8. Expeditionary economics: stimulating entrepreneurship under geopolitical risk

Robert E. Looney

INTRODUCTION

The concept of Expeditionary Economics (ExpECON) was introduced in 2010 in a path-breaking article in the May/June 2010 issue of *Foreign Affairs*, “Expeditionary Economics: Spurring Growth After Conflicts and Disasters”, by then Kauffman Institute President and CEO Carl Schramm. In that article, Schramm put forth the proposition that economic growth is vital for stabilizing post-conflict/disaster settings, and the U.S. military, as often the dominant player in these environments, must sharpen its ability to encourage indigenous entrepreneurship. It was Schramm’s contention that the conventional U.S. approach in recent post-conflict recoveries (Dobbins et al., 2007) has failed largely because it has abandoned the approach that was so successful in building the U.S. economy – the encouragement and support of indigenous entrepreneurial initiative and creativity (Schramm, 2010, 2010a).

In Schramm’s original formulation, ExpECON represented a sharp rejection of large bodies of received economic and military doctrine. His main contention was that “a central element in the failure to establish robust economies in war-torn or disaster-stricken countries is the prevailing doctrine of international development, according to which strong economies cannot emerge in poor countries” (Schramm 2010, 89). Schramm’s work shares many of the frustrations put forth in Dambisi Moyo’s (2010) withering critique of foreign aid programs, and De Soto’s (2000) impassioned questioning many of development economics conventional wisdoms. While other authors (del Castillo, 2008; Sweetman, 2009) wrote extensively on the contribution of private sector activity to stabilization and growth in post-conflict settings, their works have not had nearly the impact of Schramm’s contribution.

Schramm makes the case for the military to engage broadly in mid-conflict and post-conflict reconstruction using a variety of tools. In his formulation, economic reconstruction must be a part of a three-legged strategy, following invasion and stabilization. To do reconstruction, the military needs to expand its areas of competence, rid itself of its central
planning mentality, and become a more flexible force that can facilitate economic growth while trying to stabilize the regions in which it is engaged (Johnson et al., 2012b).

Following its introduction, ExpECON spawned major research efforts. It assessed, from an entrepreneurial perspective, the effectiveness of existing U.S. post-conflict policies and programs in stimulating economic growth. While originating at the Kauffman Institute in Kansas City (Patterson and Stangler, 2010; Schramm, 2010a; Patterson, 2011; Dahl, 2011; Cusack and Malmstrom, 2010, 2011; Gunter, 2011; Looney, 2012) this research effort spread quickly to the U.S. military, the U.S. government (Nijsen, 2012), as well as closely related issues in academic (Gunter, 2011a; Desai 2010; del Castillo, 2011a, 2011b; Collier, 2011), and private sector think tanks (Faust, 2011; Lum, 2012; Lemmon, 2012, Davis, 2011; Berteau et al., 2012; Cordesman and Mann, 2012). Much of this work has attempted to refine the original propositions put forth by Schramm, while assessing their empirical validity. Other efforts have been focused on examining the applicability of ExpECON as a key component in future U.S. operations in post-conflict settings.

ExpECON has generated considerable interest because it provides a deeper understanding of the dynamics at work in most conflict and post-conflict disaster settings. More importantly, it lays out an optimistic plan to quickly jump-start the economies in what were previously considered impossible situations. In addition, there is a growing feeling that in the future budget constraints will limit the implementation of the standard approaches taken to date by the U.S. to post-conflict settings (IHS, 2012). ExpECON has the potential to provide a considerably less expensive alternative. There is also a growing feeling in the U.S. military that economic conditions are increasingly important relative to military action in creating long-standing peace and stability in many of the world’s trouble spots and fragile settings. At a minimum, ExpECON has shifted the focus of much work on post-conflict recovery to the role of entrepreneurship (Lemmon, 2012).

ExpECON MAIN PROPOSITIONS AND ORIGINS

While each post-conflict setting is unique in possessing a particular set of historical, cultural and economic circumstances ExpECON attempts to provide a loose framework for understanding and combating instability and violence. Faust (2011) summarizes the core elements of ExpECON as:
the strategic deployment of economic development to fix failed economies in crisis states;
fundamentally about business development;
based on the assumption that economies grow when businesses grow; and
focused on local communities and local businesses.

In contrast ExpECON is not:

- a blueprint for Western foreign direct investment;
- a call for promoting multinational corporations to set up businesses in conflict zones; or
- focused on empowering Western aid agencies or NGOs.

The recent experiences of U.S. involvement in Afghanistan and Iraq illustrate in part the conditions leading to these propositions as well as providing a tangible example of how the application of ExpECON might have produced a fundamentally different outcome. In both cases, the inability of U.S. and coalition programs to re-start the economy and generate viable jobs was one of the key factors prolonging the conflict and significantly delaying a return to some sort of stability.

**Afghanistan**

Despite billions of dollars spent over the past decade in Afghanistan, the capacity of the Afghan government to deliver basic services has remained severely limited. In the more remote areas, the government’s presence is sporadic at best. Poppy production remains by far the most dynamic part of the economy, generating vast profits, much of which is used to finance the Taliban (Looney, 2009). With little in the way of local governance or finance, illegal activity continues to thrive, further undermining the authority and influence of the central government.

Afghanistan’s dire state, as depicted in a report by the U.S. Congress, Committee on Foreign Relations (2011) is attributable to a diverse mix of factors that has led to the country’s continued deterioration. Much of the U.S. aid effort has been selectively used as a stabilization tool for a limited number of geographical areas in an attempt to “win hearts and minds”. The aid effort has been so massive that an estimated 97 percent of Afghanistan’s licit gross domestic product (GDP) is derived from NATO’s military activities and donor community presence.

Unfortunately, there is scant empirical evidence that stabilization programs have actually promoted stability, with some research suggesting that
factors such as aid facilitated corruption of government officials have made
the situation even worse (U.S. Congress, Committee on Foreign Relations,
2011). Similarly, there is little indication that the aid effort has stimulated
private sector activity and associated job creation. Rather than benefit the
population and prepare them for the future, billions of aid dollars have gone
to foreign contractors and Afghan elites (Cusack and Malmstrom, 2010).

Given the fact that by 2015 the U.S. and its allies plan to hand over
security and other responsibilities to the Afghan government, there will
be significant cuts in spending and assistance with little or no indigenous
production (outside of drugs) to pick up the slack. As a result, these cuts
along with the country’s fractious politics and persistent insecurity are
likely to push the economy into recession, derail the transition process
and condemn the country to a long period of further violence and conflict
(Cordesman and Mann, 2012).

Looking at the events in Afghanistan from the perspective of ExpECON,
Cusack and Malmstrom (2010, 2011) through extensive field work and
interviews found that despite government and donor community neglect
of the Afghan private sector, this segment of the economy had tremendous
potential for growth and employment generation. Further, many of the
broad-based stereotypes often painted of entrepreneurs in conflict settings
were completely wrong. In particular they found that:

1. Afghan businesses are responding rationally to economic incentives in
a highly distorted economic environment.
2. Uncertainty and unpredictability, not physical insecurity, are the fun-
damental obstacles to business.
3. Businesses are adapting strategies such as vertical integration, pursu-
ing short-term trading over long-term enterprises, and “buying” secu-
rity in multiple ways.
4. Many business people believe that the Afghan government not only
fails to provide basic services but also engages in corruption that
directly threatens their businesses; and
5. International actors distort the business environment in ways harmful
to Afghan businesses.

From these findings, it is easy to conclude that the Afghan private sector
had the potential for growth and positive change – if only given a chance
in the form of some degree of stability and institutional reliability.

These points are elaborated on and further documented in another
study approached from an expeditionary perspective. Dahl (2011) found
many of the causes underlying the Afghan business responses noted above
stemmed from actions not taken in the early days following the overthrow
of the Taliban. As he notes (Dahl, 2011, p. 4), transitional environments like Afghanistan’s are often “typified by a political economy within which powerful non-state actors develop inappropriate alliances with state officials and run illicit enterprises that violate the rights of their fellow citizens and suffocate illicit entrepreneurial growth”. These findings lead him to conclude that the U.S. together with its NATO allies and the Afghan government had a strategic, moral and legal obligation to immediately establish effective rule of law institutions. Specifically, “stabilizing forces must establish (or support) institutions that are capable of preventing, investigating and punishing corruption and criminality”. Failure to do this in Afghanistan has been a major factor contributing to the on-going instability and the private sector’s inability to create jobs and hope for the future.

The one bright spot in Afghanistan has been the country’s recent bottom-up attempt at stimulating the economy and improving governance at the local level. The country’s National Solidarity Program (NSP) is a community driven development (CDD) program. In Afghanistan, the NSP mandates the creation of a Community Development Council (CDC) in nearly every village across the country. The NSP in effect empowers local community groups over planning decisions and investment resources through a process that emphasizes participatory planning and accountability (Nijssen, 2012). To date, there have been many NSP success stories. The NSP has achieved concrete successes at considerably lower prices than large-scale initiatives.

To advocates of ExpECON, the Afghanistan case illustrates the problems associated with attempting a top-down development strategy implemented by a corrupt, dysfunctional central government in an environment of uncoordinated aid programs with little or no focus on assisting the private sector. Out of this environment, it is little wonder that NATO efforts at restoring peace and stability to the country have stalled on a number of fronts. The inability to make initial strides at developing and implementing the rule of law impeded a vibrant entrepreneurial class that was more than capable of restoring stability and growth to the country. The early successes of the country’s belated NSP program further reinforce their contention of the superiority of a bottom-up, community-based development strategy relying on broad-based public participation. If improved governance at the local level can be built and sustained, the country’s entrepreneurial energies may finally be unleashed.

Iraq

Iraq’s post conflict economy (outside of the oil sector) has floundered. Since the overthrow of Saddam Hussein, the country has been plagued
with high levels of unemployment and relatively stagnant private sector employment. For all practical purposes, job creation in the formal sector was confined to the public sector and was financed with the country’s abundant oil revenues (United Nations, 2009). A large shadow economy of low-productivity firms and illegal activities continues to employ a large segment of the labor force (Looney, 2005).

Like Afghanistan, most of Iraq’s economic problems can be traced back to mistakes made early in the coalition occupation. The U.S. economic strategy in Iraq appeared to start on a very promising note. It closely followed the textbook shock therapy model (Looney, 2003) successfully implemented in countries like Chile after the fall of Allende, and Poland after the overthrow of Communism. The primary purpose of the neoliberal/Washington Consensus-based reforms was to generate needed efficiency in Iraq’s morbid socialist economy though the release of competitive forces (Looney, 2004). As in many post-Communist countries, a secondary objective of the shock therapy program was to wipe the slate clean through removing all Ba’athists from positions of authority and influence (Looney, 2004a). The strategy was designed and implemented with little or no Iraqi input.

Another aspect of the strategy was to create macroeconomic stability through an independent central bank, with the government remaining largely passive in dealing with the economy. The country hoped for a competitive, non-inflationary economy. This scenario was seen as an ideal environment for high job creation through rapid private sector investment. Free trade and capital movements were designed for a maximum inflow of foreign investment and the transfer of needed technology. A massive infrastructure program was designed to lower private-sector production costs, stimulating waves of follow-on investment and jobs. The role of the Iraqi government was largely to keep out of the way.

The limitations of the economic program became quickly apparent. Rather than creating an environment of efficiency and growth, it produced one in which criminals and extremists were able to thrive. The strategy shut large numbers of Iraqis with no skills or capital out of the economic process, fueling widespread anger. In the face of increased violence, together with political and economic uncertainty, it was impossible to attract the private investment from which the strategy depended.

There is no plan B in Washington Consensus programs of this type (Roland, 2001). The inability to produce sustainable short-run economic gains made the program’s economic reforms an easy target for extremist groups. As a result, the intended and necessary deepening and refinement of the Washington Consensus reforms did not occur. Instead, the governance vacuum was filled by existing organized religious and criminal
groups. The incomplete reforms (Gunter, 2009) also created profitable black market and rent-seeking opportunities, further opening up the country to exploitation by criminal groups and corrupt politicians.

In addition to a hostile regulatory environment, criminal activity, and corruption, the deterioration of social capital in Iraq has stifled private sector development and entrepreneurial activity (Putnam, 2004; Looney, 2008, 2008a). In the Iraqi context, social capital represents trust, and without trust there is little hope of the establishment of efficient markets, at the national as well as the provincial level. Instead, entrepreneurship thrives at the tribal and local levels (Desai, 2009, 2010) where high levels of trust still exist.

To advocates of ExpECON, the Iraq case illustrates the folly of imposing an ill-suited development strategy on a country ill-prepared to implement it in a consistent way. While striving for an efficient economy with state-of-the-art infrastructure, the strategy focused on the longer-term with little regard for job creation in the short run. By largely excluding Iraqis from the initial strategy formulations, Ministries were ill-equipped to assume authority with the withdrawal of U.S. forces. With the withdrawal of coalition forces, Iraqis have refused to accept the transfer of many projects because they were not involved in the design and therefore unsure of the subsequent costs of repair and maintenance. The resulting waste of aid and reconstruction resources has been staggering (Special Inspector General for Iraq Reconstruction, 2009).

In sum, low levels of social capital-based trust suggest that entrepreneurial activity has the greatest chance to thrive at the local and tribal level. At the outset, if a bottom-up development strategy stressing community-based development along the lines of Afghanistan’s NSP had been adopted and nurtured by the occupying forces it would have created sustainability (Keys, 2012), and many of the problems now plaguing Iraq would not have developed.

Iraq and Afghanistan’s environments demonstrate a common thread of similarities that, in retrospect, might have been better dealt with through applying many of the principles of ExpECON’s flexible community-oriented bottom-up strategy, rather than the rigid, no contingency top-down approach. The contrast between the two basic post-conflict recovery models – bottom-up and top-down – share many of the components noted in the economic development literature debates between the advocates of a Washington Consensus (largely top-down) and those championing the Evolutionary-Institutionalist Perspective (bottom-up). One could term the former the big bang or the shock therapy view, and the latter the gradualist or incremental view.

As expected, the ExpECON approach shares many similarities with the
Evolutionary Institutionalist approach, which is rooted in a “philosophical skepticism influenced by Hayek and Popper, with a strong emphasis on our relative ignorance of economic and social systems and their transformation and emphasis on the uncertainty associated with societal engineering and a strong aversion to any kind of . . . large scale institutional transformation” (Roland 2001, 32). This set of principles captures both the strength and weakness of expeditionary economics. Its strength lies in its flexibility and adaptability to different and evolving situations. Its weakness lies in the fact that the same imprecision makes it difficult for bureaucratic organizations to effectively apply it in the field.

ExpECON EXTENSIONS/FUTURE EVOLUTION/ AREAS FOR ADDITIONAL RESEARCH

Although it is unlikely the United States and its allies will engage in future conflicts on the scale of Iraq and Afghanistan, many themes common to those conflicts will run through future engagements. Defense ministers will be confronted by the challenge of militant groups that find sanctuary and build training bases inside failed states. In the absence of a legitimate government able to expel them, they could mobilize popular support and extend their control by taking on some of the functions of government, including service delivery and development.

Western militaries have come to the realization that this type of problem does not have a purely military solution. While ground could be captured, it could not necessarily be retained and pacified without the support of the local population. A more flexible response was to provide relief and reconstruction as a key component of the military operation. If the military continues to take on this type of activity, what likely issues might ExpECON face?

1. **Implementation on the Ground.** The U.S. was able to allocate considerable sums to the projects in Iraq and Afghanistan (Fischerkeller, 2011; Johnson et al., 2012a) through the Commander’s Emergency Response Program (CERP). Military officers with the rank of captain or major or higher can receive CERP funds to design and implement projects such as building roads, schools and the like (Patterson and Robinson, 2011). Many valuable lessons have been learned from the CERP program (Johnson et al., 2012b) that are applicable to ExpECON. Building on the CERP experience, ExpECON could extend this operation to the support of community selected local entrepreneurs, providing them with seed money and security. This
may entail further training of officers in business practices, but it has worked in the past (Patterson, 2011). Del Castillo (2011a) has shown that it would be a fairly easy task to transform existing CERP programs into those incorporating the main components of ExpECON.

2. **Lack of Supporting Environment.** Would it be possible to generate much entrepreneurship in settings with limited governance of the type that supports entrepreneurial activity in other settings? Both the Iraqi and Afghan cases demonstrate the vitality of entrepreneurship in situations previously thought to be completely stifling for businesses. Empirical work suggests that a limited number of reforms, including trade liberalization and improved business freedom – fairly easy to implement, are sufficient to jump-start the economies in the income range of most failed states (Looney, 2012).

3. **The Actions Over Time of Newly Created Entrepreneurs.** The hope is these new entrepreneurs will be capable of initiating a virtual circle of growth, contributing to increase in government revenues, public sector reforms, growth in infrastructure and services, and economic expansion as characterized by the successful post-Communist transformation of economies in Central and Eastern Europe in the 1990s (Havrylyshyn and Wolf, 1999). Whether expanding numbers of entrepreneurs will play this positive role depends on which of Mancur Olson’s (1982) coalitions dominate over time. Olson distinguished between “distributional coalitions” which are seen as leading to outcomes inimical to economic growth and “encompassing coalitions” which are seen as potentially aiding economic growth in a society. Hopefully, local communities will provide sufficient checks to assure the distributional coalitions emerge.

4. **Applicability to Environments Not Involving the U.S. Military.** There are likely to be many entities and countries attempting to combat domestic insurgencies in locations where U.S. or Western troops are not welcome. Generalizations are difficult, with the effectiveness of ExpECON. Situations vary according to the professionalism of the military, the quality of supporting institutions, and the openness of the government to capitalism and free markets. While countries are different and unique (Looney, 2012), ExpECON could nevertheless play an invaluable role especially in areas of the country that are out of the effective reach of the government. In the case of Pakistan, the country is equipped with a well-trained and educated military that would be capable in assisting and supporting new entrepreneurs. The country’s New Growth Framework provides a blueprint for the development and encouragement of private sector activities. Due to the fact that the Pakistani military is stretched thin and cannot provide
adequate security in every conflict district, new and creative solutions would be required. One possibility might be the creation of new reconstruction zones along the lines proven successful in countries such as Afghanistan and Haiti (del Castillo, 2011a). In extreme situations, a more radical approach might be called for, such as the establishment of new economic zones, akin to those under consideration in Honduras (The Economist, 2011). In the Honduran model, a clean slate is formed with a virtual creation of a new city. The government would provide security, infrastructure and financing for new businesses. In turn, these economic zones would attract refugees from surrounding areas.

While ExpECON holds out great promise for future military operations there are inherent dangers that must be recognized. Combining reconstruction with counterterrorism operations can present the military with conflicting objectives and gives mixed signals to local people. Dealing with one group, and not another, can spark unexpected group rivalries. Before the United States and other Western countries commit to ExpECON, a complete assessment and rewriting of military doctrine (U.S. Department of the Army, 2006) may be necessary for optimum results.

REFERENCES


124  *Handbook on the geopolitics of business*


