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The Centre on Conflict, Development and Peacebuilding  
**CCDP Working Paper**

Managing the Economic Dimensions  
of Peace Processes:

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## Resource Wealth, Autonomy, and Peace in Aceh

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Achim Wennmann and Jana Krause

**THE GRADUATE INSTITUTE** | GENEVA

INSTITUT DE HAUTES ETUDES  
INTERNATIONALES ET DU DEVELOPPEMENT

GRADUATE INSTITUTE OF INTERNATIONAL  
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# Map of Aceh



 ACEH REGION

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## Executive summary

Peace processes tend to be dominated by issues deriving from the military and political sphere. This is understandable given a mediator's immediate concern for ending the fighting, and in the best of cases, preparing the ground for demobilization, as well as for some form of power sharing. Often, mediators also have a military or political background while some are simply so-called "political animals". This perception of peace processes stands in contrast to the proliferation of scholarly work on the economic characteristics of armed conflict. The paper links this literature to the study and practice of peace processes management. Addressing this gap seems both timely and necessary. Together with studies on Sudan (north-south) and Nepal, this working paper is part of a larger project developed with, and generously funded by, Political Affairs Division IV of the Swiss Federal Department of Foreign Affairs. The project analyzes the economic tools in peace processes and identifies their implications for the management of peace processes and post-conflict transitions.

While the armed conflict in Aceh had a number of economic characteristics, the peace process mainly focused on status, political representation, and military control, leaving the issues of military business or wealth sharing on the margins. With the benefit of hindsight, Achim Wennmann and Jana Krause argue that the economic functions of armed violence – especially those committed by elements of the Indonesian military – were one of several factors that complicated the management of the Geneva peace process. They also propose that negotiating a ceasefire without recognizing the economic functions of armed violence can contribute to the emergence of spoilers. For field commanders of the Indonesian military who were involved in military ventures, ending to fight meant stopping business and with it, limiting the possibilities for any tangible alternative revenue in the future.

The paper also provides some vital lessons on the management of wealth sharing during a peace process. Oil and gas resources were a major catalyst of the conflict. However, wealth sharing remained a side issue in the negotiations even though it was addressed as part of a special autonomy law. It did not have a decisive impact on the process, because wealth sharing provisions lacked technical precision and ownership, and ongoing military activities fostered polarizations and distrust. In the final assessment, wealth sharing may not have made a large economic difference due to the near depletion of Aceh's oil and gas reserves. Nevertheless, wealth sharing represented an opportunity to build confidence and create new institutions for the future governance of Aceh, and its relationship with Jakarta.

The paper is structured along three transversal themes that are part of the backward and forward looking functions of peace processes. In terms of the former, these themes include the role of the economic characteristics of armed conflict with regards to the engagement of armed groups, and the treatment in peace process negotiations of economic agendas and conditions that serve as conflict drivers. In terms of forward looking functions, the paper asks if and how the inclusion of economic issues in a peace process can support post-conflict transitions.

This working paper offers many insights on the economic dimension of one of Asia's longest wars and is a reminder of how important it is to adopt an understanding of peacebuilding that transcends the operational conflict/post-conflict divisions. Proper diagnostics of armed violence and timely investments into early stages of the peacebuilding process may open new opportunities to end a conflict, while at the same time guiding difficult transitions towards a more sustainable peace.

Keith Krause  
Director, CCDP

## Authors' acknowledgements

This case study is part of a research endeavour that began at a 2005 workshop on the subject of incomplete negotiations, organized by the Processes of International Negotiation (PIN) network in Vienna, Austria. This workshop raised questions as to the possibility of developing an economic perspective on peace negotiations. It also coincided with an interest within the Swiss Federal Department of Foreign Affairs (FDFA) to better understand such a perspective in its mediation support activities. Joint deliberations led to a pilot study that began to chart the economic dimensions involved in the mediation of peace agreements. The study – entitled *Money Matters: Economic Dimensions of Peace Mediation* – was published by the Programme for Strategic and International Security Studies (now the CCDP). Recognizing the potential complementarities of economic aspects of mediation with existing initiatives on constitution building, dealing with the past, and decentralizing governance, a second phase was jointly elaborated to deepen the understanding of economic issues by looking at their treatment in three specific peace processes. We thank the Swiss FDFA and specifically Murezi Michael for the continuous and generous support given to this project.

The present case study reflects the outcome of over one year of analyzing case specific material and conducting conversations with area specialists, including when possible, those engaged directly in the specific peace process. We thank Andrew Andrea, Luc Chournet-Cambas, Oliver Jütersonke, Damien Kingsbury, and Celine Yvon for helpful comments on previous versions of this paper. We also gratefully acknowledge the comments from the participants of a workshop on the economic issues in peace processes held in Geneva, Switzerland on 13 February 2009. Special thanks also go to Meghan Pritchard at the CCDP for her invaluable work editing the manuscript and overseeing the publication process.

Even though this report has undergone a careful review, any errors and omissions of fact or judgement are of course our own.

## List of acronyms

AMM	Aceh Monitoring Mission
BRA	<i>Badan Reintegrasi Aceh</i> (Aceh Reintegration Board)
CHD	Centre for Humanitarian Dialogue
CMI	Crisis Management Initiative
COHA	Cessation of Hostilities Framework Agreement
DOM	<i>Daerah Operasi Militer</i> (Military Operations Area)
GAM	<i>Gerakan Aceh Merdeka</i> (Free Aceh Movement)
LIZ	Lhokseumawe Industrial Zone
LOGA	Law on Governing Aceh
MoU	Memorandum of Understanding
NAD	Law on Special Autonomy for the Province of Naggro Aceh Darussalam
PA	<i>Partai Aceh</i>
TNI	<i>Tentara Nasional Indonsia</i> (Indonesia Defence Force)

## Introduction

The Aceh conflict is often portrayed as a classic secessionist conflict. It involved a relatively homogenous population that took up arms in response to military oppression and economic exploitation. It has also been considered a classic resource conflict in which oppressive natural resource exploitation combined with local impoverishment created grievances that spanned a pre-existing conflict on self-determination. Despite these complexities, three decades of armed conflict ended in 2005 after Aceh had been severely affected by a tsunami. Prior to the natural disaster, the parties to the conflict had started to explore the possibility of a negotiated settlement. The *Memorandum of Understanding* (MoU) of 15 August 2005 closed one of Asia's longest civil wars and framed Aceh's post-conflict and tsunami recovery.

The 1974 discovery of natural gas in northeastern Aceh was a central factor in the origin and evolution of Aceh's civil war. Gas extraction intensified the government's appropriation of revenues, contributed to Aceh's economic decline, and resulted in an increased military presence in protection of the gas fields. Aceh became an important source of extra-budgetary financing for a military leadership that faced strong opposition from the new civilian regime after the end of Indonesia's authoritarian rule. In addition, with the independence of East Timor in 2002 and secessionist and communal violence in other provinces, the military's presence in Aceh became important to mark its traditional role as guarantor of Indonesia's integrity, and its space in Indonesian politics. After nearly thirty years, all belligerents faced pressures that weakened their mobilization capacities, and these in turn fed an increasingly mutually hurting stalemate that ultimately fostered a readiness to engage in negotiations.

This case study distils the findings as to how these economic characteristics have been managed during Aceh's peace processes between 2000 and 2005. Most analyses tend to focus on political or military issues such as the status of Aceh, local political parties, demobilization, or human rights abuses (Aspinall and Crouch, 2003; Aspinall, 2005; Kingsbury; Morfit, 2007). The economic dimension in these studies is limited to the impact of the military business (Kingsbury and McCulloch, 2006; HRW, 2006). No holistic study on the impact of economic issues on peace processes and their implications for post-conflict transitions exists to date, and this paper has the objective to address this gap.

This working paper explores the economic issues in two peace processes. The first was facilitated by the Centre for Humanitarian Dialogue (CHD) (2000-2003), hereafter “the Geneva peace process”; the second by the Crisis Management Initiative (CMI) (2004-2005), hereafter “the Helsinki peace process”. The paper also covers the wealth sharing component of the government sponsored autonomy law. The main findings of the paper are:

- When armed violence has important economic functions, negotiating a ceasefire before talks on substantive issues can complicate a peace process. Such a sequence requires an armed group to accept ending hostilities – thereby undermining its financing or profitable opportunities – without a tangible prospect of an alternative economic future through non-violent means. With regard to the Geneva peace process, such a dynamic explains why some elements within the Indonesian military – especially field commanders involved in military business – did not support the peace process.
- Wealth sharing was not a major issue in the peace processes even though oil and gas resources were factors in the onset of the conflict. Substantive wealth sharing regulations had been included in the government's 2001 *Law on Special Autonomy for the Province of Nanggroe Aceh Darussalam* (NAD) and featured in discussions on autonomy during the Geneva peace process. During the Helsinki peace process, wealth sharing was therefore perceived as an area of agreement where no further concessions were necessary.

- Wealth sharing was unable to contribute a forward looking perspective to the two peace processes because (a) the government failed to present wealth sharing as a credible option of conflict resolution and basis for a future economic vision of Aceh; (b) the government's wealth sharing offer had a series of technical shortcomings; and (c) the near exhaustion of oil and gas reserves reduced their relative importance as a revenue source.
- The peace processes did not establish an understanding between the parties on future economic prospects. The omission of such a forward looking vision allowed parts of Aceh's conflict economy to persist and subsequently to develop into a liability for post-conflict and post-tsunami reconstruction.

Together with studies on Sudan (north-south) and Nepal, this case study is part of a larger project that attempts to establish an evidence base on the management of economic issues in peace processes. The project stresses the importance of conflict-induced economic transformations, as well as the economic agendas and conditions that shape the organization and dynamics of armed conflict. It connects the political economy of conflict with the study of peace processes and seeks to distil implications for peace mediation practitioners.

This paper consists of five parts. The first part reviews the background to the Aceh conflict. The second part explores the value added of a better understanding of the economic characteristics of the Aceh conflict for the engagement of belligerents into the Geneva and Helsinki peace processes. It departs from the notion of using the mobilization and maintenance costs of armed groups as a tool to identify the role of a peace process in the overall strategy of an armed group. In the third section, the paper looks at the specific treatment of economic issues during the peace negotiations. In the closing section, the paper highlights that neglecting economic issues during the peace process can aggravate post-conflict transitions. This section highlights the importance of moving beyond operational distinctions between "conflict" and "post-conflict" phases and advocates the adoption of a comprehensive approach to peacebuilding.

## Background

**A**ceh is Indonesia's westernmost province and home of one of Asia's longest civil wars. It started in 1976 as a small insurgency in the northern tip of Sumatra Island, and ended with the MoU in 2005. Out of a population of about four million in 2005, 80 per cent are ethnically Acehnese and the largest minority (about 275,000 people) are Javanese.<sup>1</sup> Nearly all of Aceh's population is Muslim (Reid, 2006, pp. 4-5, 9).

The conflict emerged as a function of resistance to centralization, economic exploitation, military repression, and impunity (Sukma, 2004, pp. 3-6). Under Dutch colonial rule, Aceh enjoyed high levels of autonomy, which came to an end with Indonesia's independence in 1949. President Ahmed Sukarno (1949-1967) and President Mohammed Suharto (1967-1998) centralized political power and control over economic resources. Under Suharto, this was especially seen with the "New Order" regime. This in turn alienated Acehnese and other populations from the central authorities (Nessen, 2006, pp. 177-179). The discovery of natural gas in north eastern Aceh in 1971 led to a strengthening of the governments grip on power in Aceh. It established the Lhokseumawe Industrial Zone (LIZ) including investments by ExxonMobile, as well as permanent military bases for protection purposes.<sup>2</sup>

Throughout the 1980s, Aceh contributed between USD 2 billion to USD 3 billion annually in export earnings to Indonesian state coffers, comprising about 11 per cent of Indonesia's national revenue (Robinson, 1998, p. 135; Sukma, 2004, p. 3). Prior to the discovery of gas,



the economic situation in Aceh was relatively high in comparison to the rest of Indonesia (Ross, 2005, p. 38). During the 1980s, however, poverty rates more than doubled, while they concurrently fell in other provinces by nearly half. By 2000, Aceh's regional GDP had risen to fourth place out of thirty provinces, yet it was the fifth poorest province of Indonesia (Brown, 2008, p. 263).

The issue of natural resources was closely related to the *Tentara Nasional Indonesia* (TNI – Indonesian Defence Force) and the evolution of military business. Under Sukarno and Suharto, the TNI developed into the guardian of the state and implemented successive centralization policies. The military justified the need for high expenditures and involvement in parallel military businesses by pointing to Indonesia as being a massive archipelago and the subsequent operational expenses this entailed (Burford, 2006, pp. 3-5). This pattern of self-financing emerged during the Indonesian War of Independence (1945-1949) in which units relied on their own fundraising through voluntary support from civilians, smuggling, and taxation. These structures persisted in the 1950s and involved alliances between local businesses and the military that over time became institutionalized (Hendra, 2007, pp. 118-220; HRW, 2006, pp. 10-11).<sup>3</sup>

The military presence in Aceh dates back to the discovery of natural gas, when it was deployed to protect the LIZ (Mietzner, 2006, pp. 1-2). The province quickly became part of the TNI's military business. While the TNI was engaged in mainly legitimate business in other parts of Indonesia, in Aceh its ventures focused on activities such as drugs, arms, and logging, as well as protection and extortion (ICG, 2001a, pp. 12-13; Kingsbury and McCulloch, 2006, pp. 213-218). Military businesses were also involved in construction, security services, robberies, and the illicit exploitation of plantations and forests. Aceh was one of the most profitable TNI postings due to the extensive opportunities for money making (HRW, 2006, p. 75).

As a function of military business and in response to the insurgency, the TNI in Aceh developed into a military colossus. In 2000, it deployed about 30,000 personnel with an additional 13,000–15,000 police and special forces sent in 2003. Throughout the conflict, the TNI was militarily and financially superior to other actors in the region. The mountainous characteristics of Aceh, however, have never allowed this numerical strength to translate into a decisive military advantage (Schulze, 2006, pp. 225, 247-248; ICG, 2001a, p. 12).

The *Gerakan Aceh Merdeka* (GAM – Free Aceh Movement) developed in parallel to the gas boom of the early 1970s and the subsequent deteriorating economic situation. The insurgency evolved from a small ideologically driven organization of about 70 intellectuals in 1976, to a sizable group including 2,000–3,000 regular fighters and 13,000–24,000 militia members, which claimed to control 80 per cent of Aceh in 2000 (Schulze, 2004, p. 4; Ross, 2005, p. 47). About 800 GAM fighters were trained in Libya during the 1980s (ICG, 2001a, p. 3). Due to the military imbalance, GAM pursued a strategy of attrition and aimed at increasing the costs of the “occupation of Aceh” through hit-and-run attacks. GAM also used its superior knowledge of the territory and population to counterbalance the TNI's military strength (Schulze, 2006, pp. 225, 229).

The civil war in Aceh had three main phases. The first phase lasted from 1976 to 1979 and was characterized by low intensity conflict with fewer than 100 deaths (Ross, 2005, p. 36). It commenced when GAM leader, Hasan Mohammad di Tiro, declared independence (di Tiro, 1976). His objective was to re-establish Aceh as a sovereign sultanate with himself as the constitutionally empowered monarch (Ross, 2006, p. 41).<sup>4</sup> Being weak organizationally, however, and unable to align full popular support, GAM was an easy target for the TNI, and di Tiro along with other GAM supporters fled into exile in 1979 (Nessen, 2006, pp. 183-190; Schulze, 2004, p. 4).

The second phase lasted from 1989 to 1991 and was marked by intensive fighting that led to an estimated 2,000 to 10,000 deaths (Ross, 2005, p. 36). GAM re-emerged after receiving training and equipment from Libya. President Suharto enacted harsh security measures that included the *Daerah Operasi Militer* (DOM – Military Operations Area), which placed Aceh under martial law. In this period, the military was responsible for massive human rights violations that remain largely undocumented due to the impunity provision of the DOM. Despite the intensity of military efforts, the government was unable to defeat GAM in its entirety (Sukma, 2004, pp. 5-6, 9).

The third phase occurred between 1999 and 2005 and led to between 2,000 and 6,000 battle deaths.<sup>5</sup> The fall of Suharto in May 1998, and the subsequent end of the military regime, increased the incentive structure of the rebellion (Schulze, 2006, p. 237). At the end of 1998, GAM resumed activities, expanded its recruitment and support base, and strengthened its international profile through its exiled leadership based in Stockholm, Sweden. Sustained abuses by the TNI fostered the alienation of the Acehnese population from Jakarta, which in turn strengthened GAM (Schulze, 2004, pp. 16-17).

The third phase was accompanied by Indonesia's political transition after the fall of Suharto. In 1999, President Abduharram Wahid set out to redefine centre-periphery relations through a referendum on independence in East Timor. He also took a referendum in Aceh into consideration but lacked the necessary support in parliament for such a step.<sup>6</sup> When East Timor's referendum supported secession, tensions increased in Aceh, which led to pro-independence demonstrations of about one million people (Ross, 2006, p. 45). In Jakarta, these processes split the ruling elite between those advocating a peaceful solution and the downsizing of military presence in Aceh, and others who simply wanted to crush GAM.<sup>7</sup> In mid-2001, Wahid was succeeded by Vice-President Megawati Sukarnoputri who had a more solid backing from military elites. Thus, these elites re-established their political influence and soon after launched a military campaign intended to end the conflict in Aceh once and for all (Martin, 2006, p. 78)

Systematic attempts at negotiated settlements only evolved after the fall of Suharto. In 2000, the Geneva-based CHD led the first ever peace initiative between GAM and the government, leading to a *Humanitarian Pause* in 2000 and a ceasefire agreement in 2002. In Jakarta, however, the government was sharply criticized over what seemed to be an international recognition of GAM (Aspinall and Crouch, 2003, p. 16). In August of 2001, Sukarnoputri ratified the *Law on Special Autonomy for the Province Naggro Aceh Darussalam* (NAD), hereafter "the NAD law". It was supposed to provide substantial local autonomy, previewing a 70 per cent retainer for Aceh's oil and gas revenues.

In October 2004, Sukarnoputri was succeeded as president by former General and Security Minister Susilo Bambang Yudhoyono who pledged to seek peace in Aceh. Under Yudhoyono, the government's direction included back-channel negotiations as well as military and diplomatic pressure (Aspinall, 2005, pp. 14-21). The continued crackdown had stretched the military's resources and considerably weakened GAM. By late 2004, first contacts had taken place that culminated in the Helsinki peace process under the leadership of Martti Ahtisaari (Nessen, 2006, p. 194). Two days after formal invitations for the first official meetings had been sent, Indonesia was hit by the tsunami of 26 December 2004. The tsunami drastically changed the context of the peace process and catalyzed subsequent meetings of the Helsinki peace process (Gaillard et al, 2008, p. 511).<sup>8</sup> Over a period of six months, GAM and government representatives agreed on the MoU.

Aceh's post-conflict challenges have been conflated with its post-tsunami needs of humanitarian assistance. Key long-term challenges include the implementation of the law on local autonomy in all aspects pertaining to governance, wealth sharing and the

stationing of the TNI in Aceh. In addition, high unemployment levels and the absence of a strategy for economic development have complicated the demobilization and reintegration of former GAM fighters and fostered local tensions. GAM has successfully transformed itself into a political party and participated in the first local elections in 2006. Parliamentary elections are scheduled for April 2009. Their results are likely to influence Jakarta's attitudes toward Aceh's future development as an autonomous province.

## Economic aspects of the engagement process

This section looks at the role of economic issues in the initiation of Aceh's two peace processes: the Geneva peace process from 2000–2003, and the Helsinki peace process from 2004–2005. The rationale for such a focus is that economic factors influence the incentive structure of belligerents and provide resources to finance armed conflict. In this way, they contribute to the initiation, perpetuation, or termination of armed conflict. When seeking to engage an armed group in a peace process, it is therefore important to understand whether economic aspects are ends or means for belligerents, and how they could interact with the peace processes. In this context, a better understanding of the initial conditions – both economic and otherwise – that led to the initiation of a peace process could be important with respect to the meaning and commitment that the parties attach to such a process. Actors engaged in mediation or conflict resolution need to be aware of these attitudes as well as the structural conditions that frame them in order to support a peace process constructively.

### The end of authoritarianism and the Geneva peace process

The emergence of the Geneva peace process has been associated with the end of Indonesia's military rule in 1998. With the decline of Suharto's military rule, the political leadership in Jakarta feared the country's dissolution as it was faced with communal conflict in Sulawesi, Kalimantan and Maluku, and independence movements in Aceh, East Timor, and Papua. It therefore considered addressing separation as mandatory to save the existence of the state (Large and Aguswandi, 2008, p. 8).

Until the fall of Suharto, the government managed separatism through military repression. By 2000, however, Indonesia's main political parties realized the limits of such a strategy and started exploring special autonomy and negotiation as parallel political tracks (Morfit, 2007, pp. 114–115). There was also an attitude change among parts of the government and the military. This change is evidenced by the end of the DOM status in Aceh; a public apology by the military leadership for the traumas of violent repression; the gradual exposure of institutionalized human rights abuses; and the withdrawal of non-essential military forces from Aceh (ICG, 2001a, p. 3; Schulze, 2006, pp. 245, 259).

In this context of political transition, President Wahid advocated a systematic peace process even though the political elite remained divided on the benefits of negotiations (Aspinall and Crouch, 2003, p. 9). The government's objective was to convince GAM to stop fighting and accept special autonomy within Indonesia (Schulze, 2006, p. 259). Wahid secured approval for peace talks in parliament as part of a broader political agenda to consolidate his power (Martin 2006, p. 71). He exploited the relative weakness of the TNI that had remained in disarray after Suharto's demise and was on the defensive due to the exposure

of human rights abuses. Wahid therefore used the issue of peace talks to mark his authority over the military, and appease the international community on human rights abuses (Aspinall and Crouch 2003, p. 13). In a sense, it was the weakness of the TNI that created the space for Wahid to explore the chances for peace and bolster his own position.

The significance of economic aspects for the emergence of the Geneva peace process can be traced back to weakness of the TNI. Prior to the Asian financial crisis, the TNI was said to have controlled 250 businesses with assets worth USD 8 billion (Kingsbury and McCulloch, 2006, pp. 203-204, 213-217).<sup>9</sup> It also received an official annual budget of around USD 1.5 billion between 1998 and 2000. This revenue allegedly accounted for only 25 per cent of total revenue (ICG, 2001a, p. 17; Kingsbury and McCulloch, 2006, p. 202). The Asian financial crisis hit military companies hard, with two-thirds collapsing and leading to a 30 per cent reduction in the purchasing power of the military in 1998 (HRW, 2006, pp. 14-15). With the combination of the financial crisis and the end of authoritarianism, the military started a process of restructuring that contributed to a defensive attitude. This attitude increased through the exposure of human rights abuses committed by the military in Aceh.

Indonesia's political transition also shaped GAM's incentive to engage in peace talks with the assumption that independence was an achievable goal.<sup>10</sup> East Timor's independence referendum hardened these expectations and contributed to an uncompromising focus in the peace process on the achievement of independence (Aspinall and Crouch, 2003, pp. 5-6). At the same time, GAM hoped to use third-party mediation to gain greater international recognition, foster international support for Aceh's independence, convince the international community to put pressure on Indonesia to accept Acehese independence, and expose the TNI's human rights abuses (Aspinall and Crouch, 2003, pp. 4, 12; Schulze, 2006, p. 240). Moreover, the exiled GAM leadership considered peace talks as a tool to strengthen its position as the legitimate representatives of the Acehese and its control over the GAM movement (Aspinall and Crouch, 2003, p. 12).

For GAM, the engagement in the peace process also had an economic and military function. By 2000, GAM controlled about 80 per cent of Aceh's territory, but was increasingly under pressure to ensure the maintenance of territorial control (ICG, 2001, p. 5). At a time when independence seemed achievable, GAM needed a ceasefire to increase fundraising, strengthen administrative structures, and gain more recruits at the local level. GAM therefore engaged in the peace process with the objective to obtain a tactical pause in fighting in order to regroup, expand, and prepare for the eventuality of future conflict, as well as to gain international support for its independence (Morfit, 2007, p. 115).

## **The road to the Helsinki peace process**

The prospects for another peace process seemed bleak in May 2003, after the breakdown of the *Cessation of Hostility Agreement* (COHA) and the TNI's military escalation of the conflict. It was at this point, however, that former President Sukarnoputri deployed a multi-track strategy against GAM that included the NAD law, diplomatic efforts against GAM's international representations, and secret back channel contacts, in addition to the continuation of military activities (Schulze, 2006, pp. 262-262).

In September 2004, the election of President Yudoyono and Vice-President Jusuf Kalla gave an impetus for a peace process. Both men had a strong personal commitment to resolving the Aceh conflict through negotiation and they risked stepping outside the formal state bureaucracy to manage the peace process (Morfit, 2007, pp. 130, 133-134). For Yudoyono, working towards a peace process in Aceh also had an important political function as it allowed him to assert civilian control over the military and strengthen the ability of the

executive to formulate and implement policy without subversion (Morfit, 2007, p. 127).<sup>11</sup> It was a risky political move because failure may have undermined the public perception of him as a president that delivers for change, security, and stability, all of which was necessary for welfare and investment policies (Morfit 2007, p. 125). Kalla's entrepreneurial style, as a former businessman, substantively helped to conceive the conflict in terms of costs and benefits (Awaluddin, 2008, p. 26).

Various accounts of the period preceding the onset of formal negotiations in February 2005 highlight three enabling factors that contributed to an engagement of the government and GAM: the costs of military escalation to both GAM and the Indonesian government; Kalla's back-channel initiative; and the tsunami (Kingsbury, 2006, pp. 15-21; Aspinall, 2005, pp. 14-21; Morfit, 2007, p. 117; Huber, 2008, pp. 19-20). Under President Sukarnoputri, the TNI deployed 35,000 troops to Aceh in an effort to erase GAM once and for all (Huber, 2008, pp. 19-20). Yet, rather than winning through military imposition, the TNI found itself locked into a mutually hurting stalemate.<sup>12</sup>

The military escalation became increasingly costly in financial and human terms, while it led only to a weakening, but not defeat, of GAM. The TNI became desperate for financial assistance and even contacted other government departments requesting "donations" for its activities in Aceh (Kingsbury, 2006, p. 15). The financial strains translated into a lack of equipment and medicine on the ground, and weakened operations and morale as fatalities increased. Senior military officers advocated peace talks to prevent the further loss of life of TNI personnel (Awaluddin, 2008, p. 26). While gradually acknowledging GAM's resilience, senior military officers recognized the need to diversify strategies beyond a military solution (Aspinall, 2005, pp. 11-12).

For GAM, this mutually hurting stalemate was defined by the experience of heavy military losses, internal strains, and declining legitimacy in the eyes of the Acehnese population. The military campaign targeted GAM supply and communications lines and destroyed most of its sub-district level (*sagoe*) structures and therefore much of its operational and fiscal base.<sup>13</sup> GAM's weakness was evidenced by its regrouping around district (*daerah*) structures (ICG, 2005, p. 4). Since it remained internationally isolated, the government-in-exile was unable to attract third party funding to offset lost revenue and rebuild structures. Continued attacks also strained the relationship between the leadership and local field commanders. After the Geneva peace process, the latter had already criticized the leadership's work for lack of results. They then started questioning the leadership's use of tax revenue collected in the sub-districts (ICG 2005, p. 5). The stalemate was also mutually hurting because GAM's legitimacy had started to erode within the Acehnese population. Fundraising had turned increasingly violent, and the GAM was perceived as unable to protect ordinary villagers from military violence or to prevent the destruction of vital infrastructure (Aspinall, 2005, p. 9). In addition, discontent grew with stories on local misrule, widespread corruption, and the failure to guarantee basic rights (McGibbon, 2006, p. 349).

The so-called Kalla initiative was an important precursor to the Helsinki peace process. It was an attempt to co-opt GAM commanders through economic incentives. In October 2004, Kalla allegedly approached a GAM commander in Malaysia via two businessmen with GAM connections. He offered amnesty and economic concessions in return for the renunciation of separatist violence (Aspinall, 2005, pp. 16-17). The talks led to a document entitled *Points of Agreement between Negotiators of the Government and the GAM* that included provisions on the implementation of a special autonomy law, land distribution to GAM, a compensation fund for victims, the building of schools, as well as provisions for airplanes and the enlargement of the airport in Banda Aceh. In return, GAM had to accept that the national government remained responsible for security and order in Aceh (ICG, 2005, pp. 2-3).

The Kalla initiative provides a number of lessons on the use of financial incentives as part of the engagement process with a rebel group. First, the financial incentives had little credibility because they were perceived by GAM as an attempt to split the commanders from the government-in-exile. Credibility was also affected because the government continued military activities and upheld its special autonomy offer. This led GAM to wonder if the propositions would indeed be implemented if they were actually agreed upon (Aspinall, 2005, p. 18). Second, when they were leaked, the covert and exclusive nature of the *Points of Agreement* raised suspicions among fellow commanders. The government-in-exile was concerned that the *Points of Agreement* were interpreted as a sign of battle fatigue (ICG, 2005, p. 3). Thirdly, the offer of land distribution was a political signal rather than a real contribution to reintegration because it was poorly thought through given the reality on the ground (ICG, 2005, p. 8).<sup>14</sup>

Nevertheless, the Kalla initiative influenced the initiation of the peace process, but possibly not as the government had envisaged. Rather than splitting GAM, it strengthened the loyalty of commanders to the leadership. This outcome, however, signalled to the government that future peace talks needed to involve the government-in-exile and not necessarily the field commanders. A series of encounters in October and November 2004 in Sweden brought the government and GAM leadership closer to agreement on the beginning of a systematic peace process. Finnish businessman Juha Christensen played an important role in facilitating these contacts and getting the commitment of Martti Ahtisaari to take on the role as a mediator.<sup>15</sup> Ahtisaari's agreement to mediate the process satisfied the demands of GAM leadership for a high-profile process, while at the same time the location of mediation in a non-governmental organization did not imply official recognition of GAM by the government (Djuli and Ramann, 2008, p. 28).

Parallel to these developments, GAM was involved in an internal reassessment of objectives. After major operational and financial setbacks, the leadership's optimism preceding the Geneva peace process had been replaced by a feeling that independence may no longer be feasible (Aspinall, 2005, p. vii). In October 2004, GAM conducted internal discussions on practical solutions to end economic exploitation and political repression. This led to a shift in objectives that allowed for renewed talks: "Assuming the goal was to improve the lives of the people of Aceh by altering their relationship with Jakarta, and not separatism for its own sake, it became possible to consider alternative approaches to ending the conflict" (Kingsbury, 2006, p. 20).

Such was the situation when the tsunami hit Indonesia and Aceh. Both sides had already taken steps in preparation for a peace process. The destruction and trauma, as well as the ensuing international humanitarian assistance, further catalyzed the onset of negotiations (Kingsbury, 2006, p. 15; Gaillard et al, 2008, pp. 511, 518).<sup>16</sup> It did so by emphasizing the need for a solution to the conflict amid a much greater tragedy as well as by providing a pretext for both sides to "return to the negotiation table and offer greater concessions than in the past without losing face" (Aspinall, 2005, p. 21).

Thus, the initiation of the Helsinki peace process was a result of circumstances that were mutually supportive in favour of negotiations. These included the effects of a mutually hurting stalemate on GAM and the government; the election of Yudhoyono and Kalla that pushed for a negotiated settlement; the Kalla initiative; and an internal reassessment of goals within GAM. The tsunami provided an additional momentum and urgency to start negotiations. In this context, economic factors can hardly be isolated as sufficient explanations. Nevertheless, they did have an indirect effect as evidenced by the erosion of GAM's financial base, the escalating costs of the TNI to maintain the conflict, and the use of economic incentives in the Kalla initiative.

## Economic issues in the negotiation process

This section looks at the role of economic issues in the Geneva and Helsinki peace processes, as well as the treatment of natural resource management as part of the NAD law. The analysis first charts the overall processes before identifying the specific contribution of economic issues in the peace process. The focus on economic issues in the Aceh peace process provides a contribution to an emerging evidence base on economic issues in peace processes and explores how this dimension can provide positive impulses to peace negotiations.

### The primacy of humanitarianism and the Geneva peace process

In 1999, Aceh was considered to be the Indonesian province with the highest potential for hostilities following East Timor's independence. In this context and with the support of President Wahid, CHD started exploring the possibility of a role in Aceh to facilitate a ceasefire in order to enable the delivery of humanitarian aid and protect civilians (Leary, 2004, pp. 314-316; Huber, 2004, p. 41; Martin, 2006, pp. 71-72). President Wahid's personal commitment to a dialogue, GAM's desire to increase its legitimacy through direct talks, and the perceived low costs if the dialogue was to fail, facilitated a series of meetings in the first half of 2000 (Huber, 2004, p. 18-19). The peace process developed according to the parties' position and constraints. This process can with hindsight be called a step-by-step process in which a cease-fire and confidence building measures were assumed to be a prerequisite for a broader settlement.

When the CHD invited delegations from GAM and the government to Geneva, initial discussions focused on cease-fire and security modalities, and the delivery of humanitarian assistance as captured in the *Joint Understanding on a Humanitarian Pause for Aceh* on 12 May 2000 (Aspinall and Crouch, 2003, p. 15).<sup>17</sup> However, the ceasefire remained weak as the political and military establishment in Jakarta failed to provide its support. The fighting escalated in August and September 2000 and the first half of 2001, leading to a boycott by GAM of further talks in November 2000. Nevertheless, the *Humanitarian Pause* had a positive impact and reduced direct conflict deaths from 300 between January and April 2000 to 83 between May and July of the same year (Aspinall and Crouch, 2003, p. 18).

Talks continued in Geneva in early January 2001 and for the first time included discussions on substantive issues. These included human rights and humanitarian law, socio-economic development, security arrangements and the democratization process (Aspinall and Crouch, 2003, p. 19). The talks were generally perceived as a breakthrough; for the first time the delegations genuinely brainstormed on conflict resolution (Leary, 2004, pp. 322-323). In February and March 2001, there were even meetings in Banda Aceh between GAM Commanders and TNI security officials on the establishment of zones of peace (Aspinall and Crouch, 2003, p. 19).

Following the January meeting, while economic issues were subject to discussion in working groups – along with the rule of law and local elections – they were omitted from the formal agendas in the course of 2001 (Huber, 2008, p. 48). The TNI's operation "Restore Security" of March 2001 highlighted the urgency of violence reduction and pushed aside long term considerations, such as resource management or military business.

In consequence, negotiations developed as a step-by-step process in which a ceasefire preceded consultations on substantive issues and an all-inclusive dialogue (Aspinall and Crouch, 2003, p. 32). Such a dialogue was intended as a “vehicle for dealing with issues ranging from accountability and compensation for past abuses to modalities for enhancing economic development, religious observance, and Acehese cultural identity through autonomy...” (Huber, 2008, p. 48). The material that the working groups had established on economic development was intended to be used at a later stage when the dialogue would commence in earnest.

With the signing of the *Cessation of Hostilities Framework Agreement* (COHA) on 9 December 2001, the first stage of the confidence building process was theoretically achieved. Article 6 describes the parties support for an all-inclusive dialogue that should address substantive issues. On 10 May 2002, the prospect of such a dialogue was also accepted by the parties in the *Joint Statement by the Government of the Republic of Indonesia and the Free Aceh Movement*. The developments on the ground prevented this dialogue and the discussion of substantive issues to bear fruit. With the presidency of Sukarnoputri and the re-entry of the TNI in Indonesia's politics, fighting in Aceh escalated in March and April 2003 and ended CHD's facilitation role (Aspinall and Crouch, 2003, p. 42).

The Geneva peace process focused on humanitarian issues and a ceasefire. However, it neglected the linkages of a ceasefire with the economic functions of armed violence. A ceasefire was the first step to ending the conflict and implied that the military leadership soon would no longer be able to run military businesses. Hence, opposition from the TNI was pre-programmed and was particularly expressed by field commanders that were most heavily involved in military business. From their perspective, a ceasefire would have undermined their profits without anything in return. Due to the context of Indonesia's security sector reform process, the issue of alternatives to military business and a new perspective for the rank and file could not be addressed appropriately. The main emphasis rested on removing the military from political power, exerting civilian control over the armed forces, and stopping military self-financing to make it more accountable to parliament.

## Special autonomy and wealth sharing

The Geneva peace process was paralleled by the government's multi-pronged strategy of conflict management that included the NAD law (Aspinall, 2005, p. 23). The NAD Law framed the Geneva initiative and was part of a broader attempt by President Habibie to address Indonesia's centre-periphery relations after decades of authoritarian and centralized rule. His government introduced the *Law on Regional Government* and the *Law on Fiscal Balance Between the Central Government and the Regions* passed by Parliament on 23 April 1999 (Miller, 2006, p. 297).

Sukarnoputri ratified the NAD law with the intention to provide an alternative exit option for GAM out of the conflict. This option entailed unprecedented powers of self-governance and control over natural resources in exchange for the cessation of hostilities and the renunciation of independence (Miller, 2006, p. 301). The NAD law set out a series of provisions on, for example: the enforcement of aspects of Islamic law; direct elections of Acehese regional representatives; and new institutions. A central aspect was that Aceh would receive 70 per cent of the revenues generated from Aceh's rich oil and gas fields, with the remaining 30 per cent going to the central government. After an eight-year period, this share would be increased to 50 per cent. The government claimed that the special autonomy law was much more generous than previous legal provisions, allowing for an 80 per cent retainer from income deriving from natural gas, fishing, general mining and forestry (Department of Foreign Affairs Republic of Indonesia, 2001; ICG 2001b, pp. 6-10).



Even if engaging on paper, however, the NAD law had many weaknesses as a tool for conflict management. It failed to realistically address Aceh's economic grievances and prospects, and most importantly, to build confidence in Aceh that the government was indeed committed to its implementation. The law neither included baseline assessments on economic reserves, nor specific modalities of revenue sharing.<sup>18</sup> Moreover, no consideration was given to Aceh's economic prospects once reserves had been depleted (ICG, 2001b, p. 8). It was also unclear if the oil and gas revenues referred to the total production in the province, or simply to part of it (Martin, 2006, p. 82). In addition, the fact that revenue would first be collected by Jakarta and then be disbursed to local officials fuelled suspicions that payments were intended as political tools and would fostered corruption (ICG, 2001b, p. 8). The use of local administrations as revenue management channels were also disregarded given their notorious corruption and lack of capacity to handle existing funds (Miller, 2006, p. 305).

It was then no wonder that the NAD law was received unfavourably in Aceh. The revenue sharing provisions were perceived as a means to provide incumbent political elites with additional opportunities for corruption. Even if some government officials presented the NAD law as a flexible starting point, the complete omission of political representation, the reduction of Jakarta's military presence, and investigations into past atrocities encouraged the perception that the NAD law was a ploy (Aspinall and Crouch, 2003, p. 26). In addition, Jakarta also refused to provide any meaningful role to GAM and rejected the incorporation of its fighters into provincial police forces, thereby making it impossible for GAM to accept the regulations (Miller, 2006, p. 303). The law was conceived without any input by GAM or the Acehnese population and was therefore devoid of any ownership. Consequently, GAM rejected the NAD law, a decision that echoed a widespread lack of grassroots support and a prevailing mistrust against Jakarta (Miller, 2006, p. 304).

From the perspective of the government, however, the NAD Law was portrayed as a generous offer. This conviction of generosity reduced the government's willingness to agree to any other concessions and increased the scope for the parliament and the TNI to pressure the government not to commit to any additional compromises (Huber, 2004, p. 47). The NAD law therefore limited the room to manoeuvre for the government and complicated its negotiation position.

However, the most serious flaw of the NAD law was that it was never really integrated into the Geneva peace process. A reason may be that through the NAD law, the government had already signalled its willingness to share resources, and was therefore not able to negotiate much more on principle, even though technical aspects remained vague. Another flaw was that the law failed to ensure a buy-in from the TNI, and used revenue sharing as a tool to bridge the incompatibilities over Aceh's status and the vested economic interests of the TNI in continuing conflict. Generally, the TNI agreed with the law, but only under the assumption that GAM would accept it as a final solution. Six months later, the TNI convinced Sukarnoputri to adopt a military strategy and create a new special military command for Aceh (Jemadu, 2006, p. 281). This was the death stroke for the NAD law and its provisions of wealth sharing. The TNI's escalation of the conflict in 2003 undermined any belief in the good faith of government's offer of special autonomy.

### **Tracking economic issues in the Helsinki peace process**

The Helsinki peace process was organized over five rounds of discussions between GAM and government representatives in Finland, occurring from January to July 2005. Negotiations were structured along the notion that "nothing is agreed until everything is agreed". In this approach, parties were not bound by their offers if the other party would

not reciprocate with an equivalent concession. Ahtisaari therefore deviated from the step-by-step approach of the Geneva peace process to gain flexibility for deal making (Aspinall, 2005, pp. 23, 30). Negotiations started with exploratory talks, bringing to the fore remaining incompatibilities on the future status of Aceh. The government was not ready to go beyond the offer of special autonomy, a position that Ahtisaari embraced as a framework for the talks. GAM instead emphasized the need for a ceasefire. The process nearly came to a premature end as GAM felt estranged by Ahtisaari and funding for further talks was running out (Kingsbury, 2006, pp. 27-30).<sup>19</sup>

The second round of talks was marked by the announcement of GAM that it was willing to compromise on independence. GAM signalled acceptance of self-government in return for a degree of commitment by the government on security arrangements and international monitoring (Kingsbury, 2006, p. 33). This shift was based on a perspective change and represented an opening towards alternative exit strategies out of the conflict. With this opening, GAM wanted to mobilize the international sympathy for Aceh after the tsunami, and prevent the withdrawal of the government from negotiations, while increasing military pressure in the field (Aspinall, 2005, p. 27). What followed were discussions on the meaning and content of self-government, and the government's internal debates on the implication of self-government for the cohesion of Indonesia.

This shift from independence to self-government led to two main sticking points: the issues of local elections and political parties.<sup>20</sup> Indonesia's restrictive party law limited political representation to large national parties. This restriction was supposed to strengthen national unity and prevent the emergence of small parties with extremist or secessionist agendas (Aspinall, 2005, p. 38). For GAM, however, the possibility to transform into a political party was an essential demand. Otherwise a peace settlement "would be akin to requiring the movement to dissolve itself and abandon any claims of influence in the political future of [Aceh]" (Aspinall, 2005, p. 39). The issues of local political parties, the timing of elections, and the repeal of the NAD law were principle stumbling blocks and contributed to the near collapse of talks in May. Strong domestic pressure did not allow the government delegation to go beyond the NAD law (Kingsbury, 2006, p. 104).

There was a possibility that the deadlock could have been resolved in July, when GAM stated that the issue of local political parties and elections was a sign of its adherence to fundamental democratic principles. The wide circulation of this statement put the government on the defense. It was impossible for the government to reject GAM's position because doing so would compromise Indonesia's claim to be a democracy (Kingsbury, 2006, p. 143).<sup>21</sup> Ultimately, an agreement was found that the government would "facilitate" the establishment of local political parties within 12 but no later than 18 months. For GAM, this ensured a political future after the peace agreement. The agreement on local political parties was deemed historic for "what was once a political taboo in Indonesian politics – the spectre of local parties reflecting the genuine diversity of the highly arbitrary construction of the state – was at least a legitimate topic for discussion, if not an overwhelmingly endorsed idea" (Kingsbury, 2006, p. 160).

This brief chart of the negotiation process highlights that economic issues were not part of the core issues discussed in Finland, but rather a side issue. A challenge was the identification of what percentage of income from oil and gas resources the government had drawn from Aceh. GAM and Ahtisaari asked on several occasions to clarify the matter, but the government responded that the tsunami destroyed all accounts and past records. In this situation, Ahtisaari urged GAM not to dwell on the matter and look towards the future, while GAM noted that the issue of the past use of money should be put forward at some point in the context of a truth commission (Merikallio, 2006, pp. 94-95).

The third round of talks in April 2005 included the auditing revenues from natural resources, taxation, and the allocation of future resources. There was overall agreement on these issues as well as on the use of the Indonesian currency in Aceh. Not all members of the government delegation felt comfortable to leave Aceh with the capacity to raise loans, impose local taxes, and allocate resources. Nevertheless, consensus on economic issues could be maintained. Economic issues were even used to keep negotiations going after a deadlock on international monitoring (Kingsbury, 2006, pp. 77-79, 98).

Part of the reason why economic issues were not contentious may be explained by their treatment in the NAD law. In a sense, the government had no reservations on the principle of wealth sharing because it had already been approved by parliament (Kingsbury, 2006, p. 104). Furthermore, oil and gas production in Aceh had peaked during the 1990s, production figures by this point were steadily declining and it was clear that oil and gas exploitation would be completed within the following decade (World Bank, 2008c). The negotiations evolved around much smaller figures than they would have during the 1980s or 1990s.

## Peace processes and post-conflict transition in Aceh

With the multiplication of donor activities in post-conflict and fragile contexts, there has been a growing interest in the continuities and transformations underlying post-conflict transitions, and in strategies to consolidate durable peace. In this context, peacebuilding is composed of a series of overlapping phases that are generally perceived to be necessary to achieving a lasting peace.<sup>22</sup> As post-conflict transitions come at a later stage, they inherit flaws from previous phases and issues that have been left unresolved in order to ensure agreement or ending armed violence. Hence, the question exists as to whether moving “upstream” into the peace process may support and consolidate post-conflict transitions, prevent conflict recurrence and contribute to violence reduction in post-conflict settings.

The linkages between peace processes and post-conflict transitions are difficult to identify in Aceh because the tsunami changed the entire context. While at the political level, the Helsinki peace process opened the possibility for political representation and autonomy, there still has yet to be a comparable framework that deals with some of the pressing economic concerns. These include the improvement of standards of living, dealing with the illicit economy and the remaining military businesses, as well as unresolved land conflicts and corruption. The experience of Aceh, therefore, shows that the achievements at the political level may be jeopardized by the omission of a forward looking perspective on unresolved economic issues during the peace process.

Nevertheless, Aceh's post-conflict and post-tsunami transition commenced with a remarkable transformation. The security situation improved drastically and at the end of 2005, the final withdrawal of 7,628 soldiers and 2,150 police was celebrated while GAM handed over its last weapons (World Bank, 2006). This reduction in troop size has also reduced the military business activities in the province (HRW, 2006, p. 75). Previously, the Aceh Monitoring Mission (AMM) had successfully overseen GAM's disarmament and the withdrawal of military and police forces (ICG, 2008, p. 12). Some observers even judged the situation in Aceh as “encouraging” (Sukma, 2007, p. 2).

At the political level, the peaceful regional elections of December 2006 were a major milestone. These elections enabled GAM to continue its transformation into a political party, the *Partai Aceh* (PA). Despite the fact that Jakarta-based parties had better established bases of support in Aceh and GAM candidates suffered a lack of financing and campaign experience, GAM won overwhelmingly, including the governorship. GAM representatives benefitted from the perception of the local population that the “old” parties and cadres served narrow elite interests and did not represent a new beginning for Aceh (ICG, 2007a, p. 1).

A major political challenge was the implementation of the provisions of the Helsinki agreement into a new law on the governing of Aceh that would replace the NAD law. Drafts of the new law reflected the reservations of many Indonesian parliamentarians who judged the MoU as too favourable to GAM (ICG, 2006, p. 1). The allowance for local parties and independent candidates represented potential stumbling blocks. GAM insisted on these provisions to advance its transformation into a political party and support its cadres to gain political offices. Although not all contested issues could be solved, the Indonesian parliament passed the *Law on Governing Aceh* (LOGA) in July 2006, thus clearing the way for Aceh's autonomy.<sup>23</sup> However, the LOGA is far from being a sustainable political framework with the capacity to manage and de-escalate future conflict. It is still unclear how disagreements between Jakarta and Aceh in any consultation process would be resolved, especially if the LOGA deviates from MoU provisions (ICG, 2008, p. 9).

At the economic level, Aceh's post-conflict transition has benefited from high levels of tsunami assistance that provided opportunities in the sectors of construction, water, sanitation, transport, and retail. Assistance was estimated to amount to around USD 1.5 billion in 2006 (World Bank, 2007). In addition, there were small business support programmes that proved very successful in some cases.<sup>24</sup> Despite tsunami recovery and ex-combatants reintegration programs, the lack of absorptive capacities, accountability, and political willingness prevents a more effective utilization of funds (Clark and Palmer, 2008, p. vi). These problems underline the importance of a vision for both Acehnese society and economy as part of a strategy to surmount the consequences of the tsunami and the conflict.

One of the main reasons for Acehnese grievances – the sharing of revenues of oil and gas production – has been resolved at least on paper. Aceh now receives 70 per cent of the net profit (Yusuf, 2007). However, the lack of precision on wealth sharing in the MoU has been said to complicate its implementation. A former GAM negotiator and now Governor of Aceh remarked that the MoU does not “mention who will regulate and govern [hydrocarbon revenue sources], or who has the authority to give licences for new explorations. The LOGA says only that the central and Aceh governments will manage the resources jointly. We should have made it right in the MoU” (Yusuf c.f. Large and Aguswandi, 2008b, p.81).

High levels of creativity will be needed on this matter in the future because oil and gas are unlikely to be the engine of Aceh's future economy. Production peaked during the 1990s, and “oil and gas is almost finished” (Yusuf, 2007). ExxonMobile suggests that oil production in Aceh will end by 2011, and estimates that 90 per cent of recoverable gas reserves have been depleted with an expected closure of gas fields in 2016 (Indonesia Relief, 2005; EIA, 2007; World Bank, 2008c). Due to the decline in gas reserves at the Arun fields, ExxonMobile and Pertamina had already closed two LNG fields at the PT Arun LNG Plant as of April 2000 (Tse, 2000, p. 2). During the last three years, outputs from the Arun field in Aceh have declined faster than expected (OET, 2007). Due to the rapidly depleting oil and gas reserves, Aceh's economy contracted by 5.8 per cent in the first half of 2008, a trend which is expected to continue in 2009 (World Bank, 2008c).

These economic prospects complicate Aceh's reintegration process, which in any case represents a formidable challenge. The government delivered on the amnesty and pardoning of political prisoners, and reintegration programmes initially helped ex-combatants economically. However, they soon became stalled by a lack of strategy and accountability (Sukma, 2007, p. 3). In order to strengthen reintegration, donors and the government requested GAM to provide a list of 3,000 ex-combatants to ensure the transparent distribution of reintegration funds. GAM, however, feared that the lists could become "hit lists" in the instance that conflict resumed. In addition, the lists did not include family members or families of war dead (Jones, 2008, p. 73; Burke, 2008, p. 61).

As a solution, the funds were handed to the commanders in the hope that they would be equally disbursed. However, many ex-combatants in the villages received little aid, leading to fears that they would resort to extortion and theft (Burke, 2008, p. 61). In 2006, the government established the *Badan Reintegrasi Aceh* (BRA – Aceh Reintegration Board) and handed over the reintegration funds to the board. This further limited equal disbursement and soon after former GAM commanders were sighted with new cars and mobile phones, while the ordinary soldiers received little support (ICG, 2007). Over the last two years, the allocation of reintegration funds even incited sporadic violence (Jones, 2008, p. 75).

The situation of ex-combatants in Aceh underlines the importance of including reflection on recovery and development in the context of a peace process. During the war, Aceh's economy was marked by a thriving parallel economy from which both the TNI and GAM units profited. It was abusive and characterized by many illicit or illegal activities, but also provided many with an income; being in GAM or the TNI meant having access to employment opportunities in parallel markets. In the post-tsunami and post-conflict phase, parallel economic structures and corruption represent a continuity of Aceh's conflict economy and possibly one of the largest sources of potential future unrest. Managing Aceh's economic transformation will therefore be essential in ensuring a peaceful future.

At present the situation in Aceh looks bleak. One estimate suggests that about 75 per cent of ex-combatants remain unemployed and depend on relatives for their livelihoods (Said, 2008, p. 63). In the post-conflict phase, parts of GAM wanted to perpetuate their control over the population and economic opportunities in the same way as had been the case during the conflict. Ex-combatants that were previously supported by "war-taxes" turned to the illicit economy for employment (ICG, 2007b). Crime, kidnapping and extortion have risen since 2005, partly to offset lost opportunities occurring with the end of the conflict (Jones, 2008, p. 75; Large, 2008, p. 64; Merikallio, 2006, p. 208).

The election of GAM members to provincial and district offices in December 2006 resulted in the creation of patronage networks in which jobs and contracts were distributed among former comrades. In addition, the withdrawal of some Indonesian police units has also led to a vacuum in the drugs and logging business, that was quickly filled as this sector is more profitable than any other in Aceh's economy. Illegal logging is a particularly acute problem because Aceh, after Papua, has the largest remaining tracts of forests with high biodiversity in Indonesia. After the tsunami, demand for wood was high and the TNI became increasingly involved in the timber trade, setting prices arbitrarily high (HRW, 2006, p. 79).

Thus, after some initial positive developments during the first 18 months, the situation in Aceh has become increasingly difficult at various levels. In 2007, the International Crisis Group commented that while peace in Aceh continues to hold, "many Acehnese fear that conflict will inevitably resume" (ICG, 2007b, p.1). The current situation in Aceh is characterized by potential conflicts over land ownership and natural resources, vigilante violence, administrative incompetence, and disputes relating to the distribution of tsunami aid (World Bank, 2006, p. 2). The challenges include the differences between Jakarta and

Aceh over the concept of self-government, efforts to divide the province, and urgent employment needs for ex-combatants (ICG, 2006, p. 1). Four years after the tsunami struck, tens of thousands of houses have still not been rebuilt and many people are dependent on external support that is declining by the day (Rhydwen-Marett, 2008, p.1). A considerable faction of the Indonesian military remains convinced that GAM has not thoroughly abandoned their commitment to independence. There is also a demand by two groups in particular to create two new provinces in Aceh.<sup>25</sup> However, the government does not support any splits, partly out of fear of a resumption of violence (ICG, 2008, pp. 1, 6). Taken together, these unresolved issues between Aceh and Jakarta “may be a time bomb, and the two sides need to establish an appropriate forum for working them out” (ICG, 2007, p.1).

## Conclusion

The interaction of natural resource wealth, declining standards of living, and violent military oppression has characterized the evolution of Aceh's civil war. In these circumstances, the possibility of a peace process only emerged after the fall of Suharto in 1998. The subsequent dynamics of the political transition in Jakarta turned the conflict into a political tool to exert presidential authority over the military. The military had been weakened politically by internal disunity and declining levels of financing after the Asian financial crisis. For GAM, the end of authoritarianism and the independence of East Timor strengthened the conviction that independence was indeed an achievable goal. The peace process, therefore, represented a strategy to gain independence at the negotiation table while exploiting a tactical pause to raise funds, strengthen the movement, and consolidate territorial control.

The Geneva and Helsinki peace processes occurred between 2000 and 2005. The issues discussed during the former were largely defined by the conditions underlying the initiation of the peace process. As a result of the atrocities and human rights abuses committed, humanitarian issues came to dominate the agenda with a focus on ending hostilities and creating space to deliver humanitarian assistance. The peace process evolved into what could be termed in hindsight a step-by-step process, where a ceasefire preceded substantive talks. However, such a ceasefire was not welcome by all – especially TNI field commanders – that were involved in lucrative business opportunities and concerned about the diminishing political importance of the military at the national level. Before the peace process could start dealing with economic issues, armed violence had escalated and the TNI spoiled the peace process.

This experience underlines the importance of recognizing the economic functions of armed violence during peace negotiations. From the perspective of the TNI, a ceasefire meant stopping hostilities without the possibility of an alternative violence-free economic future. Insisting on a ceasefire without creating tangible economic opportunities may therefore complicate peace process management.

The Aceh peace process also included natural resource management as part of a government offer for special autonomy through the NAD law. However, resource management could never unfold to its potential as a forward looking tool in the peace process. The government was unable to portray the NAD law as a credible option for conflict resolution, especially after it allowed the military escalation in 2003. It also did not provide any guarantees to implement the wealth sharing provisions. GAM, therefore, did not perceive the law in good faith, but as a strategy to weaken the insurgency. The law was also devoid of ownership and was considered by the Acehnese as yet another

opportunity for corruption. The government, however, believed that the wealth-sharing offer was generous. This, in turn, was exploited by parliament and the TNI to put pressure on the government not to agree to any additional concessions. In addition, the wealth sharing provisions contained a number of technical limitations. The law lacked baseline assessments on current and prospective resources, an institutional framework for revenue management, or territorial delimitations on wealth management authority. It was also not part of a larger effort to imagine a new economic reality for post-conflict Aceh.

The role of natural resources in the peace process must also be placed in the context of their overall importance. While in the 1970s, they were a driver of the conflict, and served as an important revenue source for the government in the 1980s and 1990s, by the next decade the declining resource pool and possible closure of production facilities substantially reduced their relative importance. In this sense, a wealth sharing agreement is less valuable if there is little wealth left to share. While wealth sharing remains an important symbolic achievement, in real economic terms it may result in little improvement of standards of living if not accompanied by measures that involve economic diversification, institutional innovation, and anti-corruption initiatives. Given the prospect of oil and gas depletion, more emphasis should have been placed on the development of timber, fisheries, and agricultural sectors. Aceh's tsunami context and the presence of natural resources meant that there existed employment opportunities even though Acehnese could not always benefit from them due to low education levels and technical expertise. Nevertheless, an opportunity to frame a new vision of a viable economic future for Aceh was lost during the peace process.

The economic situation in Aceh after the tsunami and the conflict is a reminder that both ex-combatants and civilians will look for alternative occupations when fighting has stopped. In the past, the conflict shaped the economic opportunities for many. In the absence of regular jobs, Acehnese – both ex-combatants and civilians – turned to the parallel economy and illicit activities to make a living. These economic structures represent a continuity of Aceh's conflict economy and possibly one of the biggest inhibiting factors of Aceh's future development. It may even become a source of potential future unrest. While much has been achieved at the political level, the omission of a forward looking perspective on unresolved economic issues during the peace process may jeopardize Aceh's peaceful transition.

## Endnotes

- 1 A census in 1990 established a population of 3.4 million in 1990. Population by 2004 was said to have grown to 4.2 million and after the estimated 166,00 to 234,000 dead through the tsunami, current population is estimated to be around 4 million (Reid, 2006, pp. 1, 4; Gaillard et al., 2008, p. 516).
- 2 Despite these negative macro-economic impacts, the LIZ was generally welcome in Aceh. During construction, it created between 8,000 to 12,000 employment opportunities and about 5,000 to 6,000 at its peace of production. In addition, ExxonMobile build new roads, schools, medical facilities, and 4,000–5,000 new houses in an area with little pre-existing infrastructure (Ross, 2005, p. 41).
- 3 The involvement of military establishments in economic activities is a recurrent phenomenon – especially in authoritarian states – and has historical antecedents. It is therefore not specific to Indonesia (Brömmelhörster and Paes, 2003).
- 4 Di Tiro was widely respected in Aceh as a former Darum Islam envoy and descendent from pre-colonial sultans (Nessen, 2006, p. 183).
- 5 The Uppsala Conflict Database estimates that between 1,900 and 3,200 battle deaths occurred from 1989–2005. The Project Ploughshares estimates 6,000 battle deaths occurred between 1998 and 2005. See <http://www.ploughshares.ca/libraries/ACRText/ACR-IndonesiaAceh.html>. Uppsala Conflict Database: <http://www.pcr.uu.se/gpdatabase/search.php> (accessed 11 December 2008).
- 6 A referendum in Aceh on independence was, however, rejected by the Indonesian Parliament in 1999 (Ross, 2006, p. 45).
- 7 National opposition toward independence was also framed by Indonesia's need for economic recovery after the Asian financial crises. Revenue from Aceh was seen as an essential revenue source for the government (Tan, 2000, p. 45).
- 8 The tsunami killed an estimated 166,000–234,000 people, destroyed 2,500 villages and towns, and left 500,000 people homeless in Aceh alone. This had a catalytic effect on the peace talks partly because the military suffered heavy losses (Gaillard et al., 2008, pp. 511, 516).
- 9 Another study estimated the annual turnover of 88 military companies amounted to USD 348 million (HRW, 2006, p. 28). Alternative income accrued from involvement in the drugs trade, illegal logging, protection rackets, fishing, and coffee production. It was alleged, however, that most benefits from these ventures were siphoned off by senior military officers before they reached TNI coffers (Kingsbury and McCullogh, 2006, p. 203). In the absence of effective civilian oversight and in the context of the long-standing expectation that the military would raise funds for its own costs, the weak performance of the “regular” businesses contributed to the spread of informal and illegal military economic activities that were more hidden and more difficult to control (HRW, 2006, p. 3).
- 10 This sentiment of GAM was mirrored by the TNI's fear that Indonesia may be breaking apart.



- 11 Particularly important was Yudoyono's refusal to approve the nomination of General Ryamizard Ryacudu, a symbol of anti-reform in the military, to become Commander in Chief (Mietzner, 2006, p. 49-50)
- 12 A mutually hurting stalemate is based on the notion that "when the parties find themselves locked in a conflict from which they cannot escalate to victory and this deadlock is painful to both of them (even though not necessarily in equal degree or for the same reason), they seek an alternative policy or way out" (Zartman, 2003, p. 19).
- 13 GAM's organization was characterised by high levels of decentralization. It was organised into 17 regions (*wilayah*) each with four districts (*daerah*), which depending on size were divided into four to nine sub-districts (*sagoe*) (ICG, 2005, p. 4-5).
- 14 The offer of land distribution was limited because most ex-combatants did not have the skill set to shift from subsistence to smallholder plantation farming. In addition, many former fighters demanded plots in their home villages, thus leaving earmarked plantations unaccepted. Furthermore, Kalla assumed the plantations were abandoned, while in reality they were not, thus leaving the management of existing communities unresolved. In addition, the initiative failed to commit to the necessary infrastructure and social services to make new settlements viable (ICG, 2005, p. 8).
- 15 Christensen had already been approached by Jakarta in July 2003 and February 2004 to attempted establishing contact with GAM. However, GAM leadership remained sceptical and not interested in talks outside formal and external structures (Kingsbury, 2006, p. 18). Christensen had previously lived in Indonesia and was a friend of Kalla (Aspinall, 2005, p. 18).
- 16 The tsunami had a particularly lethal effect on the TNI, which controlled most low lands on the coast. It lost several entire camps and approximately 2,700 soldiers. Because most of the TNI military activities had retreated to the mountains, GAM was relatively unaffected (Gaillard et al., 2008, p. 516-517).
- 17 Meetings took place 27 and 30 January 2000, 24 March 2000, and 14-17 April 2000 (Aspinall and Crouch, 2003, p. 15).
- 18 Indonesia's budgeting processes are not very transparent and figures should not be considered as authoritative. Gross export revenues from oil and gas in 2000 was estimated as between USD 1.2 billion and USD 1.5 billion. The revenue in percentage as proposed in the special autonomy law would certainly correspond to the perception of Acehnese of the wealth of their province but not to reality. Alternative estimates have placed the figure at between USD 240 million and USD 600 billion as well as gross revenue. This would be an increase from the estimated USD 160 million that Aceh received as federal transfers in the financial year 1999/2000 (ICG, 2001b, p. 8).
- 19 The government's insistence on special autonomy was based on its understanding that it was negotiating from a position of strength, given the weakening of GAM after the military escalation of the conflict (Aspinall, 2005, p. 23).
- 20 The presence of the TNI after the peace accord had also been highly contentious. However, GAM realised that with the abandonment of independence as a central claim, acceptance of some TNI presence may be inevitable. GAM started shifting its focus to reduce the number of troops allowed to stay in Aceh as far as possible (Kingsbury, 2006, p. 126). These were specified to include a maximum of 14,700 military and 9,100 police forces (Article 4.7).

- 21 In Jakarta, Kalla convinced most parliamentary factions to allow local political parties, and, thereby reduced pressure on the delegation in Finland (ICG, 2005a, p. 10).
- 22 These include for pre-negotiations, confidence building measures, ceasefire talks, negotiation on a peace agreement, and agreement on implementation processes (Guelke, 2003, p. 56; Mac Ginty, 2005, p. 39).
- 23 GAM insists that the MoU has not been implemented fully in the LOGA. Differing views continue to exist on the extent of power sharing, the role of the TNI, human rights, and central government funding for reintegration. GAM argued that the MoU stated that any policies regarding Aceh needed “the consent” of the Aceh government; the new LOGA, however, refers to “consultation” (ICG, 2007b, p. 14). Re-negotiations and amendments to LOGA will depend on the outcome of the national elections in April 2009 and the willingness of the new government for renewed dialogue with the province (ICG, 2008, 9).
- 24 Luc Chounet-Cambas, Mediation Support Programme, Centre for Humanitarian Dialogue, Geneva, 17 February 2009.
- 25 These initiatives are driven by *Aceh Leuser Antara* (ALA) and *Aceh Barat Selatan* (ABAS). Elites of both districts consider themselves as ethnically different from the rest of Aceh. While the ALA is a long-standing movement closely related to one of the minority groups in the area, the ABAS is a very recent campaign that may be more motivated by elites' desire to increase their share of government funding and patronage networks (ICG, 2008, p. 6).

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## About the authors

**D**r. Achim Wennmann is a Researcher at the Centre on Conflict, Development and Peacebuilding (CCDP) of the Graduate Institute of International and Development Studies, and has directed the project, *Economic Issues and Tools in Peace Processes*, since its inception in 2006. His research interest extends to the economic characteristics of armed conflict and conflict dynamics, especially in relation to the financing and mobilization cost of armed conflict and violence, and their costly effects. Previously, he has worked on conflict financing, conflict economies, and transnational organised crime networks, as well as peacemaking in the South Caucasus. Other current research looks at international cooperation in fragile states and armed conflict situations. Selected publications are:

- “Getting Armed Groups to the Table: Linking the Political Economy of Conflict with Peace Processes.” *Third World Quarterly*, Vol. 30, No. 6. (forthcoming 2009).
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In 2008, Achim Wennmann was also co-editor (with Keith Krause and Robert Muggah) for the Geneva Declaration Secretariat of the *Global Burden of Armed Violence Report*.

Contact: [achim.wennmann@graduateinstitute.ch](mailto:achim.wennmann@graduateinstitute.ch)

**J**ana Krause is a Research Assistant at the Centre on Conflict, Development and Peacebuilding (CCDP) of the Graduate Institute of International and Development Studies. Her research interests focus on violence in communal conflicts and civil wars, peacebuilding activities, and the role of religion in the context of armed conflict and democratization. In her doctoral dissertation, she analyzes variation of communal violence in the religious conflicts of Maluku (Indonesia) and northern Nigeria. Before joining the CCDP, she worked for the Geneva Centre for the Democratic Control of Armed forces on the linkages of security governance and child protection. Publications include:

- “Reformasi and Religious Violence in Indonesia: Muslim Politics and the Maluku Conflict”. In Eva Streifeneder and Boryano Rickum, *Indonesia – sedang mengapa?* Südostasien Working Paper 34, Humboldt-University Berlin. (forthcoming 2009).
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Contact: [jana.krause@graduateinstitute.ch](mailto:jana.krause@graduateinstitute.ch)



## Annex: project background and conceptual remarks

This working paper is part of the current project on *Economic Issues and Tools in Peace Processes* that the CCDP is conducting for the Swiss Federal Department of Foreign Affairs. The project has two specific objectives: to explore the opportunities and limitations for peace process management deriving from an economic perspective on armed conflict; and to assess if and how the inclusion of economic issues in a peace process can support post-conflict transitions. A better understanding of the economic dimensions of peace processes promises uncharted opportunities for the planning and management of peace processes and contributes to mediation support initiatives at the national and multilateral levels.

The project defines peace processes as “measures deployed to resolve differences, and settle disputes or conflicts, through diplomacy or other methods of peaceful settlement rather than violence” (Ramcharan, forthcoming 2009, p. 228). The use of the term “peace processes” relates to the period from the engagement of armed groups into peace initiatives until the completion of a peace agreement that ends the violence between the main protagonists of an armed conflict. It therefore connects to an understanding of peace processes as a strategy to end armed conflict. In contrast, the term “post-conflict transitions” refers to the period after a peace agreement in which the antagonists seek to find resolution of their differences. The distinction between conflict and post-conflict is useful analytically because the ending of armed violence is a major qualitative difference that frames external assistance and opportunity structures.

The term “economic issues” relates to “political economy” which captures “the parallel existence and mutual interaction of ‘state’ and ‘market’ in the modern world” (Gilpin, 1987, p. 8). This interaction is based on the theoretical starting point that “market” and “state” logic are in fact independent. The former is concerned with the location of economic activity where it is most productive and profitable; the latter is about the capture and control of economic growth and capital accumulation (Heilbrunner, 1986, pp. 90-91). Political economy places the focus on the interaction of these logics and their mutual effect on the other. The work of Paul Collier and colleagues, for example, assumes the independence of “market” logic, while Michael Pugh and Neil Cooper adopt a political economy perspective (Collier et al., 2007; Pugh et al., 2008). While the application of a political economy approach may appear limited to contemporary armed conflict due to the absence or fragility of the state, it is nevertheless important; rebel groups and patrimonial networks often use a “state” logic to control the economy and territory – such as is the case in de-facto states – while using a “market” logic to maximize their gains – such as in warlord politics (Pegg, 1998; Reno, 1998).

Economic issues are part of backward and forward looking functions of peace processes. The former relates to past violence and injustices, and captures economic causes or drivers of conflict. Issues can include natural resources management, the reduction of socio-economic inequalities, or the compensation of victims for past atrocities. Economic issues can also be part of forward looking functions of peace processes that define new political, economic, or societal foundations. Important economic elements include frameworks for new economic institutions, employment creation, or land reform. In this sense, the first objective of the project connects to the backward looking functions of peace processes, the second to forward looking functions.

Nepal, Sudan (north-south), and Indonesia (Aceh) have been selected as case studies because they all had important economic components as key issues of incompatibility or conflict drivers. In Nepal, these included socio-economic inequality; and in Sudan and Aceh, the control and management of natural resources and different degrees of (economic) autonomy. The choice has also been influenced by the available evidence on the peace processes and post-conflict transitions. The case study approach has additionally been selected in order to develop a context-sensitive understanding of the treatment of economic issues in peace processes. Such an approach is conducive to analyzing the overlap between the economic political, military, social and other spheres, the independence of which is difficult to determine completely.

The publication of the three case studies closes the second stage of the project, which now turns look closer at the specific role of economic tools in peace processes. These tools include income sharing arrangements, private sector investment, and development assistance. Findings from this final stage of the project will be distilled into a series of upcoming CCDP Issue Briefs.

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Website: <http://www.graduateinstitute.ch/ccdp>

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Graduate Institute of International and Development Studies  
20, rue Rothschild  
P.O. Box 136  
1211 Geneva 21  
Switzerland  
E-mail: [ccd@graduateinstitute.ch](mailto:ccd@graduateinstitute.ch)  
Website: <http://www.graduateinstitute.ch/ccdp>