

## **Helpdesk Research Report: The Impact of Financial Crises on Conflict and Social Stability**

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**Query:** Identify emerging analysis on the potential of the current global financial crisis to affect social stability, cohesion and exacerbate conflict and fragility, including lessons learned from previous regional and global economic crises.

**Enquirer:** AusAID

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### **1. Overview**

It has been difficult to find examples of in-depth analysis on the impact of economic crises, past or present, on conflict, fragility and social stability. Many of the experts contacted for this research report, while recognising the importance of the question, were unable to point towards relevant literature. This report aims to build a picture from the limited information that is available. It is likely that the wider literature on the links between economic development and conflict would provide some useful direction on this issue – indeed, this point is made in some of the literature included below. However, this large body of literature is beyond the scope of this report, which focuses on the impact of economic shocks on conflict and social stability. Nevertheless, some references have been provided in Section 8 below.

While there seems to be little academic research addressing this issue, it has been widely discussed in the media recently, particularly since the release of a US Senate intelligence briefing which characterised the global economic crisis as a threat to global stability (see Blair 2009 below). According to the report, almost a quarter of all countries have already experienced low-level instability, such as changes in government and anti-state demonstrations (the latter particularly in Europe and the former Soviet Union). While most countries will be able to mitigate the impact of the crisis in the short-term, many countries in Latin America, and sub-Saharan Africa, as well as the former Soviet Union states, lack sufficient cash reserves, access to international aid or credit, or other coping mechanisms to do the same. There is concern that should the crisis persist over one or two years, the danger of regime-threatening instability will increase.

Additional issues highlighted by the media include the threat of rising nationalism, which could manifest as anti-immigrant violence in industrialised countries, and increasing protectionism against international trade. Rising unemployment could also lead to an increase in the power and activities of organised crime groups controlling parallel economies.

One of the biggest threats is considered to be the collapse of regimes in countries such as Egypt and Pakistan, both of which have experienced food riots in the last year, and which the international community considers vital to the maintenance of international stability.

*Empirical research:*

Some experts suggest that financial crises do not directly impact political stability. In response to our request for input on this question, Jack Goldstone of George Mason University suggests: "Rather, they are a form of stress -- like a natural disaster, or economic downturn, or death of a political leader -- that can create greater solidarity in states that are basically united and have sound institutions, but do raise the odds of political instability in states that are vulnerable due to major political cleavages and weak institutions." (Email communication with GSDRC 05/03/09). Indeed, particularly in Africa and non-democratic countries, recent research has provided strong evidence that internal conflict, external conflict, and the state of the economy are not independent of one another. The occurrence of a recession alone will significantly increase, in fact almost double, the probability of internal conflict. Research by Blomberg and Hess (2002) shows that the presence of a recession coupled with an external war increases the probability of internal conflict between two- and threefold. These results suggest that recessions can spark internal and external conflict, which in turn raises the probability of recessions. Such dynamics are suggestive of a poverty-conflict trap.

*The impact of the economic downturn on conflict*

There are various channels and levels through which the economic downturn could affect social stability:

- *Unemployment:* There are concerns that increasing frustration around rising unemployment could be directed at governments. High unemployment rates, especially among young workers, have already led to protests in a number of countries including Latvia, Chile, Greece, Bulgaria and Iceland, and have contributed to strikes in Britain and France. In addition, some commentators on the links between economic conditions and civil conflict argue that a key issue is the comparative income opportunities for young men in labour markets as opposed to in rebel groups.
- *Ethnic violence:* Existing political tensions and the onset of the East Asian financial crisis led to ethnic violence against Indonesia's Chinese populations. Ethnic diversity is considered to have a statistically positive relationship with the incidence of civil war.
- *The role of political groups:* Some analysts have voiced concern that political groups in the Philippines, Indonesia and Thailand may seek to capitalise on social discontent caused by the financial crisis by mobilising demonstrations and creating social unrest. Riots in Indonesia during the Asian financial crisis caused the collapse of the Suharto government in 1998.
- *Association with religious intensity:* Research by Daniel Chen in Indonesia (see below Chen 2004, 2005) shows that those areas with greater religious intensity manifest greater levels of social violence during a period of financial downturn. He also finds that religious intensity increases as a result of economic pressures, mainly as a form of social insurance.
- *Migration:* One of the main concerns during the East Asian financial crisis of the late 1990s was that migrant return would result in social instability and even inter-state tension. Having traditionally turned a blind eye towards illegal migration, Malaysia, Thailand and Singapore cracked down harshly on foreign migrants, repatriating many of them. In Malaysia, large-scale deportations led to violence, with the government being accused of human rights abuses. Additionally, it is feared that the financial downturn may increase the risk of discrimination as migrants are perceived as taking the jobs of local workers, particularly in low-skilled sectors of the labour market. Also, the return of unemployed migrants to their countries of origin where they are also likely to face inferior economic conditions could affect economic and social stability. In China, for example, the government is bracing itself for instability that could arise

after almost 20 million of migrant workers who have lost their jobs in the cities return to their rural hometowns. Many of these are younger migrants whose connection to rural lifestyles has been severed, and who may not be able to, or want to, work in the rural areas.

- *Decreased defence spending:* During the East Asian financial crisis, the armed forces of Indonesia and Thailand had to be deployed predominantly to preserve internal stability. This meant that already reduced defence spending and resources had to be diverted away from other security threats. It is argued that weak repressive state capability can contribute to the increased threat of instability during economic crises.
- *Reduced overseas aid:* The financial crisis is expected to impact international donors in a big way. Some have already announced cutbacks in their conflict prevention programmes. Currency fluctuations mean that the UK Government, for example, is faced with a shortfall in its peacekeeping commitments made when the pound was stronger against the dollar.

#### *Social insurance:*

One of the recurring lessons and recommendations common to both the historical and current literature is the importance of social insurance systems to mitigate the effects of economic crises. Many developing countries don't have social assistance schemes or unemployment benefits, and so for many poor people, the loss of employment means falling into poverty unless there are other sources of income. Often, traditional welfare mechanisms have been weakened in the course of economic growth and modernisation.

## **2. Empirical Research**

**Blomberg, S. B. and Hess, G. D., 2002, 'The Temporal Links between Conflict and Economic Activity', *Journal of Conflict Resolution*, Volume 46, Number 1, pp. 74-90**

This article is available for purchase from Sage Journals Online:

<http://jcr.sagepub.com/cgi/content/abstract/46/1/74>

This article uses data from 152 countries from 1950 to 1992 to estimate the joint determination of external conflict, internal conflict, and the business cycle. The results show that the occurrence of a recession alone will significantly increase the probability of internal conflict, and when combined with the occurrence of an external conflict, recessions will further increase the probability of internal conflict. Internal conflict, external conflict, and the state of the economy are not independent of one another.

"Recessions and internal conflict are not independent events. The strongest link appears to be from recession to conflict, driven to a large extent by region and governance. These results confirm much of the earlier findings that in nondemocratic regions, poor economic conditions lead to government change in the only manner available—the violent type." (p. 85)

In particular, the authors find that recessions play an important role in determining internal conflict, especially in Africa and for nondemocratic countries. In fact, the occurrence of a recession causes an increase in the probability of internal conflict starting in a given year to almost double. When the model is extended to allow for a three-variable relationship: internal conflict, external conflict, and recessions, they find that the presence of a recession coupled with an external war will actually cause the probability of an internal conflict starting in a given year to increase between two- and threefold. These results suggest that recessions can provide the spark for increased probabilities of internal and external conflict, which in turn raise the probability of recessions. Such dynamics are suggestive of a poverty-conflict trap-like environment.

"If this study is to convince readers and policy makers of anything, it is that the linkages between internal and external conflict and prosperity are strong and mutually reinforcing.

Economic conflict tends to spawn internal conflict, which in turn returns the favor. Moreover, the presence of a recession tends to amplify the extent to which internal and external conflicts self-reinforce each other. However, the ability of government organizations to stop the spread of internal conflict to external conflict and vice versa by helping to reduce the incidence of recessions may be quite limited. Economic aid that is to improve a nation's productive capacity is likely to be difficult to identify and implement in just such circumstances." (p. 90)

**Miguel, E., Satyanath, S. and Sergenti, E., 2003, 'Economic Shocks and Civil Conflict: An Instrumental Variables Approach', University of California**  
<http://www.globalization-africa.org/papers/19.pdf>

This paper uses exogenous variation in vegetation – which is highly correlated with rainfall – as an instrumental variable for GDP growth in 40 Sub-Saharan African countries during 1983-1999. This variation is then used to estimate the impact of economic growth on civil conflict. Weather shocks are a plausible instrument for GDP growth in economies that largely rely on rain-fed agriculture, i.e., neither have extensive irrigation systems nor are heavily industrialized. The authors argue that the instrumental variable method makes it credible to assert that this is a causal relationship, rather than simply a correlation. They find that economic growth is strongly negatively related to the incidence of civil conflict: a negative growth shock of 5 percentage points increases the likelihood of major civil conflicts by over one-half.

The authors also examine what the literature says about the ways in which economic growth impacts civil conflict. This can be through various channels:

- Collier & Hoeffler (1998, 2001, 2002): They argue that when income opportunities are better for young men in agriculture or in the local labour market, relative to their expected income gained as a rebel, they are less likely to take up arms. For them, civil wars are fundamentally driven by such economic opportunities rather than by political grievances. In particular they find that slow income growth, low per capita income, natural resource dependence, lower male secondary education enrolment, rebel military advantages, and total population are all significantly positively associated with the onset of civil wars.
- Elbadawi & Sambanis (2000, 2002): They find that ethnic fractionalization has a statistically positive relationship with the incidence of civil war, with the highest probability of civil war at intermediate levels of diversity.
- Fearon & Laitin (2003): They argue that the key channels linking poverty and civil war are low repressive capabilities resulting from weak militaries and poor roads. Using novel geographic data, they also emphasise the role played by rough terrain (captured by percentage of the country that is mountainous) in sustaining insurgencies.

The author argues however, that: "the relationship between negative economic shocks and civil wars is unlikely to operate through the fact that they facilitate insurgency by weakening the central government's capabilities for imposing order over the short-run. Rather, the relationship is likely to operate through other channels, possibly that economic growth shocks affect the expected benefits of being a rebel relative to other forms of "employment", within the context of already weak state repressive capabilities. Note that scholars of African political economy are nearly unanimous in claiming that African states are typically slow to respond to citizen demands and translate them into concrete policy changes – say in the aftermath of economic shocks – making these states especially prone to insurgency." (p.15)

"The implications of our research are potentially significant from a policy perspective: if a short-term drop in the opportunity cost of being a guerrilla significantly increases the

incidence of civil conflict, it may be possible to dramatically reduce the incidence of conflict through income insurance schemes for unemployed young men during hard economic times, although extensive income insurance programs are likely to be difficult to fund and manage in poor and largely rural African settings.” (p. 16)

### 3. Security Implications

**Blair, D., 2009, ‘Intelligence Community Annual Threat Assessment’, Senate Select Committee on Intelligence, US Government**

<http://intelligence.senate.gov/090212/blair.pdf>

The section entitled ‘The Far-Reaching Impact of the Global Economic Crisis’ explores the geopolitical implications of the crisis for the US. The report states: “Roughly a quarter of the countries in the world have already experienced low-level instability such as government changes because of the current slowdown. Europe and the former Soviet Union have experienced the bulk of the anti-state demonstrations. Although two-thirds of countries in the world have sufficient financial or other means to limit the impact for the moment, much of Latin America, former Soviet Union states and sub-Saharan Africa lack sufficient cash reserves, access to international aid or credit, or other coping mechanism. Statistical modeling shows that economic crises increase the risk of regime-threatening instability if they persist over a one to two year period. Besides increased economic nationalism, the most likely political fallout for US interests will involve allies and friends not being able to fully meet their defense and humanitarian obligations. Potential refugee flows from the Caribbean could also impact Homeland security.” (p. 2)

**‘Chapter 5: The Impact of the Financial Crisis on Fragile Countries’ in ‘Development in a Context of Fragility’, European Report on Development, European University Institute**

<http://erd.eui.eu/media/chapter-5-the-impact-of-the-financial-crisis-on-fragile-countries.pdf>

This chapter argues that there are growing concerns that the impact of the crisis on fragile countries in Africa could actually be substantial. As African countries have a limited formal and informal financial system, the real effects of the crisis on firms and individuals will be difficult to avoid with such a limited ability to borrow and smooth shocks. However, it will not be easy to track the set of effects of the current financial and economic crisis on fragile countries, as these are most likely to be indirect. Furthermore, given the marked differences across countries, the impact will be uneven.

It has been estimated that negative spillover effects arising from a 1 percent slowdown in global growth may reduce SSA countries’ growth by 0.3-0.5 percent. There is also a concern that the deterioration in the global economy due to the crisis will reverse recent positive trends in Foreign Direct Investments and migrants’ remittances. Exports are also likely to fall in response to the reduction of global demand.

In addition, as the funds devoted to official development assistance tend to follow donor countries’ economic cycle, aid to fragile countries is likely to decrease in coming years. While the sharp decrease in food and oil prices that has been observed over the last two quarters of 2008 may bring some relief to the Balance of Payments of food and energy-importing fragile countries, the fall in the prices of other commodities could have a serious negative impact on the resource-rich fragile countries. Furthermore, it is important to point out that the crisis could also expose other countries to the risk of entering a situation of fragility, as sudden falls in the income level of a country represent a potential trigger for the outbreak of social unrest or of armed conflicts.

**Sheldon, S., 1998, 'The Economic Crisis and the ASEAN States' Security', Strategic Studies Institute, United States Army War College, Pennsylvania**  
<http://www.strategicstudiesinstitute.army.mil/pdffiles/pub78.pdf>

This paper outlines the impact of the Asian crisis on the security of Southeast Asian governments and defence cooperation. Some of the key problems centre around the return of illegal economic migrants in Malaysia and Thailand and the use of the army to enforce internal security in Indonesia.

- *Unemployment:* "At the local level, primarily in Indonesia but conceivably also in Thailand and Malaysia, rising unemployment and popular frustration could be directed not only against the government but also against indigenous Chinese who make up much of the merchant class throughout Southeast Asia. (In Indonesia this has already occurred with tragic consequences.) The army's role in containing local outbursts has been particularly prominent in Indonesia with a reemphasis on internal security." (p. 4)
- *Migration:* "The prospect in Indonesia of more than ten million unemployed out of a work force of 90 million, and possibly over one million returnees from other parts of Southeast Asia, has increased the potential for large-scale violence. In Malaysia, with an estimated 1.2 million Indonesian workers, three-quarters of whom are illegal, large-scale deportations initially led to violence, though the repatriation procedure became more orderly by mid-1998. The situation is similar in Thailand which is home to about one million illegal workers, most from neighboring Burma. Unemployment in Thailand is projected to double to more than two million; and Thai authorities plan to expel some 300,000 foreign workers this year. These massive population movements are creating strains both within and between nations. As Malaysian Foreign Minister Abdullah Ahmad Badawi put it: "It is dangerous to have too many people unemployed. It can cause instability in Malaysia socially and even politically. We have to take care of our own people first; charity begins at home." Thus, in addition to expelling illegals, Malaysia has also mounted a small flotilla of naval vessels to repulse new arrivals. Tension between Indonesia and Malaysia could result from these actions, though both governments are working to avoid that outcome." (p.5 )
- *Inter-state tension:* "The economic crisis has also strained Indonesia's relations with Malaysia as the latter forcibly repatriates thousands of illegal Indonesian immigrants who, for years, had come to the Malay peninsula to find work in what had been a labor-scarce economy. Malaysia's own economic malaise has led Kuala Lumpur to detain large numbers of illegal Indonesians in detention camps where some riots have occurred. After eight Indonesian detainees were killed in the course of a camp disturbance, one Indonesian official described the treatment of his countrymen as "a human rights violation," though he also acknowledged "on the question of deportation, that is the right of the state." Indonesian migrants from Aceh claim they face political persecution if they return home. Repatriation of illegal immigrants has unfortunately become, therefore, a new source of stress in intra-ASEAN relations." (p. 14)
- *Reduced defence spending:* "Thailand continues to experience security problems along its land borders: refugees from Burma and Cambodia, Muslim separatists on the Malaysian border, and Burmese and Cambodian forces raiding refugee camps on the Thai side of their respective frontiers. Dealing with these territorial issues means that much of what remains in a downsized Thai military budget must go for army-based internal security, leaving air and maritime forces with reduced resources even for routine operations." (pp. 15-16)



**Dibb, P., Hale, D. and Prince, P., 1998, 'The Strategic Implications of Asia's Economic Crisis', *Survival*, Volume 40, Number 2, pp. 5-26**

This article is available for purchase from IngentaConnect:

<http://www.ingentaconnect.com/content/routledg/surviv/1998/00000040/00000002/art00001>

This article argued that the undermining of economic confidence as a result of the financial crisis would have profound effects on the political and social cohesion of key Asian states. The resulting contraction of the economy would be particularly damaging to one-party regimes that had built their legitimacy not on democracy or human rights, but on delivering economic growth year after year. The authors argue: "the fundamental tenet of Asian political leadership is now at risk: the promise to deliver unending economic growth and material benefits to the people [...] In South-east Asia, the crisis poses a major challenge to the so-called 'ASEAN model', under which security is conceived of in economic and political, rather than conventional military, terms [...] Thus the collapse of economic prosperity in Asia will threaten the basis for political stability across the region." (p.15)

The article goes on to detail some of the social consequences of the crisis: "High interest rates, rapidly rising prices and soaring unemployment are a potent mixture: in Indonesia alone, unemployment is forecast to increase in 1998 from about 4m to perhaps as high as 14m or more. Already, there are widespread demonstrations against rising prices, which in many cases have more than doubled. Violence against Chinese-owned shops, businesses and institutions is mounting. In Thailand and Malaysia, there is growing anger about the continuing presence of foreign guest workers: in South Korea, trade unions are threatening widespread strike action over unemployment. These reactions have occurred even before many of the IMF-sponsored reforms in these countries have been implemented." (p. 15)

The author also highlights the impact on the middle classes of the crisis and their potential role in challenging their governments: "Throughout the region, the status and well-being of the middle class has been eroded, seriously so in Indonesia, South Korea and Thailand. Rapid economic growth has kept the middle class from being too restive politically: indeed, because of the demonstrable economic gains they have made under their current political systems, they have had a vested interest in political stability and regime continuity. They have not had any major interest in actively campaigning for democracy. But confidence in long-established political leaders has now been shaken, Thus the basis for a challenge to regime legitimacy has been laid." (p. 16)

**Kearns I., n.d. 'As the Financial Crisis Deepens, Can Britain Maintain its International Security Obligations?' Royal United Services Institute, London**

<http://www.rusi.org/go.php?structureID=S433AC69DF0216&ref=C49A3DC77588B5>

This brief article argues that the global financial crisis will result in a significant worsening of the international security environment as economic conditions negatively impact weak and fragile states while strong wealthy ones turn inward in the face of tight fiscal conditions at home.

The author argues: "As economic conditions drive some weak states and divided societies over the edge, we should expect more violent conflict and politically destabilising spill-over effects on countries neighbouring those in most distress. There will likely be population displacement and further human suffering on a large scale, as well as reduced overall economic activity and lost opportunities for productive world trade. We should also expect a growth in the ungoverned spaces that can be exploited by terrorists and a swelling of the ranks of those willing to turn to transnational crime, principally through trading in drugs and weapons, as a form of economic survival."

The article highlights various examples of The UK Government's cutbacks on international security commitments, such as in Iraq and Afghanistan, as well as in DFID's conflict prevention budgets: "Cutting back on international security commitments and preventive action now therefore, will almost certainly contribute to international instability, help to reduce long term global economic growth, enhance the danger to our national security from the transnational threats of terrorism and organised crime, and end up costing more in the medium term than it saves in the short. It is not only protectionism that we must resist, but the bean counters tendency to know the short term price of everything and the long term value of nothing."

**Note:** RUSI and the Centre for the Study of Financial Innovation have launched a joint initiative on the security dimension of the economic crisis. For further information see:

<http://www.rusi.org/economy>

#### 4. Social Consequences

**Lee, E., 1998, 'The Asian Financial Crisis: The Challenge for Social Policy', International Labour Organization, Geneva**

Selected chapters are available for preview at Google Books:

[http://books.google.co.uk/books?id=Y5OKX7mr7OAC&printsec=frontcover&dq=asian+economic+crisis+conflict+social+stability&lr=&source=gbs\\_summary\\_r&cad=0](http://books.google.co.uk/books?id=Y5OKX7mr7OAC&printsec=frontcover&dq=asian+economic+crisis+conflict+social+stability&lr=&source=gbs_summary_r&cad=0)

Chapter 2 of this book outlines the social impact of the crisis as felt through a fall in incomes and massive job losses, leading to sharp rises in un- and under-unemployment. This is further compounded by a rise in inflation, which in the context of an already weakened labour market extracts a further toll in terms of falling real wages and incomes. The combined effects of higher unemployment and inflation push large numbers of people into poverty.

"Adverse developments of this magnitude constitute, in themselves, a substantial shock to any social system. But these effects are amplified in the three worst-affected countries by two additional features of their economic systems. The first is the absence of a meaningful social safety net. Of the three countries, only the Republic of Korea has an unemployment insurance system, but it is of recent origin and still of limited coverage and duration. Systems of social assistance are also rudimentary and are limited to persons who are incapable of work. The vast majority of displaced workers will thus have to fend for themselves during the crisis. The second feature lies in the fact that social expectations in these three countries have been shaped by a long period of increasing employment opportunities and this makes the current shock in the labour market all the ruder. Indeed, this combination of sharp and unexpected social pain on the one hand. And the lack of collectively provided relief on the other, is fertile ground for breeding social unrest." (pp. 36-37)

The author highlights the social costs of unemployment caused by the crisis:

- "The progress achieved through the growth of modern-sector employment will be shattered. About a fifth of jobs will be lost, along with the hopes of a better life for 4 to 5 million workers and their families [...] The material deprivation and psychological costs of all this on those severely affected must also be very high."
- "New entrants to the labour market face the bleakest prospects of obtaining a job."
- "(T)he collapse in output and consumption, together with high inflation, will mean sharp falls in real wages and earnings in both the formal and informal sectors." (p. 46)



**Kerongkaew, M., 'Social Consequences of the East Asian Economic Crisis', in Lee, K. T., 2002, 'Globalization and the Asia Pacific Economy', Routledge**

Selected chapters are available for preview at Google Books:

[http://books.google.co.uk/books?id=xWopryjPH5oC&printsec=frontcover&dq=asian+economic+crisis+conflict+social+stability&lr=&source=gbs\\_summary\\_r&cad=0#PPA60,M1](http://books.google.co.uk/books?id=xWopryjPH5oC&printsec=frontcover&dq=asian+economic+crisis+conflict+social+stability&lr=&source=gbs_summary_r&cad=0#PPA60,M1)

This chapter examines the social consequences of the East Asian crisis in three countries – South Korea, Thailand and Indonesia and discusses four major types of impacts: the change in prices and consumption; the change in employment and labour markets; the change in income, poverty and income inequality; and the change in health, education and other social activities. It outlines how financial crises can have social impacts at three levels: “The first level or primary impact centres around price changes, reduced access to social services, ‘credit crunch’, income loss and increased poverty owing to unemployment and cuts in wages. The second level or secondary impact deals with the question ‘How are people coping?’ There are four possible outcomes:

- family members may be forced to enter the informal labour market;
- family cohesion may be weakened as migration increases;
- women and children may suffer as households cut down on expenditure (less food, children pulled out of school);
- young men may turn to illegal activities.

This leads to tertiary impacts whereby the following situations could occur:

- some networks of support may be strengthened, with more links between rural and urban areas, and more sharing of ideas;
- social capital may be overwhelmingly eroded;
- there may be an increase in conflict and tension within households (such as domestic violence), the community (such as crime and theft), and society (such as political conflict);
- trust and security may decrease;
- There may be competition for jobs and space;
- There may be increased isolation.” (p. 63)

Specific conflict impacts of the economic crisis are noted: “In Indonesia, the crisis brought about racial conflicts between the indigenous Indonesians and the Chinese Indonesians, and religious conflicts between the Muslims and the Christians. This did not happen in Thailand, and the relative lack of civic violence helped the government to concentrate on economic solutions” (p. 70)

The report recommends:

- “A more advanced form of social security (especially unemployment insurance) must be put in place to provide an employment safety net to workers as their economies are increasingly industrialised;
- Specific policies must be constantly adjusted to changing social situations so that vulnerable groups of people are being attended to;
- Family and community ties and cohesion must be promoted to form a strong foundation for social capital that can better withstand the future shock of the crisis.” (p. 81)

**Chen, D. L., 2005, 'Islamic Resurgence and Violence during the Indonesian Financial Crisis' (later published in Gradstein, M. and Konrad, K. A., 2007, 'Institutions and Norms in Economic Development'), MIT Press**

[http://www.people.fas.harvard.edu/~dlchen/papers/PED\\_ppr.pdf](http://www.people.fas.harvard.edu/~dlchen/papers/PED_ppr.pdf)

This paper examines group identity and group conflict in the specific context of Islamic resurgence during the Indonesian financial crisis. Indonesia experienced a dramatic financial crisis between 1997 and 1998. The exchange rate fell dramatically from 2400 Rupiah to the US dollar to 16000 Rupiah to the US dollar, while the CPI index for food increased from 100 to 261. In one year, asset values dropped by 91%. Millions of people lost jobs or shifted to the informal sector. The crisis reached a peak in early 1998 and led to riots and lootings in every province but one. Between 1990 and 2001, social violence led to more than 6,208 deaths in Indonesia, increasing sharply after the financial crisis of 1997.

The author uses a dataset that tracks every incident of social violence in Indonesia reported by the national news agency and the national daily over a decade spanning the financial crisis, and argues that the results indicate a strong relationship between religious intensity and social violence during the crisis: "High religious intensity areas before the crisis have more social violence after the crisis. Stronger measures of religious intensity (potentially better at inculcating group identity) are more strongly associated with social violence. Social violence is negatively associated with other social activities. These results are unlikely to be driven by omitted environmental variables: social violence increases fastest where participation in Koran study also increases the fastest, and this is not true for state or industrial violence. Higher presence of faith-based groups is associated with higher levels of conflict reported by village heads after the financial crisis." (p. 2)

The author also argues for the importance of social insurance schemes: "Alternative social insurance mitigates this effect. To the extent governments, international organizations, and NGOs are concerned about ideological extremism, in particular because it may lead to religious conflict and violence, the results here and in Chen (2005a) suggest increasing their role in social insurance may mitigate fundamentalist tendencies." (p. 8)

**Chen, D. L., 2004, 'Club Goods and Group Identity: Evidence from Islamic Resurgence During the Indonesian Financial Crisis', University of Chicago**

<http://cas.uchicago.edu/workshops/cpolit/papers/chen.pdf>

This paper aims to explore the causal relationship between economic distress and religious intensity and investigate why it exists. It finds that economic distress appears to stimulate Koran study and Islamic school attendance but does not stimulate other social activities or secular school attendance. These results seem attributable to the role of religion as ex-post social insurance. For example, credit availability reduces the effect of economic distress on religious intensity by roughly 80%. Religious intensity also alleviates the need for alms or credit to meet basic needs at the peak of the crisis - households that increased participation in Koran study during the crisis saw a 50% reduction in likelihood to need alms or credit three months later whereas households that decreased participation saw a 20% reduction in likelihood to need alms or credit three months later. The author also argues that where religious institutions provided social insurance, this encouraged villagers to practise consumption their consumption amongst themselves. The author argues that these results provide evidence that religious intensity responds to economic forces. However alternative social insurance mitigates this effect.

**Wen, M. 2009, 'Fighting for Harmony: The Threat of Social Instability during the Global Financial Crisis', Carnegie Endowment, US**

[http://www.carnegieendowment.org/files/2009-01-16\\_Version\\_41.pdf](http://www.carnegieendowment.org/files/2009-01-16_Version_41.pdf)

This article argues that in order to examine what type of political and social ramifications a global financial crisis could potentially have in China, the 1990s should be used as a useful point of comparison. During the 1990s, the Chinese government faced similar external and internal economic conditions as well as domestic pressure due to widespread unemployment. The article also examines mechanisms and regulations developed by the CCP's, such as the Labour Contract Law, which was formulated to provide a measure of worker protection after mass State-owned Enterprise (SoEs) layoffs.

The article first looks at the restructuring and reform of China's state-owned enterprises which began in 1995. SOEs were expected primarily to hire and retain superfluous labour, and to provide healthcare and schools. By official count, in 1995, China had 300,000 SOEs employing around 75 million people. Half of these were unprofitable but, as many argue, this was not their primary aim. The main rationale for supporting a loss-making SOE was the promotion of social stability. No system of social services had, or has since, been significantly developed independent from SOEs.

The most immediate and direct consequence of SOE reform was unemployment. From 1995-2002, SOEs were allowed to go bankrupt; official statistics put the number of laid off workers at 28 million during the same seven years. Corruption was an also indirect and pervasive consequence of large-scale restructuring. Outright embezzlement or the undervalued sale of public firms to family incurred billions in economic losses for the state. "Unemployment combined with such brazen official corruption demoralized the public. According to the Hong Kong-based Information Center for Human Rights and Democracy, 60,000 worker protests took place in 1998 and 100,000 in 1999. This includes a purported three-day miners' protest of 20,000 in Liaoning in 1999. Official statistics themselves report 10,000 protests in 1994 but a surge in protests or "mass incidents" by 2004 to 74,000 and around 86,000 protests in 2005. While actual numbers are unclear, it is likely that the number of protests per year from 1994 onwards trended dramatically upwards into the tens of thousands as SOE reforms deepened and unemployment grew" (pp. 2-3) In 1999, the government stepped back from its most aggressive SOE reform policies. These were resumed in 2003.

However, the Labour Contract Law (LCL) also came into effect 1 January 2008. This was passed partly to preempt scenarios similar to those of the SOE reform period involving management corruption and mass unemployment that led to unrest. It defines and strengthens employees' legal rights while broadening employer obligations toward labour contracts and contract termination. However it has received some criticism for having what is perceived as a pro-labour bias detrimental to business interests and investment.

Indeed, the author argues that for all its rhetoric about continuing its strategy of SOE reforms, China has adopted a worker protection approach by lowering SOE standards and promoting lay off disincentives. "Factories have been closing, particularly in export regions, without intercession from the central or local government. 10 million workers have reportedly been laid off since November. The planned minimum wage hike for January has been delayed. Yet in other respects, the regime seems to have moved away from the efficiency promoting aspects of the LCL and straight to labor protection. The State Council has urged companies to refrain from firing workers, and some provinces have taken the initiative by requiring firms to apply for approval from local human resources and social security authorities if they want to lay off 40 or more workers. Central and local governments have moved in recent weeks to resurrect lay off methods of the 1990s: some workers are being sent home to "celebrate Spring Festival early" and will be called back in when business picks up. Others have been told that they will be asked to return when the market improves but compensated in the interim." In this way, the Chinese government appears to be bowing to the need to maintain

social stability over economic efficiency. The author states: “all indications point to another halt in painful SOE reforms and a return to mass labor industries such as construction. The regime seems willing to sacrifice short-term reform if it also means achieving short-term social stability.” (p. 3)

The author highlights calls by analysts and commentators to invest social services as a way of easing the burden on individual households which cannot be provided for through other measures, even the LCL. However, the current budget of 5.86 billion hardly seems sufficient considering the current state of the social service system in China, the size of the population, and the potential demand for such services in the coming months. “While the regime is open about the need for social service reform, officials see systems like the healthcare system in such dire need of reform that any significant amount of money would be an irresponsible and ineffective allocation of resources. To them, the regime is staying on the right course by ensuring employment and thereby ensuring that people can afford the services themselves.” (p. 4)

**Holleman, C., 2008, ‘Conflict, Emergency Crisis and Drought: A Humanitarian Emergency Out of Control’, Humanitarian Exchange Magazine, Overseas Development Institute, London**

<http://www.odihpn.org/report.asp?id=2944>

This article looks at the implications of economic crisis in Somalia that has resulted from the civil conflict, and is severely affecting the population. The author explains: “Economic activities, trade and transportation networks are disrupted and the uncontrolled and excessive printing of currency, in large part to fund the conflict, has meant that Somali Shillings have flooded the markets, rapidly increasing the money supply, sending the value of the Shilling into freefall and causing hyperinflation, with price increases of between 200% and 700% within just six months. Rural and urban populations, not directly affected by conflict, are now struggling to meet basic food needs. In particular, the urban and rural poor and IDPs are dependent on the market and have limited capacity to cope with sudden and dramatic price increases. For pastoralists already struggling to cope with an ongoing drought in many parts of the country, the added economic shocks of food and water price hikes are leading to rapid asset losses, and a deterioration in food access and nutritional status.”

All indications are that the key factors driving this humanitarian disaster – increased civil insecurity, hyperinflation and drought – will worsen over the coming months. There is an urgent need to scale-up integrated emergency livelihood and humanitarian assistance to ensure that the growing number of people in need of assistance receive life- and livelihood-saving support.

**‘DRC: Grave Economic Situation Threatening Stability’, African Security Analysis Programme Briefings, Institute for Security Studies**

This short briefing looks at the impact of the financial crisis on the mining sector in Katanga, a mineral rich province of DRC, which the central government in Kinshasa relies heavily on for income generation and job creation. Following the economic downturn, Katanga has been hit by the closure or departure of many mining companies operating in the province, and the whole DRC is suffering mass job losses as workers are laid off. Since September 2008, the unparalleled decline in global demand for natural resources; as well as plummeting prices of commodities like copper and cobalt to all-time lows has been particularly detrimental to the province and the country as a whole. As of the 24 February 2009, over 40 mining companies had ceased work in the in Katanga province alone. The province’s capital, Lubumbashi as well as miners and their families, have reportedly suffered in their absence.

The financial crisis is also occurring at a time when the DRC is also facing a huge humanitarian and security crisis in the eastern part of the country brought on by continued armed conflict. According to DRC-based World Bank economist Emilie Mushobekwa, together these two crises will undoubtedly have a considerable impact on the government's fiscal position as well as on social sectors.

**Von Braun, J., 2008, 'Food and Financial Crises: Implications for Agriculture and the Poor', Brief prepared for the CGIAR Annual General Meeting, Maputo, December**  
<http://www.ifpri.org/pubs/agm08/jvb/jvbagm2008.pdf>

This paper argues that food insecurity can be a key source of conflict and with increasing food and general living costs, people have turned to the streets in protest. Social and political unrest has occurred in 61 countries since the beginning of 2007, with some experiencing multiple occurrences and a high degree of violence.

## 5. Migration

**Zetter, R. (n.d.), 'Forced Migration in an Era of Global Financial Crisis – What Will Happen to Refugees?'**  
<http://www.age-of-migration.com/na/resources/updates/1b.pdf>

This paper argues that there is strong evidence to suggest that the financial crisis will have major impacts on forced migration:

- Irrespective of the overall volume of people seeking sanctuary, the official numbers of those being given the status of 'refugee' under the Geneva Convention will probably decline. Receiving states will use economic pressures to justify strengthening legal and policy measures to deter and restrict refugee claimants. "More asylum seekers will be driven underground: worse still, others will not even risk these outcomes and, by remaining behind, may well swell the numbers of victims caught up in conflict."
- The vulnerability of all those who are forced to flee conflict and persecution – irrespective of their actual legal status - will increase significantly. This is because levels of development and humanitarian assistance will inevitably decline quite severely over the next few years. This decline in government assistance will be mirrored by declining charitable income for NGOs delivering humanitarian assistance.
- There will be an increase in conflict-induced migration because the financial downturn will negatively impact countries already affected by limited development opportunities, weak governance and civil society structures, and widespread impoverishment. The financial crisis will precipitate the slowing down or reversal of economic growth as development assistance and development programmes falter: and competition to sustain livelihoods, and power, in an environment of increasingly scarce resources will be increased. The author argues that it can be assumed that progressively more marginalised groups, or elites who fear a loss of power, will have recourse to violence to protect their interests and that these outcomes will generate further forced displacement in the future. The impacts of this displacement might be greatest within the affected countries (i.e. generating IDPs) or in the immediate neighbouring countries.
- In the case of mixed migration flows, i.e. where conflict is a causal factor, amongst other more immediate factors such as economic and social impoverishment, the conditions which have generated large volumes of migration in recent years might continue in the global financial crisis. "Despite increasing restrictionism in the north and thus the heightened risks of irregular migration, it seems paradoxical but perhaps not unreasonable to assume that those escaping a complex mixture of poverty and

conflict will continue to want to do so. Indeed, the pressure to escape these conditions might increase as marginality, in poor countries of origin, itself increases.”

**International Organization for Migration, 2009, ‘The Impact of the Global Financial Crisis on Migration’, IOM, Geneva**

[http://www.iom.int/jahia/webdav/shared/shared/mainsite/policy\\_and\\_research/policy\\_documents/policy\\_brief\\_jan2009.pdf](http://www.iom.int/jahia/webdav/shared/shared/mainsite/policy_and_research/policy_documents/policy_brief_jan2009.pdf)

This brief highlights some of the likely effects of the economic crisis on migration. These include:

- The risk of discrimination and xenophobia as migrants are mistakenly perceived as taking the jobs of local workers particularly in low-skilled sectors of the labour market.
- The return of unemployed migrants to countries of origin (or regions of origin in the case of internal migration) where they are also likely to face inferior economic conditions (e.g. high unemployment and poverty) and could affect economic and social stability. Such returns, however, are less likely to occur from those countries (e.g. European countries) where migrants (and their families) enjoy secure residence and the safety net of a strong social welfare system.
- An increase in irregular migration and the strengthening of the informal labour market as unemployed migrants in destination countries seek to work without authorisation and as opportunities for regular labour migration decrease resulting in the emigration of more persons from countries of origin more seriously affected by the crisis. An increase in trafficking in human beings is also a possibility.

Previous downturns in the economy at both global and regional levels (e.g. the oil crisis in the early 1970s and the 1998 Asian financial crisis) indicate that migration will continue regardless (and irregular migration may even increase) because of the continuing structural demand for labour in certain sectors of the economy and despite increases in unemployment. The Asian financial crisis also demonstrated that keeping markets open to migrants and migration is important to stimulating a quicker economic recovery.

Therefore, flexible, coherent and comprehensive policies are needed to ensure that:

- The rights of migrants are effectively protected, for example in terms of their working and living conditions and in the event of loss of employment.
- Migrants are not stigmatised for job losses that occur and are protected from discrimination and xenophobia – this also calls for measures to inform the general population and raise awareness in destination countries about the valuable economic and social contributions made by migrants.
- Measures are adopted to assist with the repatriation, reception and reintegration of returning migrants.

## **6. Blogs**

**Arbache, J., 2009, ‘Will the Economic Crisis Affect Governance and Conflicts in Africa?’, Africa Can, World Bank**

<http://africacan.worldbank.org/will-the-economic-crisis-affect-governance-and-conflicts-in-africa>



## 7. Press Articles

**Crumley, B. and Karon, T., 2009, 'Is the Economic Crisis a Security Threat Too?', Time Magazine**

<http://www.time.com/time/world/article/0,8599,1881492,00.html>

**Woodward, P., 'Economic slump poses a threat to global stability', The National, February 16, 2009-03-03**

<http://www.thenational.ae/article/20090216/GLOBALBRIEFING/583540792/1009/PAGETHREE>

**'Financial crisis raises risk of social unrest in Asia', Manila Times, February 16, 2009**

<http://www.yehey.com/news/article.aspx?id=234717>

**Jopson, B., 2009, 'West to release emergency loans to Congo' Financial Times, February 23, 2009**

[http://www.ft.com/cms/s/0/b893157c-01c8-11de-8199-000077b07658.html?ncli&ncli\\_click\\_check=1](http://www.ft.com/cms/s/0/b893157c-01c8-11de-8199-000077b07658.html?ncli&ncli_click_check=1)

**'Global financial crisis could drive poor Colombian children to join guerrilla groups, UN Agency warns', The Telegraph, February 12, 2009**

<http://www.telegraph.co.uk/news/worldnews/southamerica/colombia/4596555/Global-financial-crisis-could-drive-poor-Colombian-children-to-join-guerilla-groups-UN-agency-warns.html>

**Acosta, L. J., 2009, 'Interview: Economic Crisis Threatens Aid Donations – UN', Reuters, February 25, 2009**

<http://www.reuters.com/article/congo/idUSN25305512>

## 8. Resources on the Impact of Economic Conditions on Political Stability

**Blattman, C., and Miguel, E., forthcoming 2009, 'Civil War', Yale University/ University of California, Berkeley**

**Sambanis, N., 2002, 'A Review of Recent Advances and Future Directions in the Quantitative Literature on Civil War', Defence and Peace Economics, Volume 13, Number 3, pp. 215-243**

[http://pdfserve.informaworld.com/176579\\_731245331\\_713931567.pdf](http://pdfserve.informaworld.com/176579_731245331_713931567.pdf)

**Gates, S. et al., 2006, 'Institutional Inconsistency and Political Instability: Polity Duration, 1800-2000', American Journal of Political Science, Volume 50, Issue 4, pp. 893-908**

This article is available for purchase from Wiley InterScience:

<http://www3.interscience.wiley.com/journal/118570896/abstract?CRETRY=1&SRETRY=0>

**Ulfelder, J., 2007, 'Natural Resource Wealth and the Survival of Autocracy', Comparative Political Studies, Volume 40, Number 8, pp. 995-1018**

This article is available for purchase from Sage Journals Online:

<http://cps.sagepub.com/cgi/content/abstract/40/8/995>

**Ulfelder, J. and Lustik, M., 2007, 'Modelling Transitions to and from Democracy', Democratization, Volume 14, Issue 3, pp. 351-387**

[http://pdfserve.informaworld.com/909930\\_745880094\\_778652181.pdf](http://pdfserve.informaworld.com/909930_745880094_778652181.pdf)

## 9. Further Resources

**The Global Financial Crisis webpage, Overseas Development Institute, London**

<http://www.odi.org.uk/odi-on/financial-crisis/default.asp>

**The Global Financial Crisis and Developing Countries – Overview, Workshop documents, Overseas Development Institute, London**

<http://www.odi.org.uk/events/details.asp?id=444&title=global-financial-crisis-developing-countries>

## 10. Additional information

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### Websites visited

Google, Google Scholar, Eldis, Center for Economic and Policy Research, RAND Corporation, London School of Economics, UN DESA, ODI, World Bank, ILO, UNDP Poverty Centre, UNU-WIDER, IFPRI, Carnegie Endowment, East West Center, International Peace Research Institute, NEPR, IOM, Royal United Services Institute, Ingenta, Asia Society, IDS, WHO

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