

# The Study of Industries that Prosper in Peace – the ‘Peace Industry’

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## EXECUTIVE SUMMARY

Peace is a powerful concept. However, the notion of peace and its value in the world economy is not well understood. Although there are economic studies on the cost of war, there is little study on the economic benefits of peace. This is easily demonstrated by attempting to find research that identifies the industries that thrive in peace and the relationship between these industries, their market size, their costs and improved peacefulness.

One of the key findings of the Global Peace Index, the first study ever to rank the nations of the world by their peacefulness and to identify the key drivers of peace, was that there is a strong relationship between peace, business and national wealth. This provides a platform for further groundbreaking research.

A starting point in understanding the economic benefits of peace would be to define the 'Peace Industry'. The 'Peace Industry' simply comprises those industries and companies that thrive in peace and whose markets and cost structures are adversely affected by violence or war. Initial research indicates that there is a strong relationship between a nation's ranking in peacefulness and the size of its retail sector, stock market and tourism industry, and changes in peacefulness can be used to calculate changes in market sizes.

At the beginning of the 21<sup>st</sup> century peace has become pivotal to the survival of society as we know it. The major challenges facing humanity today are global – climate change, lack of fresh water, ever-decreasing biodiversity and over-population. It is hard to over-state the devastating effects that these problems will have on business unless global

actions are taken that have the agreement of most nations. No nations or individuals will be untouched.

Global challenges call for global solutions and these solutions will require cooperation on a global scale unprecedented in human history. Peace is the essential prerequisite because without peace we will be unable to achieve the levels of cooperation, inclusiveness and social equity necessary to solve these challenges, let alone empower the international institutions needed to address them. Historically the competition between nation states has served their citizens well but at the beginning of the new millennium the worst of our combativeness is now rendered counter-productive by globalization and a planet straining through over-utilization.

War is not inevitable nor a natural state of the human condition. Contrary to popular belief the number of wars fought worldwide has decreased and the number of negotiated settlements has increased.<sup>1</sup> This is in part due to the fact that wars are becoming more difficult to win and society is becoming increasingly aware of the global negative consequences of conflict. The private sector is one of the most affected parties.

Businesses can play a decisive role in creating global peace. However, today there is no clear understanding of the impacts of peace on their markets, their costs and their profits. Without a clear understanding of why it's in their shareholders' best interests to help create peace it is hard for business to act in a decisive manner.

It seems intuitive that peace creates more economic benefits to a society than violence or war. It is also evident that in most

<sup>1</sup> Human Security Brief 2006

## EXECUTIVE SUMMARY

circumstances businesses wish to invest in areas where there is minimal violence.

Only through the study and the understanding of peace can we achieve peace. Yet in the academic world the study of peace has not reached far beyond the borders of 'Peace and Conflict' studies. Peace is not a subject of study that is considered essential in Economics, History, Literature, or International Relations. One discipline that would substantially benefit from the study of peace is Business and Economics.

The fields of Business and Economics look at the pragmatic and sustainable approaches to increasing the mercantile flow of an economy, yet there is a lack of research into the factors that also affect the way peace impacts an economy. By defining the industries that comprise the 'Peace Industry' it is possible to place a value on the size of GDP that is positively affected by peace, in the same way that we measure the size of the Defense Industry. By defining the Defense Industry, many of the impacts the industry has had on the economy have become known. Similarly, by understanding the positive impacts of peace on an economy, business, government leaders and civil society will be able to better steer society to create wealth and social harmony.

There are many industries that prosper in peace and are adversely affected by escalating levels of violence. Some of these industries are: insurance, retail, financial services, tourism and commercial aviation. These examples are illustrative of the potential size of the 'Peace Industry' and many more industries could be labelled as members of the 'Peace Industry'.

When industries realize that creating global peace is in their shareholders' best interest, they will become a powerful force for positive change. The Institute for Economics and Peace is creating an alliance of academics, business people and other interested parties to develop an economic understanding of what can be termed the 'Peace Industry' and the economic impact of peace on business. The aim is to engender the development of economic models that demonstrate the increase in the size of the selected industries markets, their reductions in costs and increase in profit that will arise with improvements in peace.

The outcome of such studies will impact the public agenda by demonstrating the clear relationship that exists between economics, business and peace.

Once conclusions about the economic benefits of peace are drawn, it may be possible to transform the world through business-led initiatives, thereby helping to achieve peace and creating the environment that will make future sustainability possible.

## PEACE IN THE 21ST CENTURY

The major challenges facing humanity today are global – climate change, lack of fresh water, ever-decreasing bio-diversity and over population. These challenges are now well documented and supported by thousands of scientists, academics and leading think tanks. It is impossible to accurately portray the devastating effects that these problems will have on all nations, unless global unified action is taken. Global challenges call for global solutions and these solutions will require cooperation on a global scale unparalleled in history. Peace is the essential prerequisite because without peace we will be unable to achieve the levels of cooperation, inclusiveness and social equity necessary to solve these problems, let alone empower the international institutions needed to regulate the challenges.

It is now over thirty years since the publication of Limits to Growth<sup>2</sup> and today the private sector fully understands the devastating impacts that sustainability challenges will have on business unless they are adequately addressed. It is not possible to treat sustainability and peace separately. In fact, the correlation between business and peace is probably stronger than between business and sustainability. Many have argued that life should be viewed from a Darwinian perspective where the ‘fittest survive’. In the 20th century we were taught that the struggle of individual species against one another and between the members of those species created progress. Industry and economic theory generally considered that unfettered competition between companies and individuals provided the best common good for all.

With the challenges humanity is currently

facing, ‘survival of the fittest’ will increasingly become survival of the most cooperative. Species that cooperate around their self interest and without destroying their environment have, in fact, a greater propensity to thrive. In the 21st century we will be dependent on global cooperation to solve our challenges. Such cooperation is only achievable in a fundamentally peaceful world.

Humanity is now at a crossroads. We possess weapons of ever-increasing sophistication and destructiveness yet our future depends on our ability to be attuned to peace.

Contrary to popular belief, the world is becoming more peaceful although these gains are neither uniform nor permanent and also come with some negative trends as outlined on page 6. Humanity is capable of attaining peace but peace is neither guaranteed nor simple. It will only be realized through the understanding that it is in everyone’s self interest.

Notwithstanding the violence in Iraq and the widening war in Darfur, the Human Security Brief – 2006<sup>3</sup> observed the following trends:

### Positive Trends

- Between 2002 and the end of 2005 the number of armed conflicts decreased by 15% with battlefield deaths contracting 40%.
- In the same period the estimated number of displaced people fell by 6% to 32.1 million.
- Growing numbers of wars are settled through negotiated agreements rather than through military victories.
- The number of attempted military coups fell to 3 in 2005 from the peak of 25 in 1963.

<sup>2</sup> 1972, Limits to Growth, Dennis and Donella Meadows, Club of Rome

<sup>3</sup> Human Security Report Project, School of International Studies, Simon Fraser University, Toronto, Canada

## PEACE IN THE 21ST CENTURY

- The number of non-state conflicts dropped from 34 in 2002 to 25 at the end of 2005 as well as the conflicts being less deadly.

### Negative Trends

- Between 2002 and the end of 2005 four regions of the world saw an increase in the number of conflicts: Central/South Asia, Middle East/North Africa, the Americas and South East Asia/Oceania.
- The number of international terrorist incidents increased threefold between 2002 and the end of 2005 and the number of casualties increased fivefold. The US State Department noted that in 2007, although the number of terrorist attacks remained the same, the number of people killed did increase.<sup>4</sup>
- Organized violence against civilians has increased by 56% since 1989, although most of these have killed relatively few people.
- Although more wars are being settled by negotiations than battlefield victories, and the negotiated settlements last three times as long, they are also twice as likely to restart within five years.

Looking at our history we can observe that humanity has progressively expanded its concept of inclusiveness; those we see as being the same as us. At the beginning of human history we had tribes; those expanded to city states, which in turn expanded into nations. Today we have strong regional groupings and so-called super states. As an example Greeks and Swedes, Spaniards and Finns, who once considered each other worlds apart, now all see themselves as Europeans. Today, in the era of globalization, our economic interdependence and our sustainability challenges make it imperative for humanity to cooperate as one.

In the past, peace may have only been aspired to by the altruistic but in the future it will be the prerequisite for the survival of us all.



<sup>4</sup> US State Department Country Report on Terrorism 2007

## THE STUDY OF BUSINESS AND PEACE

The Global Peace Index (GPI) is a seminal piece of research. It is the first study ever to rank the nations of the world by their peacefulness and to identify the key drivers of peace. It has enabled research to identify many correlations with peace. One of the critical findings of the GPI is the relationship between per capita income and peace.<sup>5</sup> Generally, the more peaceful a nation is, the greater its per capita income. This relationship could be regarded as a virtuous cycle rather than one necessarily being the cause of the other. This, on its own, is a significant finding.

Further research has been conducted by the leading Indian think tank Strategic Foresight Group. This research has found that there are strong correlations between the Global Peace Index and the United Nations Development Programme (UNDP) *Human Development Index*,<sup>6</sup> the *Environmental Sustainability Index* of the Yale Center for Environmental Law and Policy at Yale University and the Center for International Earth Science Information Network at Columbia University,<sup>7</sup> the World Bank's *Ease of Doing Business Index and Knowledge Economy Index*,<sup>8</sup> and the *Global Competitiveness Index* of the World Economic Forum.<sup>9</sup>

The Human Development Index measures a country's achievements in three basic aspects of human development: health, knowledge and standard of living. Analysis of this relationship may indicate that through increased commitments or better targeted commitments to development the peacefulness of nations may be improved.

Environmental sustainability has become the most pressing challenge of our time. By determining if there is a correlation between

a nation's peacefulness and its environmental performance, it may mean that by improving peacefulness the world's environment will be enhanced. As the environment becomes more central to our future we are now increasingly monetizing this asset which in turn allows business and market dynamics to help protect our planet.

Currently the UN Global Compact has over 4000 member companies which are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. It represents a voluntary world movement of companies committed to corporate responsibility. An important objective of the initiative is to contribute to the sustainability of society.

The strong correlation between the Global Peace Index and the *Ease of Doing Business Index* and *Global Competitiveness Index* would indicate what seems intuitive. Business becomes more efficient and easier to conduct as peacefulness increases.

In situations of armed conflict, consumption and GDP per head invariably fall.<sup>10</sup> For example in Somalia, annual GDP per capita dropped in the period of civil strife from US\$280 in 1989 to US\$226 in 2002.<sup>11</sup> As consumption and GDP fall, costs rise which detract from spending on more necessary issues such as infrastructure, education and healthcare, as examined by Nobel Laureate Clive Granger in his abstract 'Peace Economies'.

The definition of the Defense Industry is well understood, as are the industry groups and companies that comprise it, being those companies whose markets increase with

<sup>5</sup> Sterling Huang and Professor David Throsby from Department of Economics, Macquarie University

<sup>6</sup> Source: UNDP Human Development Index, [www.undp.org](http://www.undp.org)

<sup>7</sup> Source: Yale University, [www.yale.edu](http://www.yale.edu)

<sup>8</sup> Source: World Bank, [www.worldbank.org](http://www.worldbank.org)

<sup>9</sup> Source: World Economic Forum, [www.weforum.org](http://www.weforum.org)

<sup>10</sup> The impact of armed violence on poverty and development, Centre for International Cooperation and Security, Department of Peace Studies, University of Bradford

<sup>11</sup> UNDP data

## THE STUDY OF BUSINESS AND PEACE

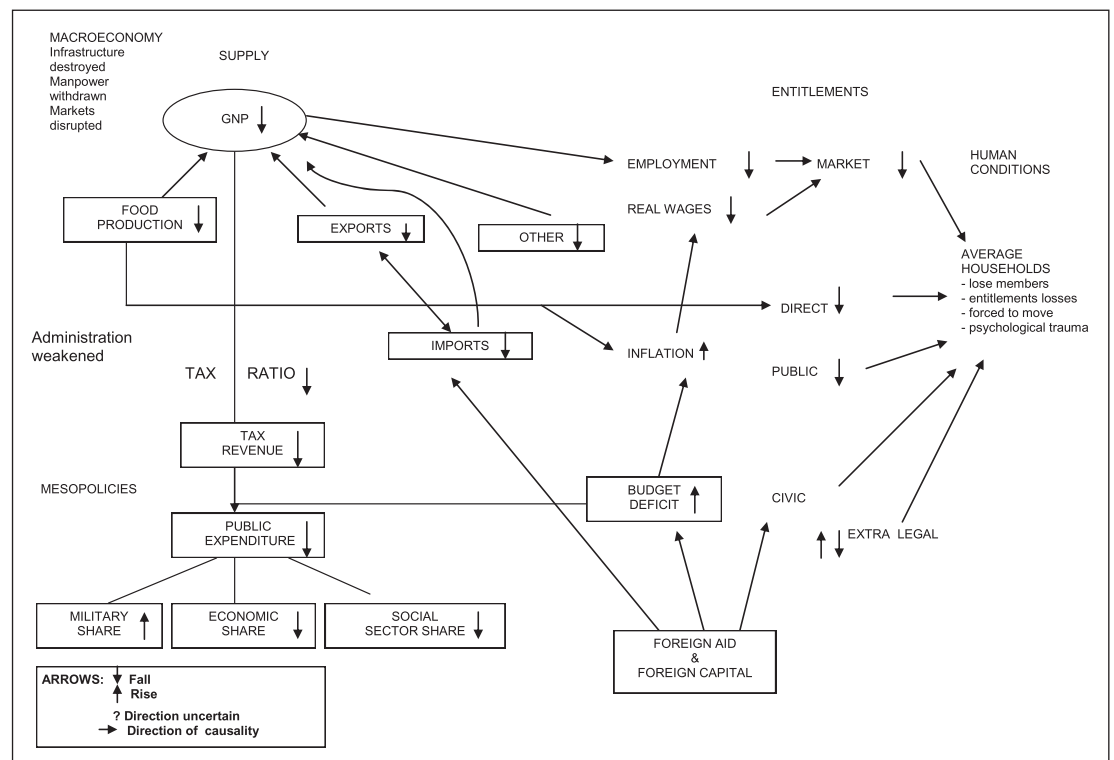
raising levels of violence or increased threat of violence. On the other hand, if one was to propose the concept of the 'Peace Industry' we would struggle to identify what industries and companies comprise it. It is interesting to note that there are many more industries that thrive in peace and are adversely affected by escalating levels of violence or the threat of violence. These are the industries that could be called the '*Industries of Peace*', simply because their ability to develop is predicated on peace.

This poses a fundamental question: why is there so much work done on the economic effects of war yet so little on peace? Many would argue that nation states have always viewed war, or the threat of war, as a legitimate tool in building national dominance and wealth. This is still largely true today. Another answer may lie in the difficulty to define peace. Most people struggle to define peace in a measurable way. It is said "we get

what we measure" and without measurements it is equally difficult to know whether our actions help or hinder the achievement of our goals. This is certainly true of peace.

One of the key factors in creating the Global Peace Index was the need to develop a definition of peace that could be measured. In this context peace was defined simply as "the absence of violence". For nations this definition allows both the internal measurements and external measurements of peacefulness.

By taking a subset of the Global Peace Index's internal indicators it is possible to measure selective aspects of the internal peacefulness of a nation. A nation, from the perspective of a multinational company, can be viewed as a market. In this context violence can be measured in relationship to companies' domestic and international markets.



A diagrammatic representation tracing the expected human costs of war



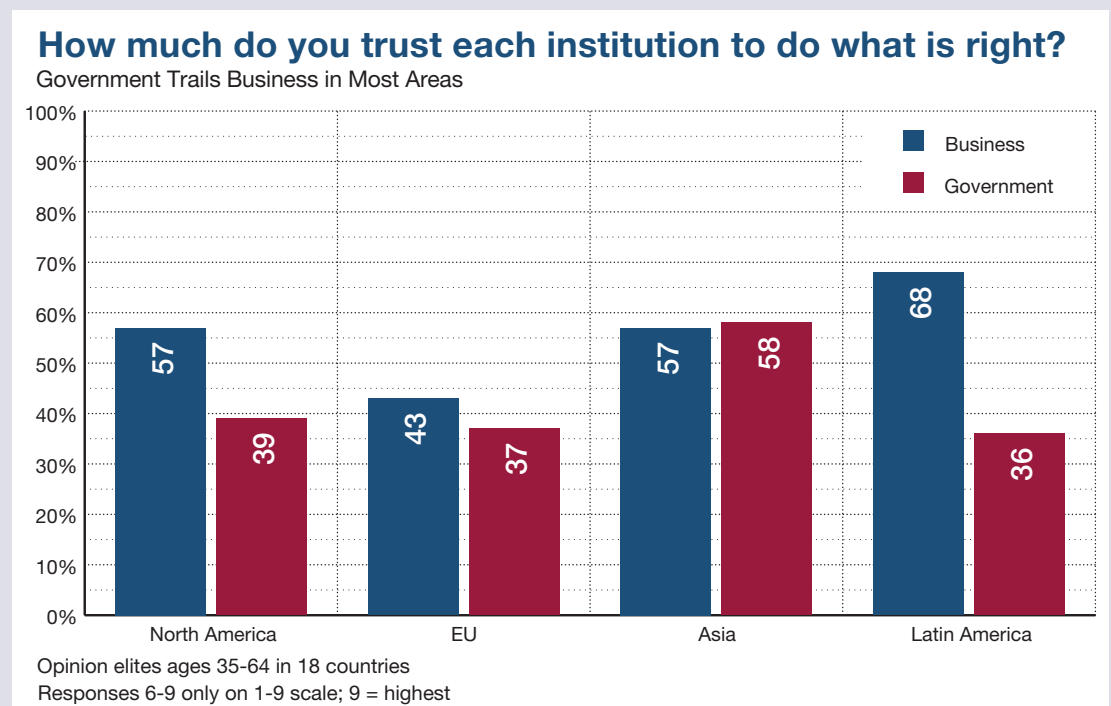
The chart on page 8, by Frances Stewart and Valpy Fitzgerald and associates; 'War and Underdevelopment; Volume I, The Economic and Social Consequences of Conflict' Oxford University Press 2001, shows some of the effects of conflict on the economy.

It is clear from this chart that a number of positive factors can be attained for the economy and business as conflict decreases. By reducing spending to support or contain violence, budget pressures are reduced, thereby decreasing inflationary effects. Additionally there is less reliance on imported capital and foreign aid. This has the effect of increasing domestic funds for building national infrastructure. As violence decreases business efficiency is increased; this in turn increases employment opportunities, exports, family incomes, imports and tax revenues. The tax revenues can be further utilized to build national infrastructure which then

improves productivity for another round of business development.

Independent research undertaken by Sterling Huang and Professor David Throsby of the Department of Economics at Macquarie University, Australia has found a number of strong correlations between the Global Peace Index and various economic indicators to support the positive effects of peace on business. One of the most striking findings is that the Gross Domestic Product, on a per capita basis, increases on average by approximately \$3,145USD for every 10 places a country increases on the Global Peace Index.<sup>12</sup> This association does not necessarily mean causation, although it is plausible to suggest that the more peaceful a country is the richer it is likely to become, providing other things are equal.

If the economic benefits of peace could be demonstrated to industry and business leaders



## THE STUDY OF BUSINESS AND PEACE

it would then be in industry's self interest to proactively work with government and industry associations to create the conditions necessary for their industries to prosper. Within our increasingly interdependent world, it has become apparent that self interest must also go hand in hand with ethical business practices for business to survive and prosper. It is interesting to note that the 2008 Edelman Trust Barometer shows that in most countries surveyed around the world, influential people trust business more than governments.

Many multinational companies currently have revenues greater than those of many national economies. There are 50 countries with GDP greater than \$78 billion compared to 44 companies with sales revenues greater than \$70 billion.<sup>13</sup> These companies are truly global in nature and their actions and practices have impacts on the citizens and economies of numerous countries. If global peace is in the best interests of their bottom-line and they are more trusted than governments then businesses should be a key influencer in addressing global peace.

The dividend to business from engaging in peace can be measured not only in financial terms but also in the moral authority and goodwill that will be generated by these activities.



<sup>13</sup> EIU World in Figures 2007

## ECONOMIC IMPACT OF PEACE

At the beginning of the 21st century the economic benefits of peace are not well understood and not enough research is carried out into the economics of peace. At the same time it seems intuitive that peace creates more economic benefits to a society than violence. The great 18th century French philosopher Montesquieu in his dissertation on the separation of powers, 'The Spirit of the Laws' states:

*"The natural effect of commerce is to bring about peace. Two nations which trade together render themselves reciprocally dependent; if the one has an interest in buying and the other has an interest in selling; as all unions are based on mutual needs."*

Additionally Professor Jeffrey Sachs noted that "widening violence will disrupt trade lines; raise insurance costs and shipping tariffs; ... undercut tourism and business travel; ... It will make international commerce and investment more expensive, thereby shifting production away from long supply lines that are more efficient and economic under stable political circumstances".<sup>14</sup>

If it could be demonstrated that peaceful environments had a better propensity for stability, could long-term debt be more aggressively priced? If there was a relationship between peacefulness and growth, would more capital inflows result? If there were a relationship between peace and growth, would new investment funds be created that invested in areas of the world that had the fastest improving prospects of peace? These are only some of the questions that could be posed.

The relationship between peace and business needs to be further analyzed. If it is possible to draw conclusions about the economic benefits of peace then it may be possible to transform the world through business-led initiatives.

Looking at the attributes of economies during peace rather than at war or suffering from high levels of violence, we can observe that:

- The risk to investment is lowered. Peace provides more certainty for the investor by eliminating uncertainty around a range of high impact events beyond the investor's control.
- As capital is freed up from security and defensive concerns, more capital becomes available for industries that thrive in peace as well as for developing the infrastructure which further enhances productivity. Professor James Galbraith, Chair of Economists for Peace and Security, stated: "War destroys prosperity ... people do make profits out of war but the profits that are lost, the profits that are never realized, the opportunities that are never taken up, vastly exceed the profits that are gained."
- As future uncertainty decreases, interest rates and discount rates on future earnings for investments are lower. With lower interest rates, and lower discount rates, projects that pay off over long periods will be competitive.
- Portfolios of investment become larger and contain more stable investments. This will enable families and business to consider their long-term plans and governments to spend more on infrastructure of general usefulness, such as roads, schools and universities.

<sup>14</sup> Sachs, Jeffrey D. "Smart Money: What Military Power Can't Do." The New Republic. March 3, 2003.

## ECONOMIC IMPACT OF PEACE

### Foreign Direct Investments

Companies are more likely to invest in regions of stability than in regions of conflict. The existing research on the relationships between Foreign Direct Investment (FDI) and peace shows that FDI is greater in countries that are peaceful towards each other.

A study carried out by the Federal Reserve Bank of San Francisco<sup>15</sup> estimates that historically wars have resulted in a decline in trade of about 80 to 90 percent between belligerents and that war creates negative externalities on trade even for neutral countries. Their trade with belligerents is also adversely affected, being subject to a decline of about 5 to 12 percent. Lastly, both of these effects persist for almost ten years.

### Capital Markets

When war occurs within a country it dramatically reduces the capital infrastructure and the size of the GDP of the nation, thereby reducing the size of its exports and imports.

Capital flight affects the export market by diminishing manufactured goods, commodities and service exports, which provide not only the necessary foreign currency for the country's stability but also comprise an important part of the labour group.<sup>16</sup> Capital that flows out of the country will result in a deficiency of work for the labour force, which becomes unproductive to the economy and exacerbates the situation.

The flight of capital is likely to find a new home in a neighbouring country that may offer similar logistics and skill base, rather than be repatriated to its original source.

Thereby the more peaceful nation's long-term regional competitiveness will improve at the expense of the more violent nations.

### Migrants and Outsourcing

It is increasingly apparent that the most advanced economies of the world cannot supply enough intellectual talent to fuel the full growth of their industries. Highly skilled immigrants have become a necessity for growth. War, as well as violence, hinders growth by creating barriers to immigration and dramatically decreasing the level of education in the affected areas.

Violence-affected regions become ineligible for outsourcing. Unable to meet the demands and conditions that make the country attractive to foreign investment, the country becomes more prone to social/political instability. As the risk of instability increases, foreign companies withdraw their investments. This capital flight is also costly for the companies that are required to relocate. The loss of capital and jobs intensifies the country's unrest.

### Rule of Law and Corruption

There is a strong correlation between peace, justice and the rule of law. Business is built upon the legal contract and the rule of law. Increasing levels of peace can help to build the foundations of a predictable and stable business environment.

Economist Jane Jacobs has concluded that those countries where there are strong commercial values are those countries where there are more peaceful regimes.<sup>17</sup> In fact, one of the lessons from Eastern Europe after the fall of communism was that those countries that prospered were those countries that had this legal and moral infrastructure.<sup>18</sup>

The Global Peace Index<sup>19</sup> has found that there is an inverse relationship between corruption and peace. Corruption, assessed in the form

<sup>15</sup> Federal Reserve Bank of San Francisco, Working Paper Series, Collateral Damage: Trade Disruption and the Economic Impact of War. Reuven Glick, Federal Reserve Bank of San Francisco and Alan M. Taylor University of California, Davis, NBER, and CEPR

<sup>16</sup> Collier Paul, 2007, 'The bottom billion: why the poorest countries are failing and what can be done about it'. Oxford University Press

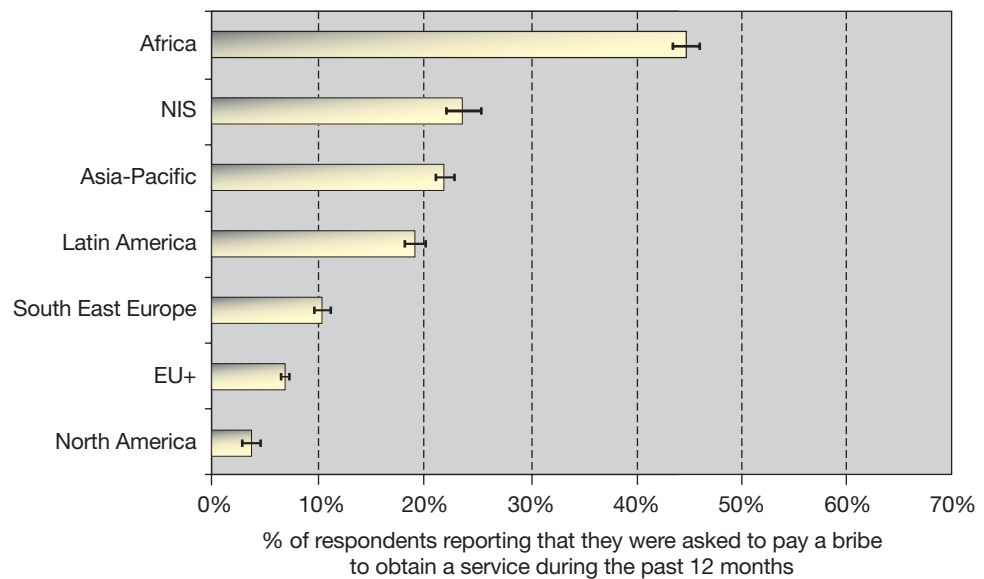
<sup>17</sup> Jacobs J., Systems of Survival, 1993

<sup>18</sup> 'Does Business Impact Peace?', Fort, Timothy L., 2002

<sup>19</sup> Global Peace Index 2007, correlations with Corruption Perception Index

of bribes, becomes an obstacle to economic efficiency that permeates general society, with effects on law enforcement, the judiciary, all the way through to the education system.

### Demands for bribery, by region



Source: Transparency International Global Corruption Barometer 2007. Percentages are weighted and calculated for those respondents who came in contact with the services listed. Thin lines indicate confidence intervals at 95%.

### Infrastructure

Case studies carried out by the Department of Peace Studies at Bradford University revealed that the heavy financial cost of armed violence meant that the share of government expenditure going to the security sector invariably rose, and public provision of social services fell. In Rio de Janeiro, Brazil, for instance, investment in security is twice that of education, five times that of health, and 50 times that of housing.<sup>20</sup>

During conflicts, physical infrastructure and public good are often the first to be destroyed. Schools, hospitals, airports, roads and bridges, needed for the economy to function, are lost.

<sup>20</sup> O Globo, Brazil, 13 April, 2002

## DEFINING THE 'PEACE INDUSTRY'

To fully understand the effects of peace on economies there is a need to understand what business segments thrive in peace rather than violence. The following discussion will not attempt to define the 'Peace Industry' but will point to ways of assessing what businesses may belong to it and some simple examples of how to value peace.

It has been argued that all industries benefit from war or violence: defense contractors buy computers, soldiers need to be fed, and defense spending on R&D creates technological innovation that then has flow-on benefits for society. As most defense spending originates with government the same money could be spent on solving sustainability challenges, infrastructure to produce greater economic efficiencies and much more. Government expenditure will flow through society regardless of its starting point therefore the flow-on effects can be considered neutral.

By assigning certain industries to the 'Peace Industry' we are able to understand the size of this industry relative to other business segments as well as its importance to the overall economy. There are many industries that clearly thrive in peace. The aim of this section is not to define all members of the 'Peace Industry' but simply to look at some examples of industries that thrive in peace, discuss how violence affects their bottom-line and show some statistical relationships between improvements in market sizes and their position in the Global Peace Index.

Defining peace as the 'Absence of Violence', the definition of the Global Peace Index, allows us to delve more deeply into the indicators that can be used to measure peace. Following are some approaches which can constitute initial steps in defining the members of the 'Peace Industry':

- Undertake statistical analysis of industry revenues as correlated to overall peacefulness. Overall peacefulness can be measured by the Global Peace Index. Initial research has been conducted into the relationship with per capita expenditure and peacefulness, and asset valuations and peacefulness. The outcome of some of this research is contained in this section.
- Select a number of indicators from the Global Peace Index and analyze changes in the individual indicators across nations to then analyze the cost structures of companies or industries in these markets. This can lead to understanding what the relationship may be between business costs and peace. The following indicators from the Global Peace Index could prove useful:<sup>21</sup>
  - Number of internal police and security officers per 100,000
  - Number of homicides per 100,000 of population
  - Number of jailed population per 100,000 population
  - Likelihood of Violent Demonstrations
  - Level of Violent Crime
  - Potential for Terrorist Acts
  - Relationship with Neighbouring Countries
  - Ease of Access to Weapons
- Conduct a survey to poll industry leaders and ask them whether they felt that their business improved when violence or war decreased. By using a rating scale it would be possible to understand which businesses felt that peace highly correlates with improved business prospects.

<sup>21</sup> The Economist Intelligence Unit has independently selected these indicators as valid measures of peacefulness. They have been analyzed and verified for the 121 countries that were covered in the 2007 edition of the Global Peace Index.

To analyze peace against the selected industries, in the context of the Global Peace Index, countries form a good basis for analysis as they can then be grouped into international and domestic markets. Peace can now be correlated with a company's international business activities. Furthermore, it is possible to break markets down into regions or cities within nations to help companies better analyze their markets.

## Retail

The Global Peace Index found a strong correlation between peacefulness and per capita income. It has long been established that retail expenditure increases in line with per capita income. Additional positive associations between retail expenditures and peacefulness, as measured by the Global Peace Index, have been discovered and are reported below.

Independent research undertaken by Sterling Huang and Professor David Throsby from the Department of Economics at Macquarie University has uncovered the following relationships between retail sales<sup>22</sup> and peace as measured in the Global Peace Index.<sup>23</sup>

On average, for every 10 place improvement in the Global Peace Index:

- Consumer spending on food and non-alcoholic beverages increases by US\$166 per head of population.
- Consumer spending on clothing and footwear increases by approximately US\$79 per head of population.
- Consumer spending on communications increases by approximately US\$371 per head of population.
- Consumer spending on household goods and services increases by approximately US\$50 per head of population.

With further research it may be possible for companies to better understand the relationship between increasing peacefulness and their sales.

As violence increases, shopping becomes less of a pleasurable experience for consumers, as such, and the time spent purchasing goods is reduced. Heightened levels of violence (random criminal violence, gang activity) severely hamper people's mobility. Consumers will want to spend less time on the streets, inevitably reducing the number of retail trips that they do.

As peace decreases, organized crime and its impact on business increases. Mob violence or violent demonstrations inevitably involve looting.

With rising levels of violence, retailers need to increase their security. This occurs through the use of ever-increasing numbers of defenses including security guards, security shields, cameras and increased staffing and management time to oversee and plan security systems. Additionally, lost opportunity time is involved as senior management spends increasing amounts of time on defensive strategies rather than market-capturing strategies.

National Retail Federation Chief Economist Rosalind Wells stated in January 2008 that any geopolitical uncertainty – including a war with Iraq – would affect current retail projections in the United States. “The Iraqi conflict is hindering decisions made by both businesses and consumers,” Wells said. “Not only are businesses taking a wait-and-see approach before making major financial commitments, they are reluctant to conduct business as usual, holding back hiring and causing layoffs.”

<sup>22</sup> Global Market Information Database 2002-2007

<sup>23</sup> Global Peace Index 2007

## DEFINING THE 'PEACE INDUSTRY'

### Tourism

Tourism is one of the industries for which the economic benefits of peace are most evident. Tourists obviously do not wish to travel to destinations suffering from high levels of violence or war. They want to feel free to experience the cultures to which they are travelling.

Independent research has uncovered the following relationships between financial transactions<sup>24</sup> and peace as measured in the Global Peace Index.<sup>25</sup> On average, for every 10 place improvement in the Global Peace Index:

- Tourism spending increases by approximately US\$77 per head of population.
- Consumer spending on hotel and catering increases by approximately US\$214 per head of population.
- Consumer spending on leisure and recreation increases by approximately US\$16 per head of population.

These figures are not inclusive of the financial activity outside the country involved in tourism.

Even the threat of violence, such as the potential of a terrorist attack or violent street demonstration, has a large impact on tourism. Tourists are quick in cancelling their trips in fear of putting themselves in danger.

Violence affects two markets within the tourist industry. The first is the domestic market. Adequate investment in infrastructure usually involves large capital outlays; therefore the investor needs to have the ability to predict the long-term stability. Local jobs and family income are dependent on infrastructure development.

Secondly, for the international market, developing the desirability of a tourist destination can take decades of sustained and consistent marketing, with predictability being the key. A lack of peacefulness will affect the return on these long-term investments almost immediately.

Kenya, one of the most prosperous and tourist-friendly countries in Africa, has seen up to \$1 billion in losses linked to the bloody turmoil following President Mwai Kibaki's disputed re-election in 2008.<sup>26</sup> Independent economist David Ndii said it is difficult to predict the full economic impact of Kenya's political violence, but it will certainly cut the 6.1 percent growth rate Kenya recorded in 2007.

### Financial Services

In peace, as the per capita income increases – with it, the amount of money moving in a society as well as the number and size of financial transactions – fuelling growth of the financial services industry.

Independent research has uncovered the following relationships between financial transactions<sup>27</sup> and peace as measured in the Global Peace Index.<sup>28</sup> On average, for every 10 place improvement in the Global Peace Index:

- Share Market Valuations on a per capita basis increase by approximately US\$2,781.
- Exports on a per capita basis increase by approximately US\$1,428.
- Imports on a per capita basis increase by approximately US\$1,280.

Effects of increasing levels of peacefulness in a society which positively impact the financial services industry would include:

- Increase in the number of ATM/POS transactions.

<sup>24</sup> Global Market Information Database 2002-2007

<sup>25</sup> Global Peace Index 2007

<sup>26</sup> "Kenya tourism, economy devastated by violence," CNN, 01.11.08

<sup>27</sup> Global Market Information Database 2002-2007

<sup>28</sup> Global Peace Index 2007



- Increase in the number and size of loans granted as collateral becomes safer.
- Increase in cross-border flows of capital.
- Increase in banks' ability to capitalize with foreign credit (predictability).
- Increase of participation of international banks in domestic markets, thereby increasing competition and benefits to consumers.

The financial services industry is impacted by less peaceful environments at two levels; at the consumer level of mortgages, loans and credit cards issuance and usage, and secondly at the commercial or interbank level, as risk increases and the availability of credit between banks tightens. In addition, the more peaceful a country becomes the lower the costs of guarding cash as well as the losses resulting from theft.

### Commercial Aviation

The detrimental effects of violence or threat of violence on commercial aviation are evident.

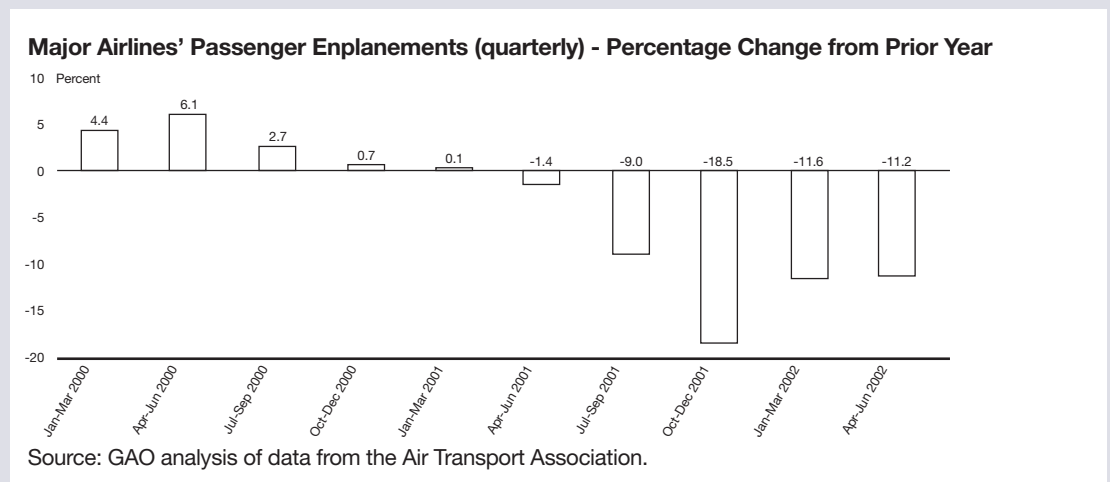
Airports are incapacitated from even the threat of terrorist acts, which result in dramatically higher costs and reduced income. The costs to airports and the airline industry from additional security measures since 9/11 in the

United States, the United Kingdom and many other parts of the world have affected the bottom-line of the industry.

The airline industry is an industry of high capital investment. For such industries, having predictable future revenue streams is critical. This is dependent on having stable routes as negotiating new routes is difficult and has long lead times. Therefore, a lack of peace in a nation can have severe impact on airlines' ability to continue operating to such destinations in the short term and on its return on capital in the long term if the violence were to continue.

The interrelationship of industries that thrive in peace is best illustrated between commercial aviation and tourism which is one of the major sources of revenue for the airline industry. When a tourist destination suffers from increased violence, violent political demonstration or acts of political terror, flights are either cancelled, rerouted or do not fly at capacity, thereby having devastating financial effects on the airline companies.

The graph below shows the dramatic decline in the number of passengers boarding flights (enplanements) in the United States as a result of the terrorist acts of 9/11.



## CONCLUSION

The Global Peace Index has taken a proactive approach in attempting to quantify peace whilst exploring the correlations that peace has with a strong economy, consumer spending and industries that thrive in peace. Such an approach is integral to the development of a solid partnership between the fields of business, politics and academia which will provide valuable information, support and research scope to the further exploration of the effects of peace.

Creative approaches to solve our global challenges are the cornerstone of the work that the Institute for Economics and Peace is conducting, with the Global Peace Index being a unique tool, assisting business and nations to understand the essence of a peaceful society and how peacefulness affects their economy. Business is in a unique position to effect change, peace and sustainability are key to its future success and by understanding the relationships between peace and its profits it has a clear mandate for action.

The Institute for Economics and Peace, through its global reach, aims to develop an economic understanding of the 'Peace Industry'. Our belief is that the outcome of these studies will impact the public agenda by demonstrating the clear relationship between business, peace and economics.

As pioneer political economist and moral philosopher Adam Smith stated "political institutions are human constructs that should be fashioned consciously to meet the needs of society". Our global village is now in desperate need of tools and minds brave enough to construct a new world order, if life as we know it is to continue on Earth through the 21st century.





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