 Methodology

This research is primarily a production of a desk study based on a comprehensive revision of the literature and the existing information, complemented by appropriate statistical data collected for each of the countries. For the realization of the goals of this study, a qualitative methodology has been applied. The methodology is adapted to the limitations of this study which was a precondition for conducting a qualitative instead of quantitative type of research. The emphasis, however, will not be put on theory but rather on the applied methodology in order to acquire a more “tangible” picture on the relationship between armed conflict and poverty.

In terms of research design, a *multiple case study* approach has been implemented. Three countries are chosen as case studies for the project: *Bosnia and Herzegovina, Serbia and Macedonia* because each of them has experienced an armed conflict in the last 20 years. However, the accent is being put on the period when the armed conflicts occurred. In order to minimize potential biases, an effort was made to gather data from relevant sources. As mentioned above, the theoretical-descriptive aspect of the research is supplemented by appropriate statistical documentation of various socio-economic parameters in order to display the possible disparities in poverty levels in each of the

country. Following the principles of the methodology of the social research and taking in consideration the theoretical - descriptive character of its nature, this research will apply several methods:

- ***Dialectical method*** as a universal method of theoretical thinking,

- ***Comparative method*** – in order to compare the levels of poverty before, during and after the conflicts and to discover a possible discrepancy among the three countries in terms of poverty levels. A time-series, cross-sectional setup with country-level control variables will be used for identifying the differences.

- ***Method of content analysis*** will be used for the analysis of the existing academic and non-academic literature with regards to the Western Balkan conflicts and poverty. The review will include:

- a). ***primary sources***: policy reports, academic studies, documents by non-governmental organizations and governmental bodies (revision of available official statistics for poverty and armed conflict in order to explore the patterns of armed conflict and poverty dynamics);
- b). ***secondary sources***: manuals, texts, articles, magazines written and electronic, web pages etc.

1.4 Limitations of the study

All scientific researches contain a certain number of limitations. Despite the complex and dichotomous nature, this research makes no exception from that rule.

The *first* limitation refers to the multidisciplinary aspect of the study. Any research that tries to establish a relation between these two multifaceted phenomena requires more experience, expertise and in-depth knowledge of economy, security, development and other multiple areas of studies.

The *second* limitation arises from the transversal nature of the research. Given that armed conflicts in all three countries occurred within a time amplitude of 9 years (1992-2001)¹, the direct collection of appropriate empirical data on poverty was impossible from a

¹ It refers to the period when all three armed conflicts occurred. For more specific information check chapter III.

time perspective. Thus, this study does not aspire to reveal or to present new findings, but to classify, to summarize and to create a coherent up-to date framework of the existing socio-economic data. As a result, this research is a sublimation of relevant conclusions taken from available statistical data rather than a creation of corpus of field-based findings.

The third limitation concerns the data sources availability. It has to be said that gaining data about the socio-economic parameters is difficult. Considering the complexity of this research (*it analyzes 5 socio-economic indicators in 3 different countries in a time scope of almost 20 years*), it was impossible to pull out a sufficient amount of data from the State Statistical Offices only. Research constraints are therefore lack of data in general and lack of standardized data in specific.

1.5 Structure of the paper

This report is divided into five chapters. Following the introductory chapter, chapter two is concerned with clarifying the two research variables, poverty and armed conflict. It provides theoretical knowledge on both phenomena by analyzing them in details. Furthermore, this chapter defines key terms, offers brief overview of the literature on their mutual relationship and analyzes the different theories that have been used to establish a relationship between poverty and armed conflict.

The third chapter of this paper covers the conflict and poverty background of Macedonia, Serbia and Bosnia and Herzegovina. It includes brief information on the dynamics of armed conflicts in each of the country, the peace building process, but also looks at the evidence available on the poverty and identifies its various characteristics in the last 20 years.

The fourth chapter analyzes 5 different socio-economic parameters: *the levels of GDP per capita, amounts of foreign direct investments, state export potential, unemployment rates and numbers of displaced persons* in order to provide information for the poverty level before, during and after the armed conflicts.

The fifth chapter discusses and discloses the dilemma of the causal relationship between armed conflicts and poverty in the Western Balkan countries, lays out preventive measures and coping strategies that can be undertaken by the local, national and

international authorities. The last part summarizes the main conclusions, gives recommendations and sets plans for future projects.

CHAPTER II: THEORETICAL FOUNDATION OF THE RESEARCH

In order to investigate the link between armed conflicts and poverty and their mutual implication, it is very important to build a theoretical framework by comparing different points of view given by different scholars, experts and academics. By definition, both armed conflict and poverty are multidimensional concepts with no universally set meanings. They are defined through changing parameters in space and time. It is therefore imperative to have a clear understanding of these two variables before analyzing their two-way connection (Teshome, 2011). In point of fact, the idea of this research paper is to offer a new approach of analyzing the two notions as well as their eventual association, by surpassing the traditional framework of defining and citing the conventional meanings of both poverty and armed conflict.

2.1 Poverty

It is beyond the scope of this research to review the extensive literature on poverty. Instead of making such a broad theoretical analysis, we have identified several key fundamentals that can be quite useful in studying this global phenomenon. In fact, it is more than clear that understanding the elements, the consequences and particularly the nature of poverty are ones that approach us closer to the essence of the term “*poverty*” than any enumeration of various definitions. Thus, different scholars used different approaches in explaining the poverty. *Spenser* made an attempt to explain poverty through the personality traits of the individual. According to *Spenser*, the word “*poor*” means to be lazy and uninterested in working. If the state provides subsistence for poor people, it will only increase their laziness and will kill their will to deal with the situation (Aceski, 2001). The state should take care only for those who are unable for self-earning due to illness, age or any other reason that impedes them to engage actively in the labor process (Aceski, 2001). A contrary explanation is given by Sen (n.d), as summarized by Hough (2009), who emphasized that all individuals should expect to be protected from poverty by their own

state, regardless of the shifts in the food provisions or in the population growth. According to the "*culture of poverty*" theory, poor people are locked in a "vicious circle" where poverty leads to poverty and consequently, it is transmitted from one generation to another (Aceski, 2001). *Oscar Lewis*, a famous American urban anthropologist noted that the life of the poor differs in many ways from the life of the other members of the society. They form a special social state whose characteristics are: feeling of marginality, helplessness, dependency, inferiority (Aceski, 2001). In the early 60s in America another sociologist said that "*there is a language, psychology and worldview of the poor.*" Being poor means being a foreigner in your own country, growing up in a culture that is radically diverged from that which prevails in the society. Poverty, according to this theory, generates itself. People are trapped, they adapt to the conditions, do not feel the consequences of the poverty and develop a special way of life (Aceski, 2001). Despite the fact that poverty means different thing to different theoreticians, some of them go even further by disclosing its nature from a direct, practical and everyday point of view. One of those practitioners is *Herbert Gans*, an American sociologist, who clarified that poverty exists because it is useful for certain groups in the society. If it would not exist, some temporary, dirty, difficult and dangerous activities could not be accomplished. Poor people are the assurance that it will not happen. Poverty can guarantee the status of those who are not, but are regularly comparing with the poor. (Aceski, 2001) Recent researches have shown that the nature of poverty is in correlation with the type of poverty, i.e. whether it is chronic or transitional poverty. It is a useful attempt to operationalise a distinction between people who seem to be trapped in poverty from those for whom poverty is a shorter-lived experience and who may have some potential to secure, or even improve, their living conditions (Restrepo et al., 2008). Making distinction implies using of different indicators for measurement because different types of poverty require identification of different policy solutions for poverty reduction.

Once we have disclosed the essence of poverty, it is very important to mention that no common functional and coherent definition of poverty has been accepted by all countries. Yet, Maxwell (1999) refers to the fact that in the past five decades, various terms have been used to describe poverty namely, income poverty, human underdevelopment, social exclusion, ill-being, lack of capability and functioning, vulnerability, livelihood unsustainability, lack of basic needs, relative deprivation (in Teshome, 2011) Based on the

extent and nature of poverty, Hettne (2002), has developed five classifications; *First, absolute poverty* occurs when human beings live in a state of deprivation due to meagre income or lack of access to basic human needs which include food, safe water, sanitation, health, shelter, education, and information. *Second, relative poverty* defines poverty from a comparative point of view. Here poverty is not absolute but relative. *Third, administrative poverty* includes all those who are eligible for state welfare because they are either temporarily unemployed and/or unable to earn an income. *Fourth, consensual poverty* depends on the perceptions of what the public deems to be below basic sustenance. Finally, *contextual poverty* is based on a comparison of poverty to the socio-cultural and economic levels of a particular society (Draman, 2003). According to the World Bank definition, poverty represents a multidimensional phenomenon in which people are unable to fulfil their basic human needs as well as lack of control over resources, lack of education and skills, poor health, malnutrition, lack of shelter, poor access to water and sanitation, vulnerability to shocks, violence and crime and a lack of political freedom and voice (Draman, 2003). Furthermore, Barash and Webel (2004) noted that one of the most important, if least recognized, aspects of poverty is its psychological dimension which shapes our perception of deprivation and inequality. Although poverty can be measured objectively using widely accepted indices, it remains crucial to assess it from a social angle. Often, individuals and groups measure their social and economic well-being without the absolute economic standards like income and food consumption. They measure their well-being by relating their socio-economic status with other individuals or groups. This refers to the subjective analysis of one's well-being according to the expectations or standards set by a given society (Teshome, 2011). Whether or not these definitions are the best ones for apposition, it is always evident that poverty is connected with the general standard of living in the given society and with the public attitudes toward deprivation. Corrosive to the social tissue, poverty is capable to undermine the inner peace of the states, but the international peace as well.

Despite the mosaic of definitions and their evident evolution throughout the years, there are some definitions that are considered as general. They are quite helpful because they are broader, inclusive and context specific. For example, the term “*poverty*” covers whole area of human security, including well-being, access to essential services, and

peaceful and effective governance mechanisms to guarantee social protection (CICS, 2005). Also, poverty can be analyzed as the state of an individual or a social group that lack of financial resources compared to a standard more or less identified. Therefore, poverty is a comparison; it attacks the social link between people or groups. A common thread runs through all these distinctions of poverty. They highlight the fact that poverty is a general condition of deprivation and want that consigns its victims to the periphery of their societies (Draman, 2003). One of the simplest general definitions given by Barker (1995) defines poverty as a state of being poor or deficient in money or means of subsistence. However, the most general definition of the poverty starts from the postulate that poverty deprives people of the freedom to decide over and shape their own lives. It robs them of the opportunity to choose on matters of fundamental importance to themselves. In other words, lack of power and choice and lack of material resources form the essence of poverty (Restrepo et al., 2008).

In spite of the abovementioned approaches, points of view, definitions and explanations that could be a relevant basis for conducting a research on poverty, a comprehensive and detail answer of the following crucial questions is still missing: *Why does poverty appear?, What are the reasons for its emergence in the society?*

2.2 Armed Conflict

If we would like to take a look into the nature, characteristics and consequences of an armed conflict, then we must first be sure that we properly understand the basics of the armed conflict, i.e. the conflict itself. Starting from this point, it is noticeable that the term “*conflict*” is much broader than the term “*armed conflict*” because the first one carries many meanings and encompasses a broad spectrum of phenomena, ranging from interpersonal social conflicts to mass, organized armed violence. Conflict is embedded in the society and cannot be separated from the ongoing political and social processes. It is recognized that conflict has a positive dimension and it is an essential part of the process of social and political change (Goodhand, 2001). Similarly to the poverty, conflict is a multidimensional phenomenon that results from, and leads to, a variety of cultural, political, social, economic, religious and psychological processes and dynamics. According to Galtung (1996), conflict could be viewed as a triangle with *structure*, *attitudes*, and *behaviour* as its vertices. By

structure, he means the conflict situation, the parties, and the conflict of interest among them. Conflict arises where the parties come to have incompatible interests, values or goals. He uses the term attitudes to refer to the tendency for the parties to see conflict from their own point of view, to identify with own side, and to diminish the concerns of others. Behaviour includes gestures and communications, which can convey either a hostile or a conciliatory intent (Draman, 2003). The broadest clarification determines conflict as a struggle, between individuals or collectivities over values or claims to status, power and scarce resources in which the aims of the conflicting parties are to assert their values or claims over those of others (Goodhand and Hulme, 1999, as summarized by Goodhand, 2001). It is generally defined as an interaction between interdependent people who perceive incompatible goals and who expect interference from the other party if they attempt to achieve their goal (Draman, 2003). Although the holistic approach is sometimes the best approach to explain the conflict as a result of all social, political and economic processes while emphasizing the positive component of its nature, our emphasis is, however, put on the armed conflict, i.e. on the negative aspect of the conflict. Armed conflicts are defined as open, armed clashes between two or more centrally organized parties, with continuity between the clashes, in disputes about power over government and territory (Smith, 2001). According to the Uppsala Conflict Data Program (UCDP) (as cited in Varisco, 2010), an armed conflict is *“a contested incompatibility which concerns government and/or territory where the use of armed force between two parties, of which at least one is the government of a state, results in at least 25 battle-related deaths in one calendar year”*. In other words, when a conflict turns into open combat with at least 25 battle related deaths per year, then it is described as armed conflict. At the heart of most definitions of armed conflict is a view that armed conflicts revolve around an incompatibility of some kind between groups of people, in response to which the conflicting parties resort to the organized use of force (Ramsbotham, Woodhouse & Miall, 2005; Wallensteen, 2007). Armed conflicts involve state and non-state actors with or without a political motive and, in most cases, civilians are the main casualties. Nevertheless, the consequences extend far beyond these direct deaths. In addition to battlefield casualties, armed conflict often leads to forced migration, refugee flows, capital flight, and the destruction of societies' infrastructure. Social, political, and economic institutions are indelibly harmed. Additionally,

the consequences of armed conflicts are also immeasurable in terms of the development gap that emerges always between those countries that have experienced armed conflict and those that have not. In point of fact, armed conflicts can reproduce by themselves², but they cannot appear without the presence of several factors. As a matter of fact, the emergence, the duration, the sustainability and the ending of armed conflicts depend on the external military and financial intervention, the level of technology and resources available to each armed group, the strength of their ideological beliefs, the relative strength of state presence in key areas in the country, and the successful efforts by rebel leaders to secure social basis of support³ (Justino, 2008). As far as the multiple character of the armed conflict is concerned, it can be divided in several subcategories such as: *intrastate*, *internationalized intrastate*, *interstate*, *extra-state* and *non-state* armed conflict (Draman, 2003). Considering that the three countries: Macedonia, Serbia and Bosnia and Herzegovina, experienced in different period of time, different subcategories of armed conflicts (*intrastate*, *internationalized* and *intrastate armed conflict*⁴), this research will focus on the considered types of armed conflicts only.

2.3 Relevant theoretical and empirical research

Until the recent past, poverty and armed conflict have been seen as independent disciplines with no relation between them and with no impact on one another. Many scholars admitted the fact that poor countries were prone to armed conflict, but they also suggested that many countries that experienced armed conflicts were not amongst the poorest ones in the world. Likewise, they were defending their position by claiming that many poor countries have never experienced armed violent conflict. On the contrary, the

² Once armed conflict emerges, it can easily involve livelihoods, national economy and social relations of a given country. That might accelerate or even aggravate the violent situation which can consequently become a fertile ground for emerging consecutive armed conflicts.

³ In this context, social basis of support refers to the participation and support of local populations.

⁴ *Intrastate armed conflicts* are internal conflicts fought between a government and a non-state group (e.g. the armed conflict in 2001 between Macedonia and the Albanian extremists); *internationalized intrastate armed conflicts* are conflicts in which either the government, a non-state armed group, or both receive external military support from a foreign government (e.g. NATO military intervention in Serbia in 1999) and *interstate armed conflicts* are conflicts fought between two or more states; (e.g. the armed conflict in BiH 1992-1995 between Serbian, Bosnian and Croatian forces)

accumulation of researches on the relation between the two variables has been growing significantly in the recent years so the mainstream security and economic analysts recognised that a connection exists.

Given that both poverty and armed conflict refer to a human condition characterized by the lack of fulfillment of a range of human entitlements such as adequate food, healthcare, education, shelter, employment and voice, a life lived in fear of violence, injury, crime or discrimination (Thomas, 2008), it is quite predictable to assume that there is a link between these two negative phenomena. An equally significant aspect of that assumption is suggested by UNDP (2005), which claimed that nine of the ten countries with the lowest Human Development Index⁵ (HDI) rankings have experienced conflict since 1990 (in Orero, 2007). However, while there seems to be a correlation between poverty and armed conflict, the causal relationship is not clear, i.e., there is no practical evidence nor extensive literature that have been able to clarify how poverty is inter-related with armed conflicts (Varisco, 2010). In this context, several theories have been developed by different scholars and academics. One school of thought thinks that conflict leads to poverty, other school of thought argues that poverty causes conflict, but there are also scholars who think that it is a two-way relationship, i.e. poverty leads to armed conflict and vice versa.

Many case studies describe the impact of conflict at a macro, meso or micro level. The costs can be immediate, dramatic but also can leave long and deep scars on the economy of one country. According to the World Bank statistics from 2003, the armed conflict influences the overall country production. There is damage or destruction to critical physical infrastructure - power distribution systems, transport networks, and so on. War disrupts input and output markets. Because levels of investment characteristically decline in periods of war, industrial and agricultural outputs tend to drop and the opportunity for economic expansion diminishes (Stewart et al. 1997). This approach was sustained by Collier (1999) who confirmed that the armed conflict can disrupt the socio-economic order, can reduce the financial reserves, and of course can decrease the country's GDP. The

⁵ Human development index (HDI) is a summary measure used around the world that indicates whether a country is developed, still developing, or undeveloped. The human development index takes into account three basic dimensions of human development, namely, longevity, knowledge and decent standard of living (Shan & Gosavi, 2010)

study carried out by the Swedish International Development Agency (SIDA) also validated the abovementioned theories: violent conflict affects poverty directly through the destruction or reduction of physical productive capital and physical capital for the provision of public and communal services, such as labour force (through killings, injuries and displacement) and infrastructure (including bridges, buildings, and communications as well as energy sector infrastructure).

While there is consensus among researchers on the economic consequences of conflict, there is less agreement that poverty is effectively the trigger of the armed conflict, i.e., poverty can cause the armed conflict. In fact, a number of researchers claim that poverty is a factor which “inflammes” the armed conflict, but only when it is accompanied by other factors. They agree that many factors must converge to cause armed conflict (Restrepo et al., 2008). Collier and Hoeffler (2002a) estimate that, for a given country, every one percent drop in annual growth increases the risk of conflict by one percent. These authors explain that conflict is more likely to occur in poor countries and that conflict-affected countries generally have higher levels of poverty and lower growth rates. Economic decline can provide an incentive for the unemployed and marginalized particularly youths to join rebel forces for financial gain (USAID, 2005). As a matter of fact, most researchers contend that poverty, in itself, is rarely a direct cause of conflict; yet it is evident that conflict exacerbates poverty. Poverty may contribute to or sustain conflict through its association with perceived injustices and forms of exclusion between groups such as inequality, exclusion and marginalisation⁶. Furthermore, the international evidence tells us that when poverty is combined with ethnic, religious or unresolved national divisions, armed conflicts are much more likely. Special geographical and regional factors, often associated with border areas or “*conflict commodities*”, may provide additional resources and incentives for armed conflict (Hyllyard, 2005). In short, poverty on its own is an insufficient predictor of conflict, and the wealthier the society, the less likely that poverty is a trigger for conflict, especially armed conflict (Hyllyard, 2005). Only in some specific contexts, there is evidence that extreme poverty has provided the motivation for effective

⁶ <http://www.gsdrc.org/index.cfm?objectid=4A0C23DB-14C2-620A-27D1F2B5EF89AA1A> (accessed on 25.09.2013)

recruitment and mobilisation of the masses⁷.

Unlike the previous dominant theories claiming that the causal relationship between armed conflicts and poverty is one way relationship, there is, however, a hypothesis given by Goodhand (2001), who defends the two way causality, i.e., the so called “*balanced relationship*”. According to him, poor countries have a greater disposition to conflict, and poverty is also a probable outcome of conflict, similar configurations of poverty and bad governance may result in conflict in one context and not in another. By examining the transmission mechanisms from violent conflict through to household poverty, as well as the possible impact of household poverty on conflict, Justino (2007), gave an additional support of the two-way relationship theory. This author suggested three key self-reinforcing mechanisms through which armed conflict may impact on the poor: *through the impact on assets and livelihoods, through education and health effects, and through the displacement of populations and the breakdown of socio - economic networks*. In addition, her paper has conceptualized the extent to which poverty can act as a trigger for violent conflict owing to lack of choice of those involved, widespread social discontent amongst different population groups and the search for better socio-economic opportunities (in Restrepo et al., 2008).

Having considered all these theories and positions examining the nature of the (potential) relationship between poverty and armed conflict, it appears that a conclusive answer cannot be provided. For this reason, the findings from this research will represent an additional contribution to the scientific body of literature attempting to disclose the poverty-armed conflict dilemma.

CHAPTER III: POVERTY AND ARMED CONFLICTS in Macedonia, Serbia and Bosnia and Herzegovina

Almost two decades after the Bosnian war ended, fourteen years after the NATO air strike campaign in Serbia and twelve years after the Ohrid Framework Agreement (OFA), the three Western Balkan countries are still facing massive security and developmental challenges. Although, the socio-security picture has positively changed since the break-up

⁷ Ibid.,

of Yugoslavia in 1990, the three considered countries still suffer from a number of structural problems, such as constitutional uncertainty, the “*weak state*” syndrome, a poor business environment and high unemployment and poverty rates (Calic, 2005). The underbrush of nationalism, intolerance and inter-communal hatred unfortunately still survives in the Balkans reflected in a paralysis of central institutions in Bosnia& Herzegovina, in worsening inter-communal relations in Macedonia, violence at the Kosovo-Serbia border crossings (Bebler, 2012). However, in spite of these unresolved issues, all three countries, Bosnia and Herzegovina, Serbia and Macedonia are trying to achieve full scale stability and a significant economic breakthrough. In line of this, Georgieva (2011) argues that at the beginning of 1990’s, Euro-Atlantic integration was perceived as a basic cure for the most, if not of all, transitional problems of the former Yugoslav republics.

In this chapter we are going to provide a brief overview of the social-economic context of the three countries, along with summaries of the armed conflicts that occurred in each country. Bearing in mind that social-economic context has dramatically changed in the last 20 years (the time scope of our research), but also considering the complexity of these armed conflicts, it is understandable to give here short outlines only.

3.1 Poverty and armed conflict in Macedonia

Since the independence in 1991, poverty has been the most serious problem in Macedonia. When we analyze poverty in Macedonia, we can easily point out the period from the early nineties until today, a period when Macedonia has not had objective opportunities for strong economic development (Aceski, 2001). As a matter of fact, due to development capacity deficiency inherited from former Yugoslavia, but also due to some political and security factors (border blockades, war in the nearby neighbourhood, the Kosovo refugee crisis, and the inter-ethnic conflict in 2001), the country has been hindered to achieve some significant economic progress. The development model which was established in the Republic of Macedonia did not contribute to the formation of a dynamic development economy which would be able to meet the growing needs and social

requirements⁸. With an unemployment rate of more than 30%, an extensive “grey” market estimated to be between 20% and 45% of GDP, low foreign direct investments, large trade deficit, and low credit availability, Macedonia has one of the lowest standard of living in the region and in Europe and at same time has the largest gap between rich and poor. The richest 20 percents of the population receive 42 percent of the total disposable income, while the poorest 20 percents receive only 5 percent (Mitchell, 2012). Although Macedonia succeeded to maintain macroeconomic and monetary stability with low inflation making extensive fiscal and business sector reforms, Macedonian economy is still struggling out of the transition phase showing low rates of economic growth and meager poverty eradication. As a consequence, the progress in poverty reduction has been very slow in Macedonia. According to the data in table 1, the poverty rate in Macedonia has been on a steady rise, starting from 19% in 1997 and reaching 29.4% in 2007⁹.

Table 1: Poverty rate in Macedonia

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Poverty rate (70% of median expenditures)	19.0	20.7	21.0	22.3	22.7	30.2	30.2	29.6	30.0	29.8	29.4	28.7

Source: Macedonian State Statistical Office, 2008

Table 1 shows the dynamics of poverty rates in Macedonia in a period of 11 years, from 1997 to 2008. When comparing the poverty rate from 1991 which was only 4 %¹⁰ with the data from 2008, we can easily conclude that poverty rate increased by more than 25% within a period of 16 years. It indicates that during the period of transition, the level of poverty was getting worse from year to year, i.e., Macedonian population was much poorer in 2008 than in 1991. Yet, the transition period is not the only cause of increasing the

⁸ National strategy on alleviation of poverty and social exclusion in the Republic of Macedonia 2010-2020

⁹ Report on the progress towards the millennium development goals, 2009

¹⁰ According to the Institute for Sociological, Political and Juridical Research of the R. of Macedonia

poverty throughout the years. In fact, the figures from the table show also that the poverty rate between 2001 and 2002 increased significantly (from 22.7% in 2001 to 30.2% in 2002). This can be explained with the change of the data collection method, but also with the fact that an armed conflict occurred. In other words, the increased poverty rate in this period can probably be attributed to the consequences of the 2001 conflict in Macedonia¹¹. In support of this hypothesis, Pejkovski (2012) argues that the armed conflict in 2001 led to renewed recession after the first recession appeared in Macedonia in the transition period and after its independence.

Having declared independence on 8 September 1991 from Yugoslavia, Macedonia was the only ex-Yugoslav republic that managed to secede nonviolently. At the time, Macedonia was considered as one of the brightest spots in former Yugoslavia and the country was often called "*oasis of the peace*". In a point of fact, the primary goal of the Macedonian foreign and Security policy from the early 90's has been aimed towards avoiding the contagious effects of violent conflicts in the region and towards establishing/preserving stable internal and interethnic relations as a foundation for democratic transition and institutional building (Georgieva, 2011). The security situation remained stable and the inter-ethnic tensions did not exacerbate as it happened in Kosovo in 1999 or previously in Bosnia and Herzegovina in 1992. However, the relations between the Macedonian majority and the Albanian minority became tense and in the beginning of 2001, a conflict erupted in the mountainous northern parts of Macedonia between the Macedonian forces and the Albanian extremists. Besides the post conflict situation and the fragile peace in Kosovo, the Macedonian authorities along with the International Community (IC) were surprised by the sudden attacks by the Albanian extremists, mainly because of the reluctance of the Macedonian authorities in 1999 to open the borders for the great flood of 250,000 Kosovar Albanian refugees. The motif for attacking Macedonian forces was unclear on the onset of the conflict. In the communiqué of the Albanian extremists (self-proclaimed as a National Liberation Army - NLA), it was claimed that the fighting was against the "Slavo-Macedonian" oppressors and for a "Greater Albania", but

¹¹ Report on the progress towards the millennium development goals, 2009

later, NLA changed its rhetoric and argued that it was “*fighting for human rights of the Albanians in Macedonia and for constitutional reforms*” (Daskalovski, 2004). However, for the Macedonian officials, these violent attacks were nothing else but an attempt to divide the country and to create the great pan-Albanian state. In 2001, Kosovo was already under NATO and UN protection, but it was still a shelter for non-neutralized Albanian rebels spilling over the conflict in the neighboring Macedonia. For this reason, Macedonian officials blamed NATO for not doing enough to disarm the Kosovo rebel forces, to discourage their encampment in the buffer zone between Kosovo and Serbia, or to prevent their entry into Macedonia (Kim, 2001). In response to the initial guerrilla attacks, the government made preparations to launch a military offensive to drive out the rebels out of Macedonian towns and villages and into Kosovo (Kim, 2001). Although the armed conflict has been going on for months through intermittent hostilities from its beginning in January 2001, it gained a dramatic momentum in late June 2001. A massive counterterrorist mission was conducted by the government forces attacking and bombarding the main strongholds of the Albanian extremists. After the intervention of the EU and NATO representatives, the Albanian extremists were evacuated. Nevertheless, the extremists attacks did not stop and their violent activities continued until August 13, 2001 when the Ohrid Framework Agreement was signed. NLA agreed to surrender its weapons under NATO supervision¹², but, in exchange, the President pledged to grant amnesty to the NLA extremists. On August 15, 2001, Macedonian government formally approved the deployment of a NATO force to collect weapons. The agreement required that parliament pass constitutional amendments and legislation implementing the reforms within 45 days. An estimated 100 persons have been killed in the conflict since it began in early 2001 and several thousand Macedonians fled their homes (Kim, 2001). The number of Albanian extremists killed during the conflict was never revealed. Neither of the two main ethnic Albanian political parties claimed association with the NLA although they were expressing sympathies for the motif of this conflict.

¹² In the framework of the Operation “*Essential Harvest*”, NATO deployed 4000 people to supervise the disarmament process of NLA (NATO, 2005)

After the endorsement of the Ohrid Framework Agreement (OFA), the security and economic situation in Macedonia has normalized. Although the OFA is not completely accepted by the two ethnic groups, it laid the foundations for peace and stability and for the country's present two-tier system of governance¹³. Since its endorsement, Macedonia has experienced notable progress, (notably in the area of interethnic relations - use of minority languages, ethnic representation), which reaffirms the country's cultural, ethnic and religious diversity. In this context, Matevski (2011) argues that the conflict in Macedonia was not a religious conflict since it was an ethnic conflict, caused by political aims. After the conflict, the political situation remained relatively stable, although administrative capacity and institution-building need to be further strengthened for full compliance with the EU requirements. Having fulfilled even more of the conditions required by an EU candidate country and already in the tenth cycle of screening for accession, due to the problem with the name issue, Macedonia is still waiting for opening of the negotiations process with the EU.

3.2 Poverty and armed conflict in Serbia

The widespread poverty in Serbia in the 90's was a relatively new phenomenon because the extreme form of poverty has never been recorded in the Serbian society. Until the beginning of 1990s, Serbia had been an integral part of the former Socialist Federal Republic of Yugoslavia (SFRY) with well developed commercial and financial relations with the West. The economic system was largely based on market principles while the education, health care, social protection and other services provided by the state were accessible to the majority of citizens¹⁴. For these reasons, Serbia, together with other former Yugoslav republics, was in a good position to make the transition to a modern market economy and a democratic society with much less difficulty than other countries in transition (IMF, 2004). However, Serbia underwent a complete economic and social collapse and the development of democracy remained at a standstill (IMF, 2004). Thus, the transition period in Serbia can be divided into two main time frameworks: the first one

¹³ UN Program to Enhance Inter-Ethnic Dialogue and Collaboration (2010)

¹⁴ Forum Syd-Serbia, country analysis (2007)

covers the period from the beginning of 1990's until the year 2000 and the second one comprises the period from the year 2000 till today.

Serbia entered the process of poverty in the early 90's when enormous negative consequences were caused to all parts of society. At that time, the living standard of the majority of households was dramatically decreased, the population was faced with a high unemployment rate and the wages were extremely low. The payments of pensions and social benefits were regularly postponed, the population needing more social aid was increasing and the state's economic possibilities of providing social aid were becoming fewer. In other words, the social welfare system was deteriorated and lost its basic functions. The hyperinflation in 1993 contributed to impoverishment and expansion of the grey economy, which became a way out for a significant part of the population to survive. Hard economic and social conditions were additionally made in Serbia when a huge number of refugees and displaced people came in Serbia during and after the military conflicts in Bosnia and Herzegovina and Croatia (Veselinović et al, 2012).

The second period, from 2000 till the present time, is a period of recovery and transition of the country towards a market economy. During this time scope, a macroeconomic stability was established, basic structural reforms were initiated and the first poverty reduction strategy was launched. At the beginning of this period, Serbian government managed to overpass the post-war situation, to introduce a real increase of GDP, to raise the salaries of the employees and to improve the living standard of the population. However, this real growth was not accompanied by effective creation of new jobs, the external trade deficit was on the rise and the unemployment rates remained high. Due to the financial and economic crisis in 2009, the worsened economic situation slowed down the falling trend of poverty levels. In order to form an adequate picture of the poverty trend in Serbia, we present in table 2 the available data on poverty rates over this second time frame.

Table 2: Poverty rates in Serbia during 2002-2010

year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Poverty rates	14% ¹⁵	14%	14,6% ¹⁶	n/a	8,8%	8.3%	6.1%	6.9%	9.2%

Source: (World Bank, 2006)

By analyzing data in table 2, we can notice that after the first transitional period (1990-2000) and the first steps taken against the poverty in 2002, Serbia was faced with a poverty rate of 14%. The figures in the first three years of the examining period show a linear state of the poverty rate of around 14%, while a steady decrease is perceived in the following years. The lowest poverty rate of 6,1% was identified in 2008, but this positive trend was halted in 2010 due to the economic crisis, when poverty rose again and reached 9.2% (RSO, 2011).

When analyzing causes of poverty in Serbia over the last two decades, we can easily perceive that the rapid impoverishment of the majority of Serbian citizens was a direct consequence of the great fall in economic activity. The poor economic results in this period were a manifestation of the implementation of inappropriate economic policy which caused the high inflation rates. However, if we look again at table 2, we can notice that the poverty rates began to drop after the period 2002-2004 which is the period of recovery from the ten-year general political and economic crisis, but at the same time a period of a recovery from the armed conflict in Kosovo and the NATO air-strikes in 1998-1999. Similarly to the Macedonian case, after the military mission in Kosovo and the air-strikes carried out a year later, Serbia suffered a great damage and huge decline in every segment of the society. Serbia spent a great amount of its military resources on its military actions in Kosovo while a considerable proportion of the infrastructure and production capacities were

¹⁵ World Bank Source; Living standard Measurement Survey (LSMS) - Serbia 2002 - 2007

¹⁶-World Bank Source; Background Paper on Trends and Profile of Poverty in Serbia: 2004-2006 - Serbia Poverty Assessment, June 2007

destroyed by NATO bombing in 1999 (Stokić & Grečić, 2012). These military activities conducted at the end of the 90's had an additional unfavourable impact in terms of a fall in production and employment and it slowed down the development of market institutions and of the rule of law implementation. Based on these facts and the above presented figures on the poverty rates, we are not far to ascertain the previously established assumption that armed conflicts are related to the poverty.

As mentioned previously, during the first period 1992-1999, Serbia was passing through several changes of its state-hood status and was undergoing through large security, social and economic turbulences. Although Serbia was involved in all of the conflicts resulting in dissolution of Yugoslavia during the 1990's, ones which marked the most the country's modern history were the armed conflict in Kosovo and NATO's air strikes. Therefore, we can say that the armed conflict on the territory of Serbia had two dimensions. The first dimension concerns the so-called "*Kosovo War*". By 1996, ethnic tensions between the ethnic Albanians and ethnic Serbians were rising and it eventually culminated in the spring 1996 with several attacks executed on Serbian civilians and Serbian security personnel. In that time, an unknown organization calling itself the "*Kosovo Liberation Army*" (KLA) claimed responsibility. Most Albanians saw the KLA as legitimate "*freedom fighters*" whilst the Serbian government called them terrorists attacking police and Serbian civilians¹⁷. In the near neighborhood, the signing of the Dayton Agreement at the end of 1995 brought peace, however, a few years later, the violence in Kosovo intensified (Douarin et al., 2010). The most ferocious attacks between Serbian security forces and Kosovo-Albanian guerilla started towards the end of 1998. KLA attacks intensified, but the Serb police responded to KLA attacks resulting in deaths of many KLA members, Kosovar civilians and some Serbian policemen. Serbian security forces began to crack down on the KLA, which had become increasingly popular in the Albanian Kosovar civilians. Some Albanians were offering a shelter to the KLA members, while others, already in exile, chose to support the KLA with money and weapons¹⁸. The ethnic Albanian insurgency in the

¹⁷ Forum Syd- Serbia, country analysis (2007)

¹⁸ Ibid.,

formerly autonomous Serbian province of Kosovo provoked a Serbian counterinsurgency campaign that resulted in massacres and massive expulsions of ethnic Albanians living in Kosovo. Such a military and police intervention provoked an accusation by the International Community claiming that Serbian security forces had been engaged in ethnic cleansing of the Kosovar civilians. The conflict was interrupted after the intervention of the International Community which encouraged Serbian authorities and Kosovar representatives to start a negotiation process over the future of Kosovo in Rambouillet, France, in February 1999. The failure of these peace talks introduced a new/second armed conflict in Serbia which we called it "*a second dimension*".

This second dimension refers to the subsequent NATO campaign against Serbia between March 24 and June 10, 1999, during which period NATO was attacking the Federal Republic of Yugoslavia¹⁹ on its whole territory. Even without having obtained a permission from the UN Security Council, NATO decided to undertake actions by leading a wide bombing campaign involving up to 1,000 aircrafts operated mainly from bases in Italy and aircraft carriers stationed in the Adriatic. Tomahawk cruise missiles were also extensively used fired from aircraft, ships and submarines possessed by the United States which was the dominant member of the coalition against Serbia²⁰. The extent of destruction was immense. NATO air-strikes were mainly directed to non civilian targets such as: industrial capacities, infrastructural objects, military bases and military factories as well as other premises which were enhancing the Serbian operational capabilities and were of vital importance for Serbia. With the signing of the Kumanovo Military Technical Agreement (KMTA) on June 10, 1999, NATO air-strikes came to an end and the "*Kosovo-war*" ended simultaneously. United Nations Security Council Resolution 1244 was adopted, establishing Kosovo as an international protectorate. On 12 June 1999, NATO-led international force "Kosovo Force" (KFOR)²¹ entered Kosovo as a peace-enforcement force

¹⁹ At that time, Serbia and Montenegro were still in a union called the "Federal Republic of Yugoslavia" (FRY). Montenegro proclaimed independence in June 2006.

²⁰ Forum Syd- Serbia, country analysis (2007)

²¹ In accordance with Resolution 1244 of the Security Council of the United Nations, KFOR has been deployed in the province since June 1999 and works closely with the United Nations Mission in Kosovo (UNMIK) as well as with various international and non-governmental organizations. It also aims to monitor, to verify and, if necessary, to enforce the implementation of the agreements that ended the conflict (NATO, 2007).

under the United Nations mandate (UNHCR, 2007). After the violent conflicts in Serbia, a new government was formed which had a new European strategic orientation entailing acceptance of European values and standards in the entire range of areas (Douarin et al., 2010). In 2009, Serbia officially applied for EU membership and in March 2012 the EU confirmed Serbia as a candidate country. A year before the official application of Serbia for EU membership, in February 2008, Serbia's Autonomous Province Kosovo and Metohija had declared its independence.

The effects of both Kosovo conflict and NATO bombing were tragic and immense. The armed conflicts were marked by attacks on civilians and massive movements of people and resulted in dramatic losses in physical, human and social capital (Douarin et al., 2010). In the immediate after-math of the conflict, infrastructure and housing were damaged or destroyed; crops had failed and agricultural land was ransacked, and in some cases mined (Douarin et al., 2010).

3.3 Poverty and armed conflict in Bosnia and Herzegovina

Bosnia and Herzegovina was one of the poorest and the most diverse in terms of ethnic composition of the republics of the former SFRY. The economic performance of the country differed significantly before and after the violent conflict. Although ranked next to Macedonia as the poorest republics in former Yugoslavia, in the late 80's and the early 90's BiH had a well-developed industrial base built around its endowments in natural resources (forests, hydropower, coal, iron) as well as a heavy industry specialized in production of sophisticated machinery such as agricultural equipment and automotive parts (Kaminski & Ng, 2010). Unlike other centrally planned economies, BiH had a relatively open and market oriented economy as well as a highly educated labor force which was also owner of production properties. That profitable trade climate and the development oriented economy were the main tools against the poverty. Moreover, the UNDP placed BiH among the countries with high Human development index, thanks to above-average accumulated investments in health and education or human capital acquired between 1970 and 1990. (Causevic and Zupcevic, 2009). However, during the first half of the 1990s, BiH experienced the most devastating economic collapse of any economy in Central and

Eastern Europe since World War II (World Bank, 2005). The 1992-95 war fundamentally changed the country's economic structure resulting in collapsing of the economic activity to less than 20 percent of its pre-war levels (Kaminski & Ng, 2010). Over a period of 3 years, the majority of BiH population experienced high poverty rates²², but some distinct groups such as the unemployed, the internally displaced persons (IDPs) and refugees, the disabled etc., were the most affected by the galloping level of poverty. The country emerged from the devastating war with drastically lower living standards and major disruptions across society. Out of the 900,000 people employed in the civilian economy in 1991 only about 72,000 were able to keep their jobs by the end of the conflict (World Bank, 2003). Bank deposits were eroded or frozen. A generation lost critical years of schooling. Access to health services was interrupted, and social protection programs were disrupted. War damaged the very core of community and family-based social networks (World Bank, 2003). Poverty was a serious challenge for the new authorities especially because it was already present in every pore of society, and alongside the economic dislocation and social cleavages, dramatically reduced the social capital. The war divided and disrupted the social protection systems, including social assistance, pensions and veteran benefits. At the same time, the war dramatically increased the need for these systems, since many Bosnians were pushed into unemployment, poverty and vulnerability (Eurasylum, n.d). With approximately 30% of the population subsisting just above the poverty line, poverty was considered as one of the most dominant threats to the fragile security.

With the return of peace in 1996, BiH made significant strides in re-building its economy. The transportation, communication and power networks have been rehabilitated while, in parallel, the institutional infrastructure has been revamped (World Bank, 2005). The country established a national currency and managed to reduce a large portion of its share of external debt inherited from the former SFRY. In addition to the massive international assistance provided immediately after the war, the international community disbursed more than US\$5.1 billion, mostly for reconstruction and institution building projects (World Bank,

²² Due to the absence of reliable data on poverty rates for Bosnia and Herzegovina, all statistical analyses on poverty rates are based on estimations provided by world organizations or international institutions. For instance, according to the UNESCO's survey MTDS (BiH Medium Term Development Strategy Revision of 2005), the poverty rate in BiH in 2001 was 19, 5 %, in 2004 was 18,3 %, while in 2007 it fell by 18,2%.

2005). Moreover, BiH has been successful in achieving macroeconomic stability: inflation has been brought down, fiscal accounts have improved and foreign reserves have increased. The macroeconomic stabilization has resulted in robust increases in investment and output growth. According to the World bank report (2005), the inflows of FDI combined with the return of BiH refugees, some of them with business skills acquired during the forced emigration, have put BiH on a new path (Kaminski & Ng, 2010). From a totally devastated post-war economy, Bosnia and Herzegovina has managed to become a functional economy which has slowly started to position itself in the regional and international context. In short, Bosnia and Herzegovina has made enormous progress.

Yet, despite the rapid economic recovery and the promising economic outcomes which lasted to the beginning of the financial crisis in 2009, BiH remains one of the poorest countries in South Eastern Europe (SEE). While GDP has increased, the living standards of many Bosnian families remained low (World Bank, 2005). The labor market is still anemic and is characterized by very low participation rate, a low employment rate and a high unemployment rate. The country's external imbalances remain large while the large informal sector hinders the output growth. Although the World Bank's poverty assessment showed that severe poverty was not prevalent in the country, 1/5 of Bosnian households still live in poverty (World Bank, 2003a). In fact, the available data for poverty rates (19.5% in 2001, 18.3% in 2004, 18.2% in 2007)²³ provided by the international organizations reveal that there is high level of poverty in BiH even many years after the conflict ended.

The most perplexing post-Cold War conflict was the war in the Former Yugoslav republic of Bosnia and Herzegovina (1992-5) (Jackson & Sørensen, 2007). The civil war in Bosnia and Herzegovina followed immediately the declaration of independence at the end of 1991 (Bisogno and Chong, 2001). The main belligerents were the forces of the Republic Bosnia and Herzegovina, the forces of Republica Srpska and the forces of Hezeg-Bosnia. As a matter of fact, all the three entities, Bosniaks (Bosnian Muslims), Bosnian-Croats and Bosnian-Serbs were involved in the war. It was at the same time a territorial, religious and ethnic conflict broke out between the Serb forces on one side, and the Army of Bosnia and

²³ Source: Union of Industrial and Employer's Confederation of Europe (UNICE) Statistical database.

Herzegovina, which was composed of Bosniaks and Croat forces, on the other side. The conflict lasted for three and a half years until the end of 1995 and encompassed mass killings, massacres, ferocious attacks, loots, pillages, and other brutal violent acts. At the beginning of the conflict, states people were confronted with three basic courses of action: *absolute non-intervention*, in which responsibility for events would reside in the hands of the parties to the conflict (the Bosnian army and the Serbian and Croatian militias), *full-scale military intervention*, in which international society would assume a heavy responsibility for events; or *a path somewhere between these extremes* (Jackson & Sørensen, 2007). The course that was embarked upon and followed during most of the conflict was a normatively ambiguous middle way of mudding through, by means of a limited UN humanitarian intervention which attempted to protect non-combatants, deliver humanitarian aid and arrange a negotiated settlement (Jackson & Sørensen, 2007). Nevertheless, as a consequence of the massacres and mass killings conducted mainly over the Bosnian Muslim population in Srebrenica, Markale and other parts in Eastern Bosnia, NATO air power was employed in 1994, and eventually the military option was used as a threat to bring the parties to a peace conference. As it turned out, the middle course of limited UN humanitarian intervention probably prolonged the conflict and proved to have tragic consequences (Jackson & Sørensen, 2007). That third course of action was officially abandoned in 1995, when the Multinational Implementation Force (IFOR) was deployed in Bosnia and Herzegovina which was replaced by the Stabilization force (SFOR) in December 1996 (NATO, 2005). In late 1995 a peace treaty called "Dayton Peace Agreement" (DPA) was signed and substantial NATO force was deployed to Bosnia to implement the terms of the agreement. NATO-led operation in Bosnia and Herzegovina came to an end in December 2004, when the liability of the maintenance of security has been transmitted to a monitoring mission called ALTHEA led by the EU ²⁴ (NATO, 2005).

²⁴ Even after the deployment of the European Union forces (EUFOR), NATO remained engaged by helping the country to build its own long term future. By keeping one military headquarter in Bosnia and Herzegovina, the political commitment of the Alliance increased while the operational capabilities decreased. The European Union became responsible for ensuring the everyday safety, while NATO put the accent on the reform of the Defence in Bosnia-Herzegovina preparing the country to adhere firstly to the Partnership for Peace and afterwards to the Alliance itself (NATO, 2005).

The Dayton Accords established a constitution for BiH with multiple levels of government, reflecting the wishes of the three main ethnic groups to retain as much control as possible over their own affairs. An Office of the High Representative (OHR) was established, with extraordinary powers. The government of the State of BiH was given only minimal powers. Most authority was vested in the two *Entities* - the Bosniak/Croat Federation of Bosnia and Herzegovina (FBH) and the Bosnian Serb, Republika Srpska (RS) (World Bank, 2003). These entities retain authority over separate armies and police forces and over virtually all fiscal revenues, banking supervision, and provision of social services (World Bank, 2003). Having signed the Stabilization and Association Agreement (SAA) with the EU in June 2008, BiH today is a potential candidate for EU membership. Although stable on a security level, the “*constitutional instability*” remains a key problem afflicting the country existence. The union of the three entities is heavily dependent on external political will and it remains a concern that in the areas where progress has been achieved, progress has come only as a result of international pressure (Calic, 2005). As a result of the fragmented nature of the country and the complicated governmental and administrative structure, Bosnian institutions are generally considered to be weak, and adherence to the principle of Bosnian statehood or national identity is limited (Nečas & Olejník, 2007).

The war in Bosnia and Herzegovina started in 1992 and ended in 1995, caused immeasurable suffering, widespread destruction, and substantial loss of life (World Bank, 2003). While completely accurate information on the human and material costs of the war is impossible to compile, there is a general agreement that the human suffering and physical devastation were on a scale not seen in Europe since World War II. An estimated 10 percent of the population was under arms at the end of the war. During the conflict, 250,000 were killed, 200,000–400,000 wounded, and over 2 million either fled the country or were internally displaced. At the end of 1995, up to 70 percent of school buildings had been destroyed damaged or requisitioned for other uses (World Bank, 2003).

CHAPTER IV: THE RELATIONSHIP BETWEEN ARMED CONFLICT AND POVERTY

IV.1 THE IMPACT OF THE ARMED CONFLICTS ON POVERTY; Statistical comparative analysis of some socio-economic parameters

Armed conflicts cause various direct and indirect consequences affecting strongly the states on macro, meso and micro level. Armed conflicts decline the state and democratic political processes, impact on rates of growth, investment levels and markets, disrupt social relations, degrade the environment, destroy infrastructure, services, assets and livelihoods, displace populations, break institutions and norms and create fear and distrust. Armed conflicts influence the people's lives at the time of the conflict and for many years thereafter. In one word, armed conflicts destruct or contribute to destruction of the human, social, natural, physical and financial capital. They can add new forms of vulnerability and exclusion, which in turn may feed into future outbreaks of violence i.e., a country that has experienced an armed conflict is much more likely to experience another conflict in the future, creating a cycle of conflicts (Justino, 2011). Frankly speaking, armed conflicts do not put at risk only the present of the concerned country or the affected population, but also the future of the upcoming generations of a whole state, group of states and even regions.

To investigate the effect of armed conflicts on poverty, and assess eventually the magnitude of the costs of the armed conflicts, this study analyzes several socio-economic parameters. More specifically, through a detail comparative analysis of four economic (***Gross Domestic product – per capita, Export potential, Foreign Direct Investments, Unemployment rate***) and one sociological indicator (***Forced displacement***), we will make an attempt to discover whether the armed conflicts provoked or aggravated the poverty in three Western Balkan countries (Macedonia, Serbia, Bosnia and Herzegovina). The study first tests if those three countries that experienced armed conflicts in different periods in the last 20 years, had lower GDP per capita after the end of the conflicts, compared to GDP rates in the periods before the conflicts. Second, we explore if there is a difference in the amounts of exported goods in all three countries before and after the armed conflicts occurred. Third, this research examines the post-war influx of FDI, by comparing it with the pre-war FDI influx. Fourth, we will investigate whether the unemployment rates in those

three countries rose after the armed conflicts if comparing them with the rates before the conflicts started. Finally, the research seeks to discover if there was a significant forced displacement of populations during and after the conflicts and if yes, how massive was it, and what was the number of returns in the heavily affected areas?

4.1.1 Gross Domestic Product (GDP)

Many macroeconomic analysts claim that the armed conflicts have a very significant negative impact on economic growth. Additionally, they decline the markets, provoke lack of credit availability and diminish the outflow of capital. In the case of the Western Balkan countries, the processes of social transition and transformation of ownership, as well as the loss of markets in the former Yugoslav federation, contributed all three countries to have low growth rates of GDP even many years after their independence. However, these are not the only reasons for having such a decline in their national economies. The armed conflicts that happened in their last 20-years history are also among the main negative factors which brought impoverishment in all strata of the societies. Thus, the question that should be asked is whether the armed conflicts erupted in Macedonia, Serbia and Bosnia and Herzegovina in different periods of their recent histories contributed to or caused falling of GDPs per capita in each of the country. In order to have a clear picture on GDP per capita for each of the examining country and subsequently to assess the trend of the impoverishment throughout the last 20 years, we summarized in table 3 all data regarding the national GDPs per capita.

Table 3: GDP per capita in Macedonia, Serbia and BiH, \$US, 1990-2011

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Macedonia	1467	1456	1344	1440	1740	2292	2230	1866	1807	1849	1792	1687	1879	2367	2705
Serbia	4052	3949	2893	1970	2099	2229	2493	2369	2246	1459	1158	1466	2000	2673	3216
BiH	1811	1467	1196	979	780	600	847	1129	1207	1305	1516	1547	1774	2247	2645

Year	2005	2006	2007	2008	2009	2010	2011
Macedonia	2944	3231	4004	4774	4521	4512	4845
Serbia	3360	3913	5283	6531	5436	5026	5571
BiH	2909	3173	3969	5034	4512	4521	4797

Source: <http://kushnirs.org/macroeconomics/gdp/gdp.html>

1995- period when BiH experienced an armed conflict
 1999- period when Serbia experienced an armed conflict
 2001- year when Macedonia experienced an armed conflict

Comparing the figures in table 3, all three countries had different starting points in terms of their GDP per capita after the collapse of Yugoslavia in the period 1990-1991. While Macedonia and Bosnia and Herzegovina were the least developed countries in

Yugoslavia with 1467 and 1811 GDP per capita respectively, Serbia had higher GDP value of 4052 \$US per capita in 1990. Due to the economic breakdown during the transition period in the 90s, but also due to the armed conflicts, these three countries reached the 1990 GDP's levels even after the year 2000. In particular, Macedonia reached the 1990 GDP level after a decade. In spite of the steady but positive GDP trend during the period 1996-2000 with an average annual growth of 2.3%, Macedonia did not achieve a significant progress in its economic performance. Serbia reached the 1990 level even later than Macedonia, i.e., in 2006, meaning that Serbia needed a decade and a half to achieve the same level as it had in the 90s. Bosnia and Herzegovina started the transition period with a very low level of GDP per capita in 1990. Although the country underwent through a devastating war in the early 90's reaching the lowest GDP per capita of 600 \$US in 1995, BiH managed to make a noticeable improvement in the following years achieving the 1990 GDP's level in the period from 2002 to 2003.

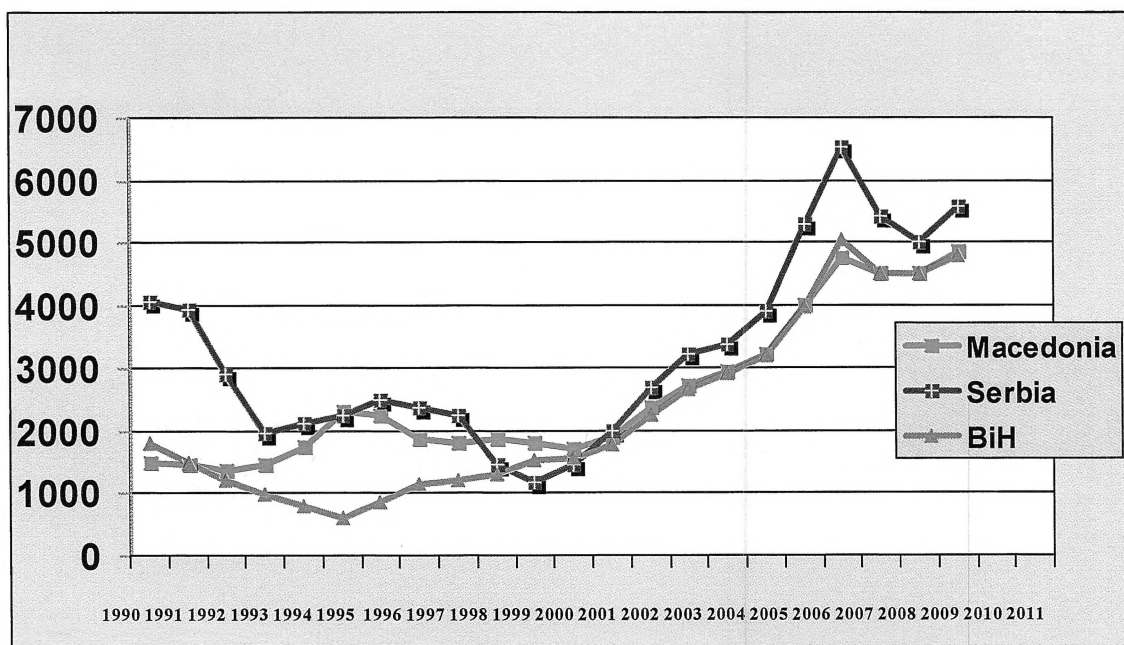


Figure 1: Change in Real GDP per Capita from 1990-2011 in Macedonia, Serbia and BiH

The graph illustrates the change of GDP per capita in the three case studies over a period of more than 20 years. On one hand, the shrinkage of economic activities and its knock-on effects had, in many of the case studies, significant impoverishing impacts on large sections of the population (CICS, 2005). On the other hand, the armed conflicts which

lasted 4 years in Bosnia and Herzegovina, less than 2 years in Serbia and 7 months in Macedonia, caused a decrease of their GDP growth. In other words, in situations of an armed violent conflict, GDPs per head inevitably and invariably fall. In Macedonia, for example, the annual GDP per capita in the conflict period (2000-2001) dropped from US\$ 1792 to US\$ 1687. Evidently, the armed conflict in 2001 influenced negatively on the GDP growth rate which decreased to the level of - 4.5%. Right after the conflict, there was already a positive growth of 0.9% in 2002 and 2.3% in 2003. From 2004 until 2008, the annual GDPs per capita of the country went above 4% (4, 6%, 4, 4%, 5, 0%, 6, 1%, and 5,0%²⁵). Struggling with the economic difficulties in the 90's, Serbian GDP per capita was going down throughout the whole decade reaching the minimal stages in 1999 and 2000. Because of the "Kosovo war" and NATO bombing commenced a little after that, Serbia lost the vital industrial capacities resulting in drop of the country's GDP to the minimal values of 1459 US\$ per capita in 1999 and to 1158 US\$ per capita in 2000. The second part of the graph (the period 2001-2011) shows that Serbia, after the armed conflicts, succeeded to consolidate its economy and to achieve a GDP growth of 5283 and 6531 US\$ per capita in 2007 and 2008 respectively. In other words, Serbia reached the peak of its national growth in 2008 with a real economic growth of 6.9 %. Bosnia and Herzegovina experienced the longest and the most destructive armed conflict in comparison with the two other countries. The war which lasted 4 years resulted in a dramatic downward trend of country's GDP, declining up to the 600 US\$ per capita in the last year of the conflict. After the devastating armed violent conflict, BiH economic performance was getting better and better reaching the peak of 5034 US\$ GDP per capita in 1998. According to the estimates of Causevic and Zupcevic (2009) the rate of actual economic growth has been considerably improving while the economy was one of the 13 fastest growing between 1998 and 2004. Between 2000 and 2007, it was the 23rd fastest-growing economy in the world.

Generally speaking, since the year 2000, the economic performance in all three countries has sharply accelerated and by 2008 all three countries exceeded their pre-transitional and pre-war GDP level. However, that positive dynamics of GDP growth was interrupted in 2009 as a result of external factors, i.e., the global financial crisis which

²⁵ National strategy for reducing poverty and social exclusion in Republic of Macedonia 2010-2020

hindered not only the Western Balkans growth but also the world's growth. If we take a look again at graph 1, we can see that the trend lines of GDPs are close to each other in the second part of the graph (period 2001-2011), especially those describing the Macedonian and Bosnian GDP. Nevertheless, it can be said that each country showed similar GDP growth compared to the other two countries.

4.1.2 Export

In analyzing the relationship between poverty and armed conflicts, it is of paramount importance to assess the influence of the armed conflict on the export potential of the affected countries. The export plays a key role in the macroeconomic outlook of a country and consequently, the poverty rates are directly and on a long term dependable on this macroeconomic parameter. In contrast to some other transition countries, the economies of Macedonia, Serbia and Bosnia and Herzegovina have faced complex and interrelated political and economic problems. All three underwent through a long transition processes and each of them experienced an armed conflict which, likely, led to a decrease of the export levels. Taking into account these factors, output recovery has been much slower, which, in turn, resulted in inadequate or insufficient structural changes that would have generated an increase, primarily in the country's export potential²⁶. In order to provide a detail picture on the export potential of the examining countries, we classified all figures in one table which entails the period of the onset of the transition process, the period when the countries experienced armed conflicts, as well as the post transition/postwar period.

²⁶ Report on the progress towards the millennium development goals, 2009

Table 4: Export of Macedonia, Serbia and BiH, US billion dollars, 1990-2011

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Macedonia	0.75	0.58	1.3	1.2	1.3	1.5	1.2	1.4	1.5	1.5	1.7	1.5	1.8	1.8	2.2
Serbia	6.4	5.9	4.3	3.1	3.3	3.4	3.9	3.3	4	1.4	0.99	2.9	5.1	5.1	6
BiH	1.8	1.4	1.1	0.82	0.66	0.4	0.65	1.1	0.91	1.1	1.6	1.6	2.2	2.2	2.9

Year	2005	2006	2007	2008	2009	2010	2011
Macedonia	2.6	3.1	4.3	5	3.6	4.3	5.7
Serbia	7.1	9.2	12	15	12	13	15
BiH	3.5	4.5	5.7	6.8	5.5	6.2	7.4

Source: <http://kushnirs.org/macroeconomics/gdp/gdp.html>

1995- period when BiH experienced an armed conflict
 1999- period when Serbia experienced an armed conflict
 1998- year when Macedonia experienced an armed conflict

When looking at the data about the export for the last 20 years, is it clear that there is a considerable difference among Serbian export performance on one side and the Macedonian and Bosnian export performances on the other side. It is obvious that in the beginning of the 90's, Serbia with an export amounted to 6.4 billion \$US, was in a much

better position than the other two countries. Macedonia and BiH could not start with similar export outcomes just because of the very small foundation of heavy industry and other production capacities that they have inherited after the dissolution of Yugoslavia. These two countries achieved, however, some progress in 2004/2005, but it was not enough to have a significant impact on reducing the poverty levels. Of course, the small number of industrial capacities is only one side of the export profiles. The armed conflicts which broke out simultaneously with the transition process, not only slowed down, but also sharply decreased the export outcomes. The following figure gives a more plastic review of the exports level within a period of 21 years.

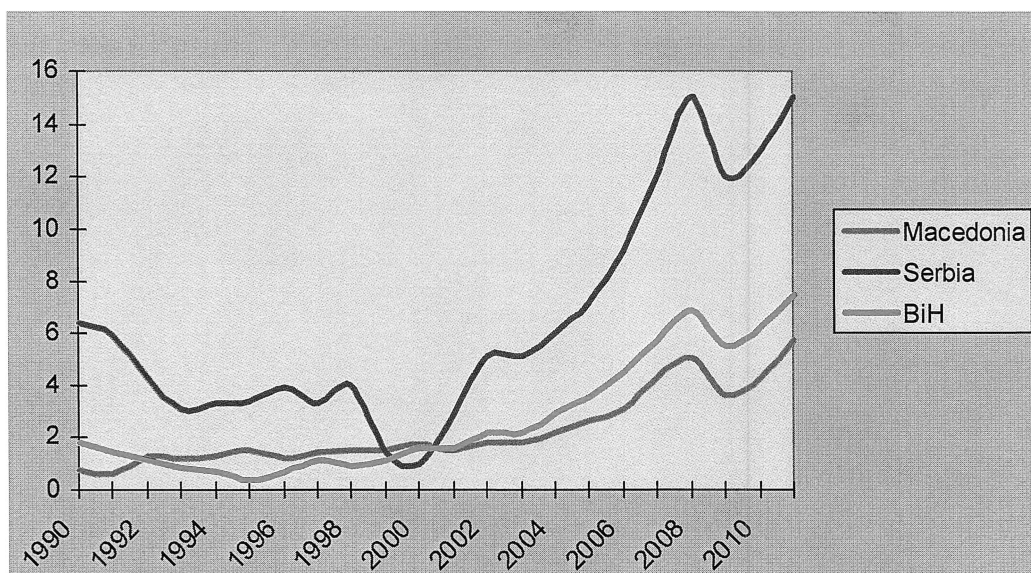


Figure 2: Trend lines of the export from 1990-2011 in Macedonia, Serbia and BiH

If we take a closer look at the figure 2, we can notice that Serbia has an oscillating trend line of the export while Macedonia and BiH have almost flat trend lines by 2004, which afterwards turn into a steady fluctuation. More specifically, Macedonia as one of the poorest republics in the Former Yugoslavia, in the beginning of the 90s, did not have enough industrial capacities which will increase rapidly the export levels. In the following years, Macedonia had stable but very low levels of export which was partially a result of the 16 month embargo imposed by Greece. It had dealt a heavy blow to the Macedonian economy and it cut-off the country from the international trade flows. In 2001, the short but intensive armed conflict contributed to a fall in the export of goods by 200 million \$US

compared to the previous year. After joining the World Trade Organization (WTO) in 2003 and subsequently Central European Free Trade Agreement (CEFTA) in 2006, Macedonia managed to overcome the period of low export achieving a significant progress in 2008. Many of the foreign trade requirements were defined also with the signing of the SAA with the EU in 2001. However, although the development of the legal and institutional framework has had a relevantly positive effect on Macedonia's foreign trade, it turned out that on its own it had not been sufficient to positively change the weak export profile of the country²⁷.

As mentioned above, Serbia as the biggest of all the republics of Former Yugoslavia, disposed in the early 90s, with a considerable number of industrial capacities, agricultural premises and socialistic national enterprises. That favorable economic base boosted the country to begin the transition period with an export amounted to more than 6 billion \$US. Two years after, in 2003, there was evidently a decline in the export of goods because of the full scale ownership transformation, but also because of the economic sanctions imposed by the International community. These sanctions were repeated again in 1998 during the "*Kosovo war*" and exacerbated by the destroyed infrastructure by the NATO bombings as well as by other negative development tendencies. Serbia suffered an economic decline, which led to sharp decrease of the export potential. Nonetheless, since 2004, Serbia has been achieving a substantial progress in terms of the export growth as a result of the improved economic climate and the great inflow of FDI. Furthermore, in 2010, Serbia adopted a new long-term economic growth plan, calling for a quadrupling of exports over the next decade and heavy investments in basic infrastructure.

Similarly as Macedonia, Bosnia and Herzegovina marked its independence without having export intensity. Immediately after the proclamation, the country was involved in a long devastating war which reduced the export to minimal levels. In the last year of the conflict, BiH placed goods on the foreign markets worth not more than 0.4 billion \$US. During the war, BiH's export remained very low in relation to GDP, and even much lower than before the war. The destroyed physical and human capital during the four year armed conflict was clearly reflected in all socio-economic segments, but the steady drop of export

²⁷ Report on the progress towards the millennium development goals, 2009

activity was among the most noticeable effects. Since the end of the conflict, BiH has succeeded to improve the trade performance, to raise the competitiveness of its products through a better quality and to make a breakthrough in the world markets. All of these elements raised the level of export, but a visible step forward was made in 2008 and 2011 with export of 6.8 and 7.4 billion \$US respectively. Although, the financial crisis halted the export grow and decreased the chances of export sustainability, Bosnia and Herzegovina remained oriented towards searching of new potential markets.

A common feature of all countries is the modest export amount in the beginning of the 90s and a sharp contraction of the export potential during and after the armed conflicts. When the period of geopolitical instability and turbulence ended, all three countries achieved a significant progress exporting more goods than ever before.

4.1.3 Unemployment rate

We cannot truly understand the influence of armed conflict on poverty without understanding the role of labour markets including the unemployment rates²⁸. Similarly as the decrease of GDP growths in the early 90s, the basic reasons for high unemployment rates in Macedonia, Serbia and BiH were the loss of traditional markets and the slow transition process. According to Arandarenko and Bartlett (2012), such an unfavorable economic situation combined with relatively high labour costs, demographic pressures and large informal economy contributed to loss of many workplaces without having created new ones. Nevertheless, the rapid de-industrialisation process that the Western Balkan countries have been undergoing through until the end of the 90s was not the only reason for the sharp reduction of the workplaces. All three countries faced an armed conflict in the last 20 years which aggravated the situation. In fact, the armed conflicts have had a major

²⁸ Unemployment rate can be defined by either the national definition, the ILO harmonized definition, or the OECD harmonized definition. The OECD harmonized unemployment rate gives the number of unemployed persons as a percentage of the labor force (the total number of people employed plus unemployed). [*OECD Main Economic Indicators, OECD, monthly*]. As defined by the International Labour Organization, "unemployed workers" are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. [ILO, <http://www.ilo.org/public/english/bureau/stat/res/index.htm>] (accessed on 25.05.2013)

negative impact on the productivity level which, subsequently, provoked a decrease of job offerings, a reduction of the mobility of the workers and finally a rise of the unemployment rates.

Table 5: Unemployment rates in Macedonia, Serbia and BiH, 1997-2011 (in %)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
and	36,0	34,5	32,4	32,2	30,5	31,9	36,7	37,2	37,3	36,0	34,9	33,8	32,2	32,0	31,4
ia	12,3	12,8	13,3	12,1	12,2	14,5	16,0	19,5	21,8	21,6	18,8	14,7	17,4	20,0	24,4
	n/a	32,2	31,1	31,1	31,1	31,1	31,1	31,1	31,1	31,1	29,0	23,4	24,1	27,2	27,6

Source: International Monetary Fund (n.d)

1999- period when Serbia experienced an armed conflict

- year when Macedonia experienced an armed conflict

Table 5 compares the unemployment rates of Macedonia, Serbia and Bosnia & Herzegovina during the period from 1997 to 2011. A comparison of the unemployment rates as summarized by Cazes & Nesporova (2006) reveals that these three Western Balkan countries are particularly troubled by high unemployment, which has increased further since 2000. It can be perceived a paradoxical situation where despite the steady GDP growth and economic development after 2001/2002, those countries had not recorded

²⁹Data retrieved from the National bank of the Republic of Macedonia

³⁰Data retrieved from the International Monetary Fund

³¹Data retrieved from the International Monetary Fund

an employment recovery. Looking at table 4, we can notice that most of the unemployment rates are in double figures and climb to almost one-fourth out of the whole active force in the case of Serbia in 2011 and over one-third in the case of Bosnia & Herzegovina and Macedonia. It is well known that all countries have been facing dramatic employment cuts particularly in the first decade of the transition, but Bosnia & Herzegovina and Macedonia were affected the most, suffering job losses by almost one third over the 1989-2002 (Cazes & Nesporova, 2006). As a result, these two countries in the period 1997/1998 recorded unemployment rates of 36% and 32, 2% respectively. Besides the high values of the unemployment rates of Macedonia and Bosnia and Herzegovina, what remains unclear is the tendency of the unemployment rates of Serbia, which is slightly increasing over the examining period. While the figures for Bosnia and Herzegovina and Macedonia were going down reaching 27, 6 % and 31, 4 % at the end of 2011, the figures for Serbia were going up, reaching 24, 4% in 2011.

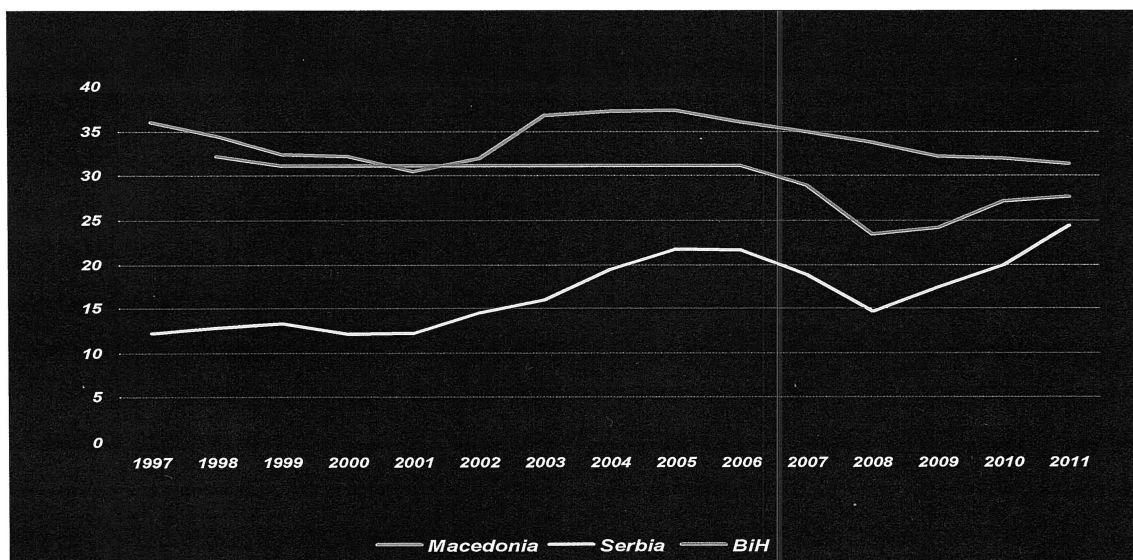


Figure 3: Trends of the unemployment rates, 1997-2011, for Macedonia, Serbia and BiH

The graph above depicts the trend lines of the unemployment rates of Macedonia, Serbia and Bosnia & Herzegovina over a period of 13 years. According to graph 3,

Macedonia and Bosnia & Herzegovina have more or less constant high value³² of the unemployment level, while Serbia has an erratic trend of the unemployment rates. Due to different socio-economic and political-historical conditions inherited from Former Yugoslavia, these countries had different starting points in view of their level of unemployment. In particular, the unemployment rates in Macedonia have been persistently high and this was one of the key factors that contributed to the rising levels of poverty. This high unemployment has been noted in the years following independence when it amounted to 24.5% in 1991³³. Since then, the percent of the unemployment rate has been persistently rising reaching 36% in 1997. In the following years, there was small but positive drop which has been halted by the armed conflict in 2001. Usually, the armed conflicts are amongst the most negative factors initiating a rise of the unemployment levels, but in the Macedonian case, a lot of unemployment persons were mobilized by the National security organs at the very beginning of the conflict. As the graph shows, it is clear that after the armed ethnic conflict in 2001/2002, a great number of temporarily employed persons was demobilized increasing again the unemployment rates. Of course, the demobilization process was not the only reason for increasing of the unemployment rates. The armed conflict caused a loss of the traditional markets, the biggest companies lost their trade partners resulting in decrease of the export, while the small enterprises with well established businesses could not overcome the deteriorated economic climate. Due to the newest wave of jobless people, the unemployment rates have been gradually climbing in 2003 and 2004, reaching the highest level of 37, 3% in 2005. Despite these extremely high unemployment rates, the indicators show that this statistics is rather superficial than realistic just because of the great percent of the informal “grey” economy. A research paper issued by the World Bank (2003) suggests that the real unemployment rate in Macedonia is about 23%, which indicates that despite the scarce job opportunities on the labour market, people have, nevertheless, been engaged in informal business activities. Therefore, establishing a true number of unemployed persons with a reliable unemployment rate in Macedonia is a quite

³² Macedonia and Bosnia & Herzegovina had (and still have) one of the highest unemployment rates in Europe which is characterized by a high rate of long-term unemployment and considerable number of young unemployed persons.

³³ Report on the progress towards the millennium development goals, 2009

difficult task.

Amongst these countries-case studies, Serbia was, in the middle of the 90s, the best positioned country in relation to the unemployment levels. With an unemployment rate of 12, 3 %, in 1997, Serbia seemed capable to curb the wave of jobless people in the transition process as it happened in other republics of the Former Yugoslavia. However, the Serbian labour market was over-employed, but the rigid labour legislation practically halted any redundancies to offset the low productivity caused by over-employment (Stokić & Grečić, 2012). After 1997, Serbia entered in an armed conflict, which worsened the labour-market situation raising slightly the unemployment rates and reaching a percent of 13, 3 in 1999. After the Kosovo war and NATO bombings, Serbia managed somewhat to normalize the unemployment rates by 12, 2% in 2002 providing work to jobless people in order to reconstruct the country. Since 2003, the unemployment levels have been increasing again, but the robust economic activity in the subsequent years did not allow exceeding of the unemployment rate over 22%. Regardless these facts, some researches like Bajec and Joksimovic (2000), as cited in Stokić & Grečić, (2012), claimed that the unemployment rates were invalid because of the so called “*hidden unemployment*” i.e., a great part of the workers were officially registered as employed, but many of them did not receive salaries for more than a year. Such conditions have initiated flourishing of the informal economy.

Bosnia and Herzegovina had a significant unemployment rate even before the violent armed conflict. The devastating war from 1992 to 1995 has actually aggravated the already difficult situation. While an official statistics for the unemployment rates during the war does not exist, the post-war unemployment rates reached 70 to 80%³⁴. In practice, the labour market was ruined, the informal economy was in a rise and poverty was widely spread in the society. As a matter of fact, the direct consequences of the armed conflicts such as the unemployment, and the informal sector which grew by 36, 2% were considered by the International Monetary Fund (IMF) as ones of the most significant causes of poverty in BiH³⁵. (This confirms our postulate that armed conflict caused and/or aggravated the

³⁴ <http://i-p-o.org/rebuilding-bosnia.htm> (accessed on 21.08.2013)

³⁵ “Poverty Reduction Strategy Paper - Mid-Term Development Strategy” (IMF, Country Report No. 04/114, 2004)

poverty in BiH.) After the war, the unemployment rates declined but for the whole duration of the post conflict and peace building process, they remained flat remaining on a level of 31%. Such a reduction of the unemployment level was generally due to the creation of jobs in the growing public administration, construction industry (repairing of roads, electrical lines, reforestation and other activities related to war damage) and international organizations³⁶. The most part of those who haven't found any job, (including those employed by the informal sector³⁷) were displaced persons or refugees. In 2008 when the economic growth was on a high level, naturally, the unemployment levels were on a lowest level reaching 23, 4%. Not surprisingly, the global economic crisis which followed right after that positive drop provoked a new raise of the unemployment rates.

On average, the unemployment rates of the three Balkan countries differ entirely in terms of their values, but at the same time they share the same genesis, i.e., they have several common features of unemployment: 1) the long-term unemployment is extremely high; 2) youth unemployment (job seekers without working experience) has been rapidly increasing; 3) the lowest skill and educational groups are over-proportionately affected (Vidovic, n.d) and 4) all countries have considerable size of informal economy which plays an undesirable but important role in the economic performances. Moreover, it is clear that all three countries underwent through massive job destruction during the transition period, but they also experienced armed conflicts which increased the unemployment rates on a permanent basis.

4.1.4 Foreign Direct Investments (FDI)

One of the sectors that have been disrupted by the armed conflicts in all three countries is the sector for Foreign Direct Investments³⁸. In the last two decades, the large

³⁶ Ibid.,

³⁷ Because of the great size of the informal sector, the real unemployment rate in BiH could be as low as 16,7 %, World Bank

³⁸ Foreign direct investment can be described as a company from one country making a physical investment in another country – (Đlgün, E. & Co'kun, A., 2009)

scale conflicts from the 90's caused substantial cost to the economies of Serbia, Bosnia and Herzegovina and Macedonia. The destruction of human and physical resources has reduced the growth of capital stock and created a shortfall in household incomes. (Teshome, 2011). Protracted conflicts have greatly undermined the overall capacity of the states in the provision of public services and caused market failures, high inflation rates and low employment levels. These destructive micro and macro-level effects of the armed conflicts have placed a heavy blow to the economic image of the countries. In other words, the persistent insecurity has halted not only the domestic, but notably the foreign investors to invest their capital, relocating it to some other more stable regions. Since foreign capital is vital parameter for this study, it is important to compare the FDI inflows of Macedonia, Serbia and Bosnia and Herzegovina

6: Foreign direct investments in Macedonia, Serbia and BiH, 1993-2011 (in million US\$)

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Macedonia	n/a	24,0	9,5	11,2	58,1	150,5	88,4	215,1	447,1	105,6	117,8	323,0	97,0	424,2	733,4
Serbia	96,1	62,5	44,9	n/a	740,0	113,0	112,0	51,8	177,4	567,3	1405,9	1028	2050,7	4968	3431,9
Bosnia and Herzegovina	n/a	n/a	n/a	n/a	n/a	66,7	176,7	146	118,4	267,7	381,7	709,8	623,8	845,9	1804

	2008	2009	2010	2011
d.	611,7	259,5	300,7	495,1
a	2996,3	1935,6	1340,1	2700,4
	1004,8	138,5	329,1	378,2

Source: World Bank and EBRD (2006) Transition report: Finance in transition.

995- period when BiH experienced an armed conflict

999- period when Serbia experienced an armed conflict

- year when Macedonia experienced an armed conflict

Table 5 shows a detail review of the foreign direct investments in Macedonia, Serbia and Bosnia and Herzegovina over a period of 18 years³⁹. The available statistics illustrates that all three countries had extremely low level of FDI during the transition period. When countries are examined individually, until the year 2000, the highest amount of FDI input in Macedonia was \$215 million, Bosnia & Herzegovina attracted no more than \$177 million, while Serbia, in the year before the conflict, had 740 million \$US of FDI. However, by establishing a favourable investment environment in the second post-conflict decade, these countries managed to bring much more foreign investments than in the first transitional decade. With an influx of almost 5 billion \$US in 2006 only, Serbia achieved a significant progress in the domain of the FDI, while Bosnia and Herzegovina had its highest amount of FDI in 2007 bringing 1800 million \$US. Macedonia was far below these countries in attracting foreign capital with a total sum of 3880 million \$US for the period 2001-2011.

³⁹ There are no available data for FDI inflows in BiH for the period 1992-1995. During the war, the system of the Bosnian Statistical Agency was not operational and data was lost, which explains the lack of any statistics for that period of time (World Bank, 2005).

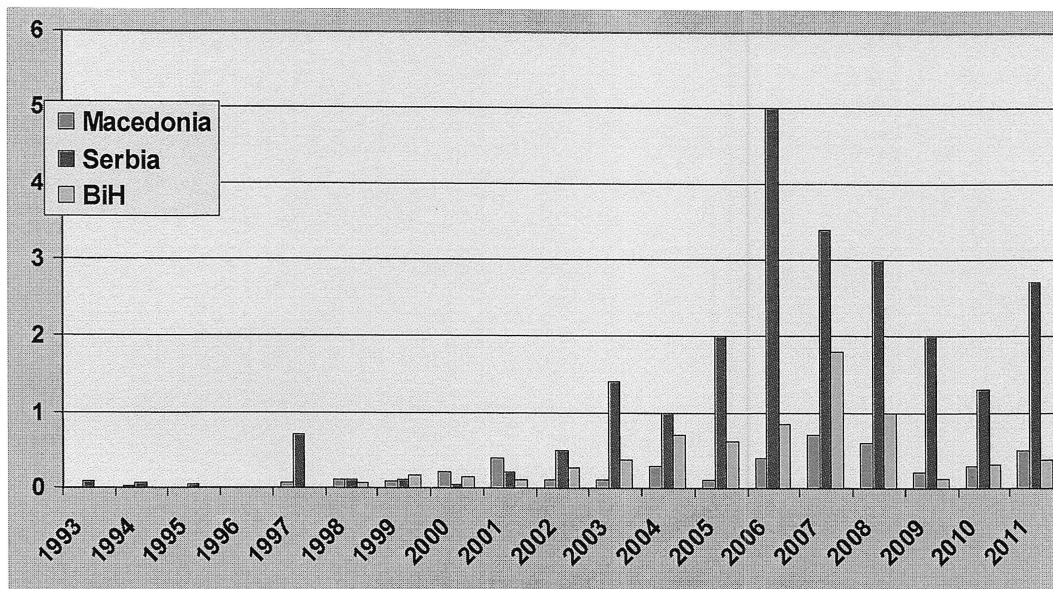


Figure 4: Trends of the FDI, 1993-2011, Macedonia, Serbia and BiH (in billion US\$)

Referring to figure 4, we can see that all three countries have fluctuational trends of FDI. For instance, Macedonia, until 1998 has had very small FDI inflows. Between 1998 and 2007, FDI flows were larger due mostly to the privatization of state-owned firms, and acquisitions of major companies and banks by foreign investors (UN 2012⁴⁰). In the year before the conflict, Macedonia attracted only 215 million \$US FDI, but during the conflict in 2001, this amount surprisingly doubled even all other socio-economic indicators went down. The armed conflict influenced a lot on the country's economic profile, but the sale of the national telecommunication operator was the largest FDI transaction in 2001 explaining the peak of 450 million \$US in FDI inflows. Since 2001, the political situation has stabilized, bringing higher FDI inflows, mostly through privatizations. After a lull provoked by the armed conflict, the second peak was recorded in 2007, leading to a record of more than 700 million \$US of inflows, out of which, one forth were "green field" investments. In 2008 and 2009, FDI dropped again, largely due to a deteriorating international environment (UN 2012). In spite of the financial crisis, the business environment has improved significantly, the reforms transformed the country into a market economy and investment promotion has become very active, using a variety of methods to draw the attention of potential investors

⁴⁰ Macedonia investment policy review, (UN conference on trade and development 2012)

(UN, 2012).

The armed conflict in Serbia in the period 1998-1999 had an enormous negative impact on the FDI influx and on the overall economic growth in the second half of the 90s. Due to the destabilization of the country, there was a huge decline of FDI in 1998, dropping to only 113 million \$US or compared with the 1997, FDI influx decreased by 555%. In the year after the NATO bombing, a new decline of FDI was recorded with only \$54 million \$US. Despite the tremendous drop in FDI, Serbia made a gigantesque step ahead attracting a sizeable foreign company presence in the upcoming period. According to the German Chamber of Commerce, Serbian openness to the foreign markets ranked the country as a top investment destination in South-Eastern Europe, with 97% of companies being pleased with business conditions⁴¹. As can be seen in figure 4, it is evident that Serbia over performed the other two countries attracting more FDI than Macedonia and Bosnia and Herzegovina altogether.

In contrast to the other Western Balkan countries, BiH's FDI have been very limited especially after the violent armed conflict. Even though there are no data about the FDI for Bosnia and Herzegovina, before and during the war, it is assumed that the volume of FDI at that time was equal to zero. In fact, the armed conflict erupted right after the country's proclamation for independence did not allow any FDI inflow which would have improved the worsened living conditions of the population and would have decreased the poverty levels. However, after 1995, the cumulative amount of FDI attracted to BIH, experienced a considerable amount, extensively in the banking sector (Đilgün, E. & Co'kun, A., 2009). As figure 4 outlines, that positive trend in FDI inflows continued in the following years, achieving a total amount of FDI received between 1998 and 2003 of US\$ 1 billion (World Bank, 2005). These amounts of FDI exceeded the amounts received by Macedonia (which has lagged behind the other two compared countries), but they were far below the Serbian FDI inflow. Expressed as a share of GDP, BiH has experienced a positive trend, increasing from 1.6 percent in 1998 to 3.8 percent in 1999 and to 6.1 percent in 2002 (World Bank, 2005).

⁴¹ http://en.wikipedia.org/wiki/Economy_of_Serbia#cite_note-38 (accessed on 28.09.2013)

Observing the data from table 6 and the trends in figure 4, we can conclude that after the armed conflicts, all countries faced significant problems in attracting FDI. In all of the case studies, the general climate of insecurity deterred investment and generally disrupted socio-economic activity (CICS, 2005). Notwithstanding the harmful impacts provoked by the conflicts, these countries, since 2002, have succeeded to attract foreign capital and to build a macro-economic stability. The countries generated a potential to attract new investors which brought FDI especially in the telecommunication, manufacturing, banking and service sector. The positively changed investment image has been internationally recognized.

4.1.5 Forced displacement

Besides the worsened economic performance, decreased levels of FDI and employment rates, armed conflicts can cause also sociological transformations including demographic reconfiguration in the affected countries. A part of the casualties, outsized population movements such as internally displaced persons (IDPs)⁴² and refugees are often a large-scale consequence. Considering that IDPs influence further on the social, economic and political capital of the country, it is quite predictable that they will influence on the country's poverty level as well. Correspondingly, the level of poverty in a country will depend, to a large extent, on the number of IDPs and refugees, but also on the length of their displacement. The armed conflicts of the 90s erupted in Bosnia & Herzegovina and Serbia and the ethnic conflict from 2001 occurred in Macedonia, caused altogether a substantial number of people to flee to other parts of their countries and to other parts of the world.

After accepting a great flood of 250,000 Kosovar Albanian refugees in 1999, Macedonia faced with another population movement within its territory in 2001. Although the number of forced displaced persons was not even close to the number of refugees in

⁴² A person who flees his/her State or community due to fear or dangers other than those which would make him/her a refugee. A displaced person is often forced to flee because of internal conflict or natural or manmade disasters. <http://migrationeducation.org/glossary.0.html#Displacedpersons> (accessed on 31.09.2013)

the Kosovo case, the armed conflict redistributed the country's ethnic composition. Due to the permanent tensions and clashes between the Albanian extremists and the Macedonian forces, a great part of the population living in the affected regions felt unsecured and left their homes. The armed conflict which culminated in the summer 2001 displaced over 171,000 people, of which 74,000 within the country (UNHCR, 2003). After the signing of the OFA in August 2001, the International Community responded rapidly to the needs of the displaced people and along with the National Authorities undertook appropriate measures to implement the right of the displaced to return to their homes within the shortest time-frame possible. The return process, (presented in table 7) which included a rehabilitation and reconstruction of the habitats affected by the hostilities, was largely supported by the International Community. By conducting the so called "*Essential Harvest*" operation, the International Community managed to maintain the security, to disarm, to some extent, the Albanian extremists, and to enable a peaceful return of the IDPs.

Table 7 Estimated numbers of internally displaced people in Macedonia from 2001 to 2009

country	2001	2002	2003	2004	2005	2006	2007	2008	2009
Macedonia (number of IDPs)	<u>74 000</u>	16 350	3154	1829	770	726	790	770	644

Source: Norwegian refugee council, Internal Displacement Monitoring Centre, (n/d)

2001- year when Macedonia experienced an armed conflict

As table 7 indicates, the most remarkable return of the IDPs in Macedonia happened in the period 2001/2002, i.e., right after the end of the conflict when 78% of the whole internally displaced population returned to their homes. Afterwards, the number of registered IDPs was going down correspondingly to the development and termination of the peace building process. At the end of 2009, estimates showed that the total number of internally displaced persons who were still seeking a solution was 644. As a matter of fact, Macedonia has been regarded as a "success story" for having achieved the fastest returns

of people displaced by conflict in the Balkans. Over 99 per cent of the people uprooted during the brief but intense conflict between ethnic Albanian armed groups and Macedonian security forces in 2001 have been able to return⁴³. Most of those still displaced in 2009 and even today were ethnic Macedonians or Serbs who did not feel safe to return to the areas inhabited dominantly by Albanians.

The largest wave of population movements in Serbia was caused by the wars of the nineties when a large number of refugees and internally displaced persons left Bosnia and Herzegovina and Croatia and sought refuge in Serbia. However, these forms of violence-induced displacement happened once again during the Kosovo war and after the NATO airstrikes in the period 1998 -1999. In 1998, the ethnic Albanian insurgency in the formerly autonomous Serbian province of Kosovo provoked a Serbian counterinsurgency campaign that resulted in massive expulsions of ethnic Albanians living in Kosovo. According to the UNHCR, about half a million people were displaced within Kosovo and an additional 860000 were forced to find a shelter in the refugee camps in the neighboring Albania and Macedonia (Cazes & Nesporova, 2006). The vast majority of those who have left Kosovo since the beginning of the counterinsurgent attacks were ethnic Albanians. As a result of the NATO air raids in FRY in March-June 1999, Serbian security forces withdrew from the Province and international peacekeepers took over the control over the UN protectorate. With the deployment of the International security troops as well as with the newest security reconfiguration in Kosovo, a majority of ethnic Albanians who had fled abroad returned *en masse* to their places of origin within weeks. By the end of 1999, as many as 780,000 Kosovo Albanians have repatriated. During 2000, another 101,000 Kosovars repatriated from third countries, reaching the total number of returnees to more than 881,000 by year's end (USCRI, 2001). The massive return of the Kosovo refugees in 1999 provoked a new flood with another wave of refugees. This time some 200,000 people from southern Kosovo, large parts of them non-ethnic Albanian population, fled into Serbia fearing atrocities by returning ethnic Albanians. The first group of 225,738 persons left Kosovo and Metohija in 1999 and afterwards, an additional population of 4,200 persons left in spring

⁴³ Fear prevents remaining IDPs from returning home – Norwegian refugee council (NRC), 2004

2004, after the series of violent acts of majority Albanians against ethnic minorities (non-Albanians). According to (NRC, 2012), the withdrawal of the Yugoslav army and police forces and the subsequent return of the Albanian refugees in the Province led to the displacement of more than 245,000 people, mainly Serbs and Roma. In contrary to the above, UNHCR refugee registration dated from 2009 (table 8 and figure 5) estimated a number of approximately 208 000 IDPs in Serbia who have been forced to flee from Kosovo.

Table 8. IDPs from Kosovo in Serbia 1999-2009

Year	No. of IDPs
1999	176 014
2000	197 500
2001	201 700
2002	206 000
2003	205 000
2004	208 135
2005	207 448
2006	206 859
2007	206 071
2008	205 842
Aug. 2009	205 835

Source: UNHCR (2009)

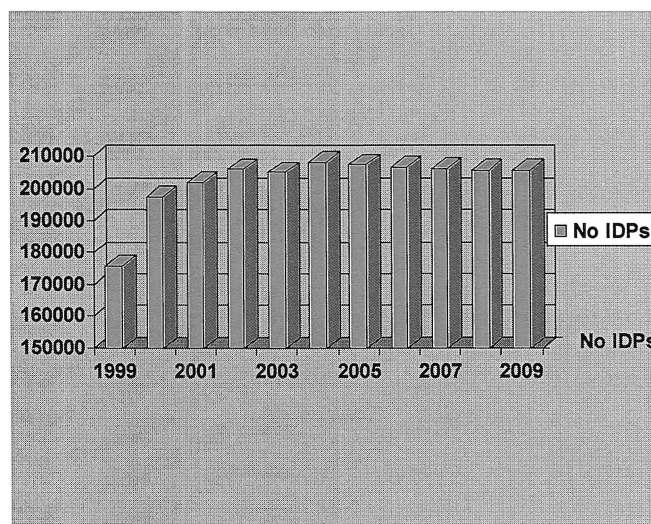


Figure 5: Trends of IDPs from Kosovo in Serbia 1999-2009

1999 - year when Serbia experienced both the Kosovo war and NATO air campaign

As the figures show, out of the total number of around 208 000 IDPs, only around 3000 have returned to their places of origin until the end of 2009. The return has usually taken place in rural areas where Serbs were majority, thus creating ethnically separated returnee ghettos. Although the return of the IDPs remains a priority for the Government of Serbia, due to the continued risk of insecurity, discrimination, limited freedom of movement and restricted access to services and livelihoods, IDPs are reluctant to rather get status of long-term displaced persons than to return to the now independent Kosovo.

Aside from the devastating human loss resulting in death of quarter million people, the war in Bosnia and Herzegovina caused enormous population movements as well. During the conflict, civilian populations were targets for both the armies and rebel groups trying to expand their territorial control, to weaken population support for opponent groups, to increase their own support base (Justino, 2011). The mass killings, massacres, “*ethnic cleansing*”, kidnappings, pillages and all other sorts of deterrence and violence forced out around 2.2 million persons to flee from their homes during the period from 1992 to 1995. In the intention to be created ethnically homogenous areas within BiH, around one million Bosniaks were persecuted from their homes by the end of the aggression, either as refugees or displaced persons. Simultaneously, the largest part of Serb inhabitants voluntarily abandoned today’s area of Federation of Bosnia and Herzegovina and settled in Republica Srpska (Ibrajić et al., 2006). Such unnatural way of territorial inhabitant’s movement has caused not only demographical changes in the area of Bosnia and Herzegovina but also numerous of political, social and economical problems. At the end of 1995, the Dayton Peace Agreement was signed and this was supposed to guarantee come back of around 500,000 displaced persons and around 370,000 refugees to their pre-war place of living (Ibrajić et al. 2006). Thanks to the effort of the International Community, a part of Bosniaks came back to Bosnia and Herzegovina in the aftermath of the conflict, but it was obvious that it will never be a rapid and comprehensive process. The second, post-war period from 1996-2000, was characterized by mass return (repatriation) of refugees from abroad and significant return of IDPs to their homes (Arandarenko & Bartlett, 2012). According to the estimates of the UNHCR (2010), by 2010 more than one million people had returned to their pre-war homes. Regardless the high number of returnees, there was still a significant number of IDPs by the end of 2009.

Table 9 Estimated numbers of internally displaced people in BiH from 2001 to 2009

country	1992-1995	1996	1997 ⁴⁴	1998 ⁴⁵	1999	2000	2001	2002	2003
BiH (number of IDPs)	1.282.000	n/a	866 000	816 000	n/a	n/a	518 000	388 000	333 850

country	2004	2005	2006	2007	2008	2009
BiH (number of IDPs)	313 000	183 400	180 000	132 000	125 000	114 000

Source: Norwegian refugee council, Internal Displacement Monitoring Centre, 2009

1992-1995 - period when BiH experienced an armed conflict

As the table 9 indicates, 1995 was the peak year in terms of the sheer number of displaced persons when they numbered 1,282,000. After 1995, their number was gradually decreasing reaching 114 000 internally displaced persons at end of 2009 or in percentage, more than 90% of all IDPs have returned to their homes by the end of 2009. Despite the obvious decreased number of IDPs, there is a concern that almost 20 years after the conflict, the rest of the IDPs will remain permanently displaced within the country.

The analysis of the three case studies showed that the displacement was more or less a major feature of the armed conflicts in Macedonia, Serbia and Bosnia and Herzegovina. In addition, the displacement of large numbers of people from their areas of residence was accompanied by inevitable breakdown of the socio-economic stability. Therefore, the more successful and faster is the return of people, the more successful will be the return of the peace.

⁴⁴ According to Ž.Papić & R. Ninković (2007)

⁴⁵ Ibid.,

IV.2 THE IMPACT OF POVERTY ON ARMED CONFLICTS

While there is some agreement in the foreign literature that conflict causes poverty, the assumption that poverty causes conflict has not been proved yet. While there still remain some disagreements about the causes of conflict, many studies show that poverty can be, however, a permissive factor, and in special cases, a trigger and/or an accelerator of an armed conflict (Goodhand, 2001). The latter is detected mostly in the African societies where the poverty has had historical roots. Nevertheless, the theory that poverty has to interact with a range of other factors in order to produce violent conflict prevails in the empirical researches. According to this theory, it is extremely difficult to disentangle the effect of poverty and to separate out the impact of poverty on armed conflict and on society in general.

In the case of Macedonia, Serbia and Bosnia and Herzegovina, the relationship between poverty and armed conflicts is quite blurred. Some researchers have found that social inequalities (which is significant indicator of poverty) when aligned with other factors such as the exclusion and marginalization can be a sufficient cause for a conflict (Topic Guide on conflict, 2012). However, in our three case studies, that theory is not applicable just because of the low values of Gini indexes⁴⁶. For instance, Macedonia in the year before the conflict had a relatively low Gini index of 34.4⁴⁷ while in the years after the armed conflict, the same index grew by 38.8 in 2002 and by 39.0 in 2003. These values prove actually that not only the social inequality was not a cause of the conflict in Macedonia, but in contrary, it reconfirms our second hypothesis that armed conflicts caused poverty. Similarly as Macedonia, Bosnia and Herzegovina and Serbia recorded higher Gini indexes when the armed conflicts ended. With values of 28 in 2001 for BiH and 32.7 in 2002 for Serbia which continued to go up in the following years, these countries had

⁴⁶ Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. Thus, a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality. (World Bank)

⁴⁷ www.worldbank.org According to the World Bank research, in the beginning of the transition period, this coefficient was even smaller amounting to 22%.

higher social inequality after the conflicts than before them. In short, the wars in these two countries led to higher social inequality.

Another argument which asserts that poverty was not a sufficient condition to fuel the armed conflicts in the three Western Balkan countries is the poverty itself. Starting from the recent history, all three countries before the 90's were a part of the former Socialist Federal Republic of Yugoslavia. At that time, Yugoslavia was not a poor country, but in contrary, the country, which was a buffer zone between the East and the West, had well developed commercial and financial relations with both sides. The economic system was largely based on market principles, the products were highly competitive on the foreign markets and it had a significant core of extractive and manufacturing industry. The education, health care, social protection and other social services were accessible to the majority of citizens. All these facts lead us to the conclusion that, even in absence of real statistics on poverty rates, the extreme form of poverty has never been recorded in Macedonia, Serbia and BiH or in Yugoslavia in general. Thus, the poverty of the population could not be a main reason for beginning of the armed conflicts. As a matter of fact, the widespread poverty in these countries in the 90's was a relatively new phenomenon provoked partially by the transition and partially by the armed conflicts. If we add the results from the research conducted by Draman (2003) as well as the quantitative researches listed in Cramer (2009), which confirmed that armed conflicts are most likely to occur within and between poor and economically stagnant states, then we have an additional proof that armed conflicts in Macedonia, Serbia and BiH were not a result of the poverty.

By using again the socio-economic parameters analyzed in the previous chapter, we are able to put one more aspect in the list of arguments revealing the inexistence of poverty-conflict causal nexus. Namely, if we take a look again at table 3, we can notice that in 1990 Serbia and Bosnia and Herzegovina had a GDP per capita of 4052 and 1811 US dollars respectively, which amounts are higher than the amounts from the years after the armed conflicts. Macedonia had similar GDP per capita in 1990 and after the armed conflict from 2001. As mentioned above, Macedonia and BiH needed 10 years to achieve the level of GDP from 1990 while Serbia even 15 years. Conversely, the export was bigger and the unemployment rates smaller in 1990 than the period after the armed conflicts. Serbia had 6.4 billion \$US export which amount was achieved 14 years later. In 1990, BiH exported

products worth 1.8 billion \$US which quantity was reached again in 2001/2002 i.e., ten years later. Similarly, the unemployment rates were lower before the armed conflicts than after them except in the case of Macedonia which had invariably high unemployment rates during the whole examining period. As far as the forced displacement is concerned, at the beginning of the 90s and before the armed conflicts there were neither IDPs nor refugees in all of the three countries, and even the emigration was on a minimal level. According to the compared figures of the socio-economic parameters, we can conclude that there was no socio-economic development deficiency which would have generated poverty and which would have further led to the emergence of armed conflicts.

The historical development patterns in the Balkans are additional detail which refutes the claim that poverty caused the armed conflicts in Macedonia, Serbia and BiH. Considering that all three countries were and still are a part of the complex Balkan ethnic mosaic, it is a sufficient reason to assume that the common history has a great stake in out breaking of the armed conflicts. All three countries have a complex multiethnic, multi confessional and multicultural composition which, by definition, is a fertile ground for emergence of armed conflicts, especially if the countries are not democratically mature. As a matter of fact, the findings explained in the report of the Macedonian Government on Millennium Development goals (2005) as well as by Gates (2002) confirm our assumption that factors other than poverty are determinants of the armed conflicts. According to these researchers, a history of previous conflicts (in our case the Balkan wars) increases the likelihood of recurrent conflict while the ethnic dominance (in our cases Serbians and Macedonians are dominant, but in BiH the ethnic composition is more or less balanced) moderately increases conflict risk. This point is supported by Collier (1999), as summarized by Justino (2010), who argues that war-affected regions in turn generally have higher levels of poverty, weaker state institutions and lower growth rates. In addition to these arguments, a careful reading of the Balkan history will show that there was always a "*grievance*" for creating "*great states*" to the detriment of the neighbouring states. Therefore, the strategy to begin an armed conflict motivated by the "*grate state*" syndrome can not be neglected in all of the case studies. There is even a theory that these conflicts were connected to historically regionalized conflict systems and were administrated by international geopolitical players. Taking in consideration all these historical - political factors, it appears

that the history along with the nationalism and ethnocentrism, political and democratic underdevelopment as well as the international geopolitics, were more relevant source of armed conflict rather than poverty itself.

While the idiosyncratic feature of the Balkan history seems to be associated, to some extent, to the emergence of armed conflict, the economic growth based on the wealth coefficient is always a natural concomitant of the poverty or the wealth of a given country. In this respect, using the wealth coefficient will help us to confirm or to deny the connection between the poverty and armed conflict in Western Balkan context. According to Causevic and Zupcevic(2009), the wealth coefficient is the ratio of a country's share in world GDP to its share in the world's population). In order to compare the wealth coefficients before and after the conflict, we use the general formula. Therefore, on the basis of the general formula we calculate the Wc for each country depending on the period when the country experienced the armed conflict. Wc for Bosnia and Herzegovina was already calculated by the author of the coefficient.

$$Wc = \frac{\text{country's share in world GDP}}{\text{country's share in world's population}}$$

$$Wc_{Mac}(1990) = \frac{0,038}{0,035} = 1.08;$$

$$Wc_{Mac}(2000) = \frac{0,03}{0,0328} = 0.914;$$

$$Wc_{Mac}(2002) = \frac{0,028}{0,0322} = 0.875;$$

$$Wc_{Ser}(1998) = \frac{0,116}{0,126} = 0.92;$$

$$Wc_{Ser}(2000) = \frac{0,1}{0,122} = 0.819;$$

Table 10: Changes in the wealth coefficient for Macedonia, Serbia and BiH

country	1990	1998	2000	2002	2000/1998*	2000/1990*	2002/2000*
Macedonia	1,08	n/a	<u>0.914</u>	<u>0.875</u>	n/a	- 18.16	<u>- 4.45</u>
Serbia	n/a	<u>0.92</u>	<u>0.819</u>	n/a	<u>-12.33</u>	n/a	n/a
BiH	<u>0.643</u>	n/a	<u>0.279</u>	n/a	n/a	<u>-56.61</u>	n/a

Source: The data for Bosnia and Herzegovina are provided by F. Causevic's, while data for the other two countries are our own calculations based on the World Bank data

Remark: the columns marked by “ * ” are values given in percentage

The table 8 illustrates the wealth coefficient for a group of case-study countries. According to the figures in table 8, in the year 2000 (the year before the armed conflict), Macedonia had a Wc of 0,914, while in 2002 (the year after the armed conflict), the Wc coefficient was 0.875. Comparing the WC values of both years, we can note that Macedonia's position has deteriorated by some 4.45% between 2000 and 2002 in terms of the economic growth. If we go further and compare Wc of the year 2000 with Wc of 1990 (the pre-transition year), then we reveal that Macedonia regressed by 18.16% in view of the economic growth. In 1998 and 2000 Serbia had Wc of 0.92 and of 0.819 respectively. When comparing these two values, we discover that during the armed conflict in Serbia (1998-1999) the economic growth has deteriorated by 12, 33%. As far as the calculations for BiH are concerned, according to Causevic and Zupcevic (2009), Bosnia and Herzegovina's growth during the period of 10 years (1990-2000), went severally down by 56.61%. Generally speaking, neither of all considered countries has not recorded a positive change of its Wc, i.e., neither of them has not improved its economic growth during the examined period. In other words, the appropriate calculations of Wc for all case studies indicate that all countries had higher economic growth before the conflicts than after the conflicts, which was even higher before the transition process. These findings refer to the

conclusion that poverty levels in all countries were lower before the armed conflicts i.e., poverty was not a cause of the armed conflicts.

Considering all the abovementioned arguments, (low Gini indexes, low poverty levels, historical patterns, values of wealth coefficients and socio-economic parameters which refute the poverty - conflict causality) it is evident that poverty was not a pre-condition to the onset of the armed conflicts in Macedonia, Serbia and Bosnia and Herzegovina. In other words, the findings of this research do not provide evidence that poverty had a main role in the emergence of armed conflicts in Macedonia, Serbia and Bosnia and Herzegovina, or that it contributed to sustaining and reproducing conflict further. However, bearing in mind the extremely complicated Balkan security context, the conclusions of this study can not be implicated on other studies covering other security-spatial areas.

CHAPTER V: *DISCUSSION*

5.1 Armed conflicts cause poverty or poverty causes armed conflicts?

This research has analyzed the inter-relation between armed conflict and poverty in Macedonia, Serbia and BiH. It has been found that there is a connection between these two variables, but the causal interaction is not bi-directional, i.e., the former is not the automatic result of the latter. In other words, it has been proved that the armed conflicts caused higher poverty levels in Macedonia, Serbia and Bosnia and Herzegovina, but there is no robust evidence that poverty caused armed conflicts in any of the abovementioned Western Balkan countries. But, let's face the facts:

The analyses of the poverty rates of Macedonia and Serbia (table 1 and table 2) as well as the theoretical findings on poverty levels in Bosnia and Herzegovina, show that the poverty levels increased after the armed conflicts occurred. Undoubtedly, the worsened poverty situation in all countries was a direct result of the consequences of the armed conflicts. However, in order to provide stronger evidence that poverty is a consequence of the armed conflicts in Macedonia, Serbia and Bosnia and Herzegovina, we analyzed four economic and one sociologic indicator reflecting inevitably the poverty situation in a given

country. Therefore, by examining and comparing the results on GDP per capita during the period from 1990 to 2011 for each country (table 3 and figure 1), we conclude that the armed conflicts which lasted differently for different country, caused a decrease of their GDPs per capita. In other words, the findings indicate that GDPs per head invariably fell after the armed conflict. Evidently, the negative influence of the armed conflicts on GDPs and further on poverty is irrefutable.

Moreover, the comparison of the export potential (table 4 and figure 2), suggest that due to the armed conflicts, the export of goods to the neighboring and international markets drastically diminished. It is clear that the sharp contraction of the export did not happened by coincidence because right after the period of military interventions, security break down and political turbulence, all three countries achieved a significant progress in the export of goods and services. Although there is a visible difference (figure 2) among Serbian export performance on one side and the Macedonian and Bosnian export performances on the other side, it should be stressed that the armed conflicts hindered the export potential of each of the countries and it deepened the poverty even more.

As demonstrated in the analyses of the results for the unemployment rates (table 5, figure 3), the unemployment rates rose after the armed conflicts. Even though all three countries underwent through massive job destruction during the transition period, the armed conflicts only worsened the situation and subsequently, increased even more the unemployment of the population. The convergence of the transition processes and the armed conflicts produced long-term unemployment especially in the young population and fostered the informal economy ruining the chances for a rapid and significant progress.

According to the results obtained from the analysis on FDI, (table 6 and figure 4), we conclude that the military and paramilitary actions, the killings, the massacres, the massive displacement of people, the deteriorated economic climate, contributed to deterrence of the investors intended to invest in some of the considered country. In all of the case studies, the general climate of insecurity inflicted irreparable harmful impacts on the level of FDI, which are amongst the most important economic conditions when it comes to the economic progress of a country. It is worth noting that thank to the FDI, the countries of Central Europe achieved a significant economic growth during the period when the countries of the Western Balkans were confronted with violent armed conflicts on their territories.

Last but not least of the examined parameters is the forced displacement. Through a detail assessment of the number of forcibly displaced persons for each of the country (table, 7, 8 ,9 and figure 5), we discovered that the displacement was more or less a major feature of the armed conflicts in Macedonia, Serbia and Bosnia and Herzegovina. It can not be forgotten the fact that the poverty's level is directly associated to the number of displaced persons and/or refugees. Thus, the number of IDPs and refugees, but also the length of their displacement determined the intensity of the impact of this sociologic element on the poverty levels in the considered countries. The least is the number of displaced persons, the least is the impact of the armed conflicts on the society in general. The analysis of the number of displaced persons in the case of Bosnia and Herzegovina (table 9), showed that the impact of armed conflict notably on the human capital was of immeasurable proportions.

When it comes to the inverse relation of armed conflict and poverty i.e., the poverty-armed conflict nexus, it can be seen from the above analysis that poverty did not contributed and/or did not lead to the out break of armed conflicts in the examined Western Balkan countries. All the control variables showed that poverty as such could not be the main condition for the onset of the conflicts. Namely, the low values of the social inequality expressed by the measurement of the Gini index, showed lower social inequality before the conflicts that after the conflicts. Hence, the Gini indexes even in the early 90s were far below the levels measured after the conflicts. By examining the history of poverty on the Western Balkan soil, we came to a conclusion that the widespread poverty in these countries in the 90's was a relatively new phenomenon because a severe or an absolute form of poverty has never been recorded in this geographical area. As a matter of fact, although these countries were not amongst the wealthiest in Europe, they were however, far from extremely poor and economically stagnant states. Consequently, the poverty itself as a general notion was not the reason for beginning of the armed conflicts. The findings deriving from the socio-economic statistics are just one more argument contra the poverty-armed conflict nexus. More precisely, the analysis of the socio-economic parameters only ascertains the armed conflict – poverty association and denies the reverse causal order. Given the history of armed conflicts in the Balkans, it could be said that the latest armed conflicts were only a link of a wider geo-political, historical, ethnic and religious chain of

armed conflicts. In this spirit, the syndrome “*Balkan powder keg*” seems more relevant cause of the armed conflict than the poverty itself. In addition to the theoretical examination of several control variables, the results from mathematical computation of the wealth coefficient also rejected the hypothesis that poverty causes armed conflicts. According to these calculations (table 10), neither of the countries has not recorded a positive change of economic growth since 1990. In short, all countries were wealthier before the conflicts than after it. Logically, the poverty can not be a cause of the armed conflicts.

The findings of our research reaffirmed the international research evidence which pointed to the conclusion that poverty on its own is an insufficient predictor of conflict. What has been proved in our research is that armed conflicts erupted in Macedonia, Serbia and Bosnia and Herzegovina led to increased poverty levels and not vice versa. By applying these findings in our hypothetical framework, **we confirm the Hypothesis 2:** “*The level of poverty after the armed conflict is higher than the level of poverty before the armed conflict*”. However, based on the results from the cross-sectional analysis in chapter IV 2, **we reject the Hypothesis 1:** “*The poorer is the country, the higher is the probability that an armed conflict will occur*”. With the results obtained from this study, as well as with the confirmed/rejected hypotheses, we answer the main study’s research questions:

1. ***Is there any connection between the armed conflict and the poverty in Western Balkan countries?*** Indeed, a connection exists between armed conflicts and poverty in Western Balkan countries, but it is not a two – way connection as it was expected when we postulated the hypotheses.
2. ***Does the armed conflict influence on poverty and/or poverty influence on the armed conflict?*** As is stated while testing the hypothesis, *it has been proved that in the Western Balkan security context, armed conflicts influenced on poverty and not vice versa.*
3. ***Which socioeconomic, political and security instruments can be used by the state authorities in order to tackle poverty and manage conflict?*** This research question will be answered in the following paragraph.

5.2 What role for the authorities?

Given that the official state authorities are the key factors responsible for taking necessary measures when the country is being faced with the challenges, they also play crucial role in tackling armed conflicts and alleviating poverty. Although the results of our research showed that armed conflicts caused poverty in all three Western Balkan countries and not vice versa, it does not mean, however, that the state officials should see poverty as an economic problem only and to neglect some aspect of its broad-spectrum of negative influences. In contrary, the state public authorities have to develop an integrated approach which will be more based on “*prevention*” and less on “*resolution*”. Such an integrated approach could be built on two main pillars: 1. *constant institutional reform*, and 2. *comprehensive economic policy*.

The first one should encompass permanent “upgrading” and “flexibility” of all political, administrative, diplomatic, intelligence and law-enforcement capacities of the state in order to prevent a possible security threat of any kind that can harm the state integrity, sovereignty and governance. To achieve this, government leaders should prioritize a confidence building strategy in order to bring together the different ethnic groups. Considering that all three considered countries are multiethnic, tension-laden societies, it is particularly important for the state authorities to foster an environment of trust, cooperation, and mutual respect between it and the various groups in society (USAID, 2005). Additionally, the policy making and the decision making processes should be formulated and implemented with the close participation of marginalized group. Through decentralization, proper and equal distribution of the state budget, open management of public institutions, promotion of tolerance, non-violence, respect for diversity, settling disputes by peaceful means, all ethnic groups will be involved in the formulation of the state course of action, but they will be also responsible for the effects of the implemented social and economic policies and programs. In short, governance in union sends to the potential rebels, insurgents, ethnic leaders and even to the extremists, a strong signal that the state accepts the inclusion and rejects the exclusion. In other words, governance should be inclusive and the community development a priority (Hillyard et al., 2005).

The second pillar entails a genuine commitment by the state authorities to create a comprehensive economic policy which will facilitate the development of the market

economy and will encourage efficiency in resource allocation. By taking robust economic measures such as decreasing of the unemployment rates, increasing of the export potential, attracting more FDI, fostering the economic growth, state authorities will be step closer to alleviate poverty as a potential security threat. Collaboration with the world economic institutions towards generating various fundraising projects would be also a form of open economic policy which will enhance additionally the development potential and will create longstanding financial ability. A part of the economic measures, public authorities should improve the capacity for delivering quality social services, including, most importantly, education and health services. Evidence for in support of this position, can be found in the researches of Collier (in Goodhand, 2001), who also stressed the importance of the education in preventing armed conflicts. According to this researcher, conflicts tend to be concentrated in countries with limited education provision. This point is also sustained by the work of Justino (2004), who, by using state-level empirical evidence showed that, in the medium-term, public expenditure on social services and improvements in education enrolments are effective means of reducing civil unrest. In other words, armed conflicts prevention will not be impossible if it receives a sharper focus and a stronger commitment from the state socio-economic policy makers. In this respect, the parliamentarians, the governmental and the other state representatives should take the necessary measures to ensure appropriate development at local and regional level.

Having in mind that Macedonia, Serbia and Bosnia and Herzegovina experienced an armed conflict in their recent history, it is extremely important for the state authorities of these countries to learn that effective violence reduction and even poverty alleviation can be achieved only with conflict prevention measures. Therefore, the state authorities should set an inclusive, blended approach which will underpin economic growth, improve living standards of all citizens, create jobs, fight corruption, increase education opportunities, develop democracy, improve inter-ethnic relations and strengthen the inter-cultural dialogue. After all, a strong, accountable, legitimate state is the best antidote to poverty and violent conflict (Goodhand, 2001).

CONCLUSIONS

When analyzing poverty and armed conflict, we think of two dynamic concepts that shift over time. Therefore, answering the questions “*What is poverty?*” “*What does armed conflict entail?*” can not be legitimate for all times because it changes permanently. However, if we study whether a possible relationship exists between these two variables, it is very important to frame them within the context of the study region. In our case, this research has conceptualized and has examined the nature of the armed conflict-poverty relationship within the Western Balkan security framework.

According to the results gained from the research, we can conclude that armed conflicts contributed to increased levels of poverty in all of the three examined countries: Macedonia, Serbia and Bosnia and Herzegovina. Furthermore, the study has shown that poverty was not a cause for the onset of the armed conflicts and likely it must converge with other factors (ethnic composition, political decay, religious and national divisions, history of wars etc.) in order to provoke armed violent conflicts. In addition to these findings, this research has proved that armed conflicts and poverty are incredibly destructive social phenomena from which inter-relation emanate diverse consequences. Depending on a variety of factors including the type, magnitude, intensity, duration, background social and economic conditions and international reaction to the armed conflict, the costs of the conflict are different for different states. As such, the armed conflicts inflicted great harm on all affected countries, but according to the theoretical and statistical findings of our research, the country that suffered the most was Bosnia and Herzegovina. However, it is clear that all countries regardless the proportions of conflicts that they were involved in, still feel their destructive consequences.

On the other side of the conflict-poverty cycle, the armed conflicts that broke out in Macedonia, Serbia and Bosnia and Herzegovina, have directly and indirectly contributed to the region’s poverty status. In the last two decades, the armed conflicts have destroyed and reduced the human, physical, economic and social capital of the region. The inhabitants have suffered from death, physical and psychological injuries, forced migration, trade blockade, restriction on mobility, killings and lootings (Teshome, 2011). Learning these harsh lessons from the recent past, the state authorities, policy makers and planners must design appropriate policies and undertake actions that simultaneously reduce poverty and

promote peace. This means that the main societal actors have to understand the impact of conflict on different forms of capital and must recognize the role of the state in preventing such impacts or in rebuilding the society through establishment of peace building and conflict resolution strategies. The practical experience in the post-conflict Western Balkan countries teaches us that addressing poverty and preventing conflicts requires an integrative approach which would involve all the countries in region. Due to the “*spill over*” effect which had been demonstrated many times even before these armed conflicts, the officials of all neighboring countries have to commit themselves in working altogether to prevent future conflicts to re-emerge. As a matter of fact, reducing conflict is a prerequisite to political stability, which, in turn, is the prerequisite for implementing pro-growth policies (Ghani & Lyer, 2010).

From methodological standpoint, this master thesis managed to test the previously postulated hypotheses, to verify the objectives of the study and to contribute to the pool of international and domestic literature. More specifically, by accepting/rejecting the hypothesis of this study, it has been proved that a relation exists between the two variables, but that relation is not bi-directional. The findings partially confirmed the postulates and fully justified the credibility of the research, which practically affirms its theoretical and social value. Future research can be conducted on the basis of the limitations of this research. In this respect, a study that will demystify the real reasons and motifs for erupting armed conflicts in the Balkans will be more than welcome. Given, the current high profile debate with regard to the interrelation between poverty and conflict, it is important to analyze that relation from political and/or religious perspective as well, using appropriate political/religious parameters. What finally should be noted is that this paper represents only an attempt to deepen the knowledge on the linkages between the armed conflicts and poverty in the Western Balkan countries. As a matter of fact, this research is not meant to close the cycle of researches on this topic, but on the contrary, it represents a start, an orienteer and a pattern for further, deeper and broader analysis on a national, regional and global level. What needs to be emphasized is that the Western Balkan countries still have a long way to go before they can realistically achieve “*conflict free societies*”. However, there is no reason to believe that a proper mixture of political incentives and an adequate conflict reducing programs could not contribute to overcoming the last divisions within Europe.

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