

# The Political Economy of Intra-State Armed Conflicts in South Asia

**AJAY DARSHAN BEHERA**

Professor

MMAJ Academy of International Studies, Jamia Millia Islamia, New Delhi (India)

## ABSTRACT

South Asia, characterised by a history of colonialism, partition, and ethnic diversity, has witnessed numerous intra-state armed conflicts, including civil wars, insurgencies, and terrorist activities. The article highlights how economic factors, such as resource competition, economic marginalisation, and external economic interests, play a crucial role in driving and sustaining these conflicts. It also discusses the impact of globalisation and neoliberal economic policies, which, while creating new opportunities, have often exacerbated inequalities and fuelled grievances. The analysis focuses on key countries like Afghanistan, Pakistan, India, Nepal, and Sri Lanka, exploring how historical legacies and contemporary economic challenges have shaped conflict dynamics. The article concludes that understanding the political economy of these conflicts is vital for addressing their root causes and achieving lasting peace and development in South Asia.

**Keywords:** Intra-state conflicts, Political economy, Resource competition, Neoliberal policies, War economy, Neoliberalism, South Asia

## Introduction

South Asia is one of the world's most volatile regions, beset by a wide array of armed conflicts. These armed conflicts have manifested in various forms, including inter-state wars, civil wars, insurgencies, and terrorist activities. The persistent nature of these armed conflicts has resulted in significant loss of life and property and impeded socio-economic development and regional integration. The political economy of these armed conflicts is complex, with deep-rooted historical, ethnic, and socio-economic factors driving the violence.

A political economy perspective is a valuable framework for analysing armed conflicts by exploring the interaction between political and economic factors. When applied to intra-state armed conflicts, this perspective considers the economic motivations behind these conflicts, their impact on economic structures, and the role economic resources play in sustaining or resolving them. This approach highlights how economic interests, resource distribution, and power dynamics contribute to

the emergence and continuation of conflicts. Understanding the political economy of intra-state armed conflicts in South Asia is critical for identifying the root causes of violence, the incentives that sustain these conflicts, and the challenges to achieving durable peace in the region.

This article explores the multifaceted relationship between economics and intra-state armed conflicts in South Asia, focusing on the key countries that have been affected by the violence—Afghanistan, Pakistan, India, Nepal and Sri Lanka. The analysis will focus on some aspects of prominent armed conflicts and explore how historical legacies, resource competitions, economic disparities and governance issues have shaped conflict dynamics in the region and how they have impacted socio-economic development.

## Historical Context of Armed Conflicts in South Asia

Contemporary conflicts in South Asia are deeply rooted in the region's complex history, marked by colonial domination, partition, and the challenges of state and

nation-building. Understanding this historical backdrop is essential to contextualising the political and economic dynamics of the intra-state armed conflicts in the region today.

The origins of many intra-state armed conflicts in South Asia can be traced back to the pre-colonial and colonial periods. Before the arrival of European powers, South Asia was a mosaic of diverse kingdoms and empires, each with its governance systems, economic structures, and social hierarchies. The arrival of the British East India Company in the 17<sup>th</sup> Century initiated a period of profound transformation. British colonial rule lasted nearly two centuries and left an indelible mark on South Asia's political and economic landscape.

The colonial administration restructured South Asian economies to serve British interests, often exacerbating social and economic inequalities. The introduction of the Zamindari system in Bengal concentrated wealth and power in the hands of a few, leading to widespread poverty and social unrest. The British also employed a “divide and rule” strategy, exploiting religious, ethnic, and caste divisions to maintain control over the region. Policies such as implementing separate electorates based on religion and the preferential treatment of specific communities deepened social cleavages. They fostered resentment against colonial rule, planting the seeds of future conflicts (Bayly, 1988).

The arbitrary drawing of borders during decolonisation further complicated inter-state and intra-state relations. The partition of British India in 1947 into India and Pakistan, based on religious majorities, is the most significant example. This partition triggered one of the largest and most violent mass migrations in history, resulting in an estimated one million deaths and the displacement of around 14 million people (Talbot and Singh, 2009). The hastily drawn Radcliffe Line failed to account for the complex demographic and socio-economic realities on the ground, leaving contentious issues such as the status of princely states unresolved, notably leading to the protracted conflict over Kashmir.

In Sri Lanka, the economic roots of the Civil War can be traced to the colonial period when the British favoured the Tamil minority in education and employment, creating a socio-economic divide between the Tamil and Sinhalese populations (Shastri, 1997). Afghanistan's experience with colonial interference, particularly during the “Great Game” between the British and Russian empires, resulted in artificially imposed borders like the

Durand Line, which divided the Pashtun tribal areas between Afghanistan and British India (now Pakistan). This demarcation has remained a persistent source of regional tension and conflict (Barfield, 2010).

The post-colonial period in South Asia was marked by state and nation-building efforts amid diverse and divided societies. In many cases, these efforts were accompanied by the centralisation of power and attempts to impose homogeneous national identities, often marginalising minority groups and fuelling separatist sentiments. In India and Pakistan, the immediate post-independence years were marred by disputes over territory and identity, with Kashmir becoming the focal point of their rivalry. The region has witnessed multiple wars (1947-48, 1965, 1971, and 1999) and ongoing low-intensity conflicts driven by competing nationalist narratives and strategic interests (Ganguly, 1997).

After gaining independence, Sri Lanka faced significant challenges in building a national identity that reflected its multi-ethnic and multi-religious society. However, successive Sinhalese-majority governments implemented policies that marginalised the Tamil population both economically and politically. Notable among these was the 1956 Sinhala Only Act, which established Sinhala as the sole official language. Additionally, Sinhalese citizens were given preferential treatment in University admissions and public sector employment, leading to systemic discrimination against Tamils. These policies exacerbated ethnic tensions, culminating in the outbreak of the civil war in 1983 (Little, 1994). The war, lasting from 1983 to 2009, was a brutal conflict between the Sri Lankan government and the Liberation Tigers of Tamil Eelam (LTTE), which sought to establish an independent Tamil state. Driven by ethnic tensions, economic disparities, and political marginalisation, the conflict resulted in significant loss of life and widespread economic devastation (DeVotta, 2004).

The Maoist Insurgency in Nepal, which raged from 1996 to 2006, was a devastating chapter in the country's history. The roots of the armed conflict in Nepal lie in the country's long history of political instability, economic disparity, and social inequality. For most of its history, Nepal, a monarchy, struggled with a deeply entrenched feudal system that marginalised large segments of its population, particularly in rural areas. In the absence of meaningful political reforms and the failure to address the grievances of the rural poor, the Communist Party of

Nepal (Maoist) capitalised on this, aiming to overthrow the monarchy and establish a people's republic. The conflict resulted in the deaths of approximately 13,000 people and the displacement of many more, leaving deep scars on Nepal's social, political, and economic fabric (Upreti, 2006).

Afghanistan's historical trajectory has been tumultuous, with modernisation efforts interrupted by coups, foreign interventions, and civil wars. The Soviet intervention in 1979 and the U.S.-backed mujahideen resistance transformed the country's internal conflict into a major Cold War battleground. These proxy battles devastated Afghanistan's social and economic fabric, creating conditions for prolonged conflict and the rise of extremist groups like the Taliban (Rubin, 2002). The influx of foreign arms and fighters contributed to the militarisation of Afghan society and the entrenchment of war economies based on illicit activities like drug production and smuggling (Goodhand, 2005).

### The Political Economy Approach to the Study of Armed Conflicts

Political economy explores how political institutions, the political environment, and economic systems influence one another. In intra-state armed conflicts, the political economy approach examines how economic resources and disparities, power structures, and institutional arrangements drive or sustain conflicts. This approach is particularly relevant in regions like South Asia, where economic inequalities, competition over resources, and external economic interests often intersect with political and ethnic tensions, fuelling violence.

In South Asia, the political economy of conflict is characterised by several key features:

- **Resource Competition:** Conflicts over access to and control of natural resources, such as land, water, and minerals, are common. These resources are often linked to the livelihoods of local populations, making their control a critical issue.
- **Economic Marginalisation:** Economic disparities and the exclusion of certain groups from economic opportunities can lead to grievances that fuel conflict. In South Asia, marginalised ethnic and religious groups have often taken up arms in response to perceived or real economic injustices.

**External Economic Interests:** The

involvement of external powers, motivated by economic or strategic interests, has often exacerbated conflicts in the region. These external actors may support one side in a conflict, further complicating efforts to achieve peace.

Theories within the political economy framework offer valuable tools for analysing how economic factors contribute to the onset, perpetuation, and resolution of conflicts. For example, the Greed vs. Grievance theory explores whether conflicts are driven primarily by economic greed (the pursuit of wealth and resources) or by grievances (political, social, or economic injustices). This theory has been influential in understanding civil wars and insurgencies, particularly in contexts where economic opportunities are scarce and conflict can offer alternative means of livelihood through looting or control of resources (Collier and Hoeffler, 2004).

The Sri Lankan Civil War was driven by both greed and grievance. The Tamil minority's grievances over systemic discrimination and economic marginalisation fuelled the initial stages of the conflict. Over time, however, the war economy, including illicit activities like smuggling and extortion by the LTTE, created economic incentives for the continuation of violence. The combination of legitimate grievances and economic opportunities provided by the conflict helped sustain the war for nearly three decades (Keen, 2000).

The Rentier State theory refers to states that derive a significant portion of their revenue from rent (such as natural resources or foreign aid) rather than from productive economic activities like taxation of their citizens. Rentier states are often characterised by weak institutions, authoritarian governance, and a lack of accountability, as the state does not rely on domestic taxation and, therefore, does not need to be responsive to the needs of its citizens (Beblawi and Luciani, 1987).

This concept is particularly relevant to Afghanistan, where the economy has been heavily dependent on external rent, particularly from foreign aid and the illicit opium trade. This dependence has undermined efforts to build a stable, self-sufficient state. While foreign aid is crucial for humanitarian purposes, its influx has often bypassed local institutions, weakening their capacity and fuelling corruption. Additionally, the opium trade has provided significant revenue for insurgent groups like the Taliban, sustaining the conflict and complicating peace efforts (Murtazashvili, 2016).

Globalisation and neoliberal economic policies have

significantly impacted armed conflicts in South Asia. While globalisation has created new economic opportunities, it has also widened economic inequalities and exposed vulnerable populations to global market fluctuations. Neoliberal policies—characterised by privatisation, deregulation, and austerity measures—have often resulted in social and economic dislocation, particularly in conflict-prone areas. In many South Asian countries, these neoliberal reforms have been implemented under pressure from international financial institutions like the IMF and the World Bank. The reforms typically involve the privatisation of state-owned enterprises, reductions in social spending, and the opening of markets to foreign competition. Although these measures are intended to stimulate economic growth, they have often led to increased unemployment, diminished access to essential services, and heightened social tensions. In conflict zones such as Afghanistan and parts of Pakistan, these policies have often failed to address the underlying economic grievances that drive conflict. Instead, they have often exacerbated these issues, deepening the challenges the affected populations face (Peet, 2009).

### **Economic Factors Contributing to Armed Conflicts**

The intra-state armed conflicts in South Asia are complex and multifaceted, shaped by a unique combination of economic, political, and social factors. This section synthesises insights from various conflicts to explore common patterns and distinct factors that influence them. One of the most significant economic factors contributing to armed conflicts in South Asia is the control and distribution of resources. Conflicts often arise over access to and control of natural resources like land, water, and minerals. The uneven distribution of these resources leads to competition and conflict among different groups.

In Pakistan, economic disparities between regions have contributed to the rise of insurgent movements, particularly in Balochistan. Despite being rich in natural resources, Balochistan remains one of the poorest provinces in Pakistan. The local population has long felt marginalised and excluded from the benefits of resource extraction, leading to demands for greater autonomy and sometimes independence. The Baloch believe that the CPEC has further exploited Balochistan's resources without benefitting the local population. Instead, it has led to their economic marginalisation and the colonisation of their land.

In Afghanistan, control over valuable resources such as opium, minerals, and timber has fuelled ongoing conflicts. Various factions, including warlords, insurgent groups, and criminal networks, fight to control these resources, using the profits to fund their activities. The opium trade, in particular, had become a significant source of revenue for the Taliban and other insurgent groups, perpetuating the cycle of violence.

In India, the Maoist insurgency in the mineral-rich central and eastern states is partly driven by the exploitation of natural resources. Mining activities in these regions have often displaced indigenous populations, who typically live in poverty and are denied a fair share of the wealth generated from their lands. Issues such as land rights, exploitation of natural resources, and socio-economic inequalities shape the political economy of the Maoist insurgency. The state's push for industrialisation and resource extraction in these regions has often led to the displacement of local communities, intensifying resentment and creating fertile ground for insurgency. This economic marginalisation has been the dominant cause for the insurgency's persistence.

In Sri Lanka, ethnic tensions were exacerbated by competition over resources, particularly land and education. The government's policy of state-sponsored colonisation, which involved settling Sinhalese farmers in traditionally Tamil areas, led to conflicts over land ownership and access to resources. This policy not only altered the demographic balance but also intensified Tamil fears of cultural and economic domination by the Sinhalese majority, contributing to the outbreak of the civil war (Shastri, 1997). The economic value of these resources made them both a cause of conflict and a target for control by armed groups.

Economic disparities are another major driver of armed conflicts in South Asia. The region is characterised by significant income inequality, with large segments of the population living in poverty while a small elite controls much of the wealth. This economic inequality often overlaps with ethnic, religious, and caste divisions, exacerbating social tensions and creating fertile ground for conflict.

In Sri Lanka, economic inequalities between the Sinhalese majority and the Tamil minority were key factors in the outbreak of the civil war. The Tamils, concentrated in the northern and eastern parts of the country, faced discrimination in employment, education, and land ownership. These economic grievances, coupled

with ethnic tensions, fuelled the rise of the LTTE and the subsequent conflict. Discriminatory policies, such as the Sinhala Only Act and preferential treatment for Sinhalese in education and employment, created a sense of economic injustice among Tamils, which the LTTE exploited to gain support for their cause (DeVotta, 2004).

In Nepal, economic grievances that fuelled the Maoist insurgency were rooted in the poverty and inequality that characterised much of rural Nepal. Landlessness, lack of access to basic services, and the marginalisation of indigenous and lower-caste communities created fertile ground for the insurgency. The conflict further exacerbated these economic challenges, with the destruction of infrastructure, displacement of populations, and disruption of agricultural production.

South Asia is experiencing a demographic transition with a growing youth population. While this “youth bulge” has the potential to drive economic growth, it also poses significant challenges, particularly in terms of employment. High levels of youth unemployment and underemployment can lead to frustration and disillusionment, making young people more susceptible to recruitment by insurgent groups and criminal networks.

In Afghanistan, the combination of a large youth population and limited economic opportunities has contributed to the persistence of conflict. Many young men, facing unemployment and poverty, have few alternatives but to join insurgent groups or engage in criminal activities. The lack of education and vocational training further limits their prospects, creating a cycle of poverty and violence. In Nepal, the Maoist insurgency drew significant support from young people, particularly those from marginalised communities. The lack of employment opportunities in rural areas and widespread poverty made the Maoist call for social and economic revolution appealing to many young people.

Foreign aid plays a complex role in the political economy of armed conflicts in South Asia. On one hand, aid can provide much-needed resources for development and reconstruction in conflict-affected areas. On the other hand, it can also exacerbate conflicts by fuelling corruption, reinforcing patronage networks, and creating dependency.

In Pakistan, foreign aid, particularly from the United States, has significantly shaped the country’s political economy. During the Cold War, U.S. military and economic aid supported Pakistan’s military regime,

enabling it to suppress internal dissent and pursue a militarised approach to regional conflicts. In the post-9/11 period, U.S. aid has been linked to Pakistan’s cooperation in the “War on Terror,” with mixed results. While aid has supported development projects and counterterrorism efforts, it has also been criticised for reinforcing the power of the military and contributing to governance challenges.

The U.S.-led invasion of Afghanistan in 2001, following the 9/11 attacks, had significant economic dimensions. Afghanistan’s strategic location, bordering Central Asia’s resource-rich region, and its potential as a transit route for energy pipelines were factors in U.S. involvement. The post-invasion period saw massive inflows of foreign aid, much of which was channelled through international contractors and NGOs rather than Afghan institutions. This aid dependency created a rentier economy, where the Afghan state relies heavily on foreign funds, undermining its sovereignty and capacity to govern (Murtazashvili, 2016).

### **Globalisation and Neoliberal Economic Policies**

Globalisation and adopting neoliberal economic policies have had mixed impacts on armed conflicts in South Asia. On the one hand, globalisation has created new economic opportunities. On the other hand, it has also exacerbated economic inequalities and exposed vulnerable populations to global market fluctuations, increasing the risk of conflict. Adopting neoliberal policies—characterised by privatisation, deregulation, and austerity measures—has significantly influenced conflict dynamics in the region. While these policies often promote economic growth, they have frequently increased unemployment, reduced access to essential services, and heightened social tensions, particularly in conflict-prone areas.

In Pakistan, the impact of neoliberalism, especially through IMF and World Bank-sponsored Structural Adjustment Programmes (SAP), has significantly weakened the state. The economy grew rapidly between 1959-60 and 1964-65, sharply declined by 1969-70 (Ahmed and Amjad, 1987). Under Zulfikar Ali Bhutto, economic challenges intensified with rising debt servicing and slowing GDP growth. General Zia ul-Haq temporarily mitigated these issues with Western financial aid and increased Gulf remittances. However, after the Afghan war, the withdrawal of foreign loans exposed deep structural constraints, including low savings, high

borrowing, and balance of payments deficits, leading to a prolonged recession in the 1990s.

Since 1988, the IMF/World Bank-sponsored SAP has continued to manage Pakistan's economy, with severe consequences. Most SAP objectives, such as reducing the fiscal deficit to about 4% of GDP, were never met. The government, unable to achieve this target through direct and indirect taxation, resorted to reducing public expenditure in development areas. Development expenditure fell from 9.3% of GDP in 1981 to only 3.5% in 1996-97 (Zaidi, 1999). As a result, there was a decline in the growth rate, inflation, increased unemployment, declining real wages, and growing income inequality and poverty. The GDP growth rate dropped from 6.3% in the 1980s to 4.2% in the 1990s (Hussain, 2003).

Cuts in public expenditure on social development severely impacted the labour force and the poor. Poverty, which had declined in the 1970s and 1980s, increased after Pakistan adopted the IMF/World Bank-sponsored SAP (Zaidi, 1999). This economic strain, coupled with the breeding of religious militant groups, began to erupt into social conflict, feeding off the poverty and unemployment associated with the economic recession of the 1990s.

In Sri Lanka, economic factors significantly fuelled the ethnic conflict. The shift to a liberal free-market economy after 1977 was a key driver of the escalation of the conflict. Economic liberalisation facilitated the LTTE and the government mobilising funds and acquiring weapons (Winslow and Woost, 2004). The Tamil diaspora funded the LTTE, while the government received military aid from India and Pakistan at different times (Stokke, 2006). Post-war neoliberal reforms failed to address the economic needs of the Tamil population, with large infrastructure projects benefiting the national economy but marginalising war-torn regions, complicating reconciliation efforts (Venugopal, 2011).

In Afghanistan, the imposition of neoliberal reforms by international financial institutions often failed to address the underlying economic grievances that fuelled the conflict. Privatisation and deregulation benefited a small elite while leaving large segments of the population without adequate employment or social protection, exacerbating poverty and inequality (Murtazashvili, 2016). This contributed to the persistence of conflict, as those who were economically marginalised were more likely to support insurgent groups or engage in violence.

Globalisation has also exposed vulnerable South

Asian populations to global market fluctuations, increasing economic instability and the risk of conflict. In Afghanistan, fluctuations in international commodity prices, particularly for opium, significantly impacted the local economy and conflict dynamics. High opium prices increased profits from the narcotics trade, providing more resources for insurgent groups. Conversely, when prices fell, farmers and traders turned to other illicit activities or joined insurgent groups to compensate for lost income (Mansfield, 2016).

Similarly, in Sri Lanka, the global economic downturn in 2008 significantly impacted the country's economy, leading to job losses and reduced export revenues. This financial stress exacerbated existing tensions and made it more difficult for the government to finance post-war reconstruction efforts, contributing to the persistence of economic inequalities and social unrest (Goodhand, 2010).

### **Armed Conflicts and the Underground Economy**

The proliferation of neoliberal economic policies has significantly weakened state capacities, facilitating the privatisation of violence (Kaldor, 2001). Intra-state armed conflicts have created economies that disproportionately benefit certain groups, including the military-industrial complex, arms dealers, underground mafias, and specific political elites who exploit these situations for economic gain. The symbiotic relationship between crime and corruption feeds these conflicts, fostering environments where vested interests thrive. The underground economy, often hidden from public view, plays a critical role in perpetuating these conflicts, and its linkages to armed violence, while occasionally visible, are largely obscured from public knowledge. Powerful interests often manipulate the rule of law to shield their activities.

Across South Asia, armed conflicts have consistently been accompanied by the rise of underground economies. For instance, in India's northeast, the persistence of armed conflict has been fuelled by extensive financial resources generated from underground activities. Initially, funds were raised through raids, robberies, and kidnappings for ransom, but over time, a more complex network of collusion developed, involving politicians, bureaucrats, terrorists, and businessmen. This network effectively hijacked the Public Distribution System, diverted funds meant for rural development, and misappropriated government-awarded contracts. Significant portions of central government development funds intended for the northeast flowed to militant groups through these corrupt

networks. Extortion, “taxation,” and illicit trade in arms and drugs further supplemented these resources.

Insurgent groups such as ULFA, NSCN (I-M), NSCN (K), and NDFB resorted to widespread extortion and occasional kidnappings to finance their struggles. This “taxation” was levied on all segments of society—government employees, businessmen, and private firms alike. A significant portion of the funds collected through extortion was laundered through legitimate businesses, often using frontmen, and the profits were reinvested to sustain the insurgency. This phenomenon led many to characterise the insurgencies in the northeast as lucrative “cottage industries (Sahani, 2001).” Estimates suggest that ULFA alone collected between \$100 million and \$120 million between 1990 and 1997, primarily through extortion (Banerjee, 2000).

The state’s failure to provide adequate security compelled people and businesses to pay illegal “taxes” to insurgent groups as a means of buying peace. This created a vicious cycle in which the payment of protection money reinforced the structures that perpetuated conflict. By becoming part of this resource-generating mechanism, people inadvertently contributed to the persistence of violence and conflict, making it harder for insurgent groups to settle for peace.

In Jammu and Kashmir (J&K), the conflict similarly led to a thriving underground economy. The proliferation of extremist militant organisations in Pakistan, driven by competitive funding, resulted in the emergence of numerous outfits. Many of these groups, including Ikhwanul Muslimeen, Hizbul Mujahideen, Lashkar-e-Taiba, and Jaish-e-Mohammed, recruited extensively by offering financial incentives rather than relying solely on ideological appeal (Habibullah, 2004). Hawala channels played a crucial role in funding the insurgency in Kashmir, with intelligence agencies estimating that between Rs. 4,000 to 5,000 million were funnelled through these informal networks annually. This underground financial system had entrenched interests in prolonging the conflict, with substantial amounts linked to groups such as Hizbul Mujahideen, Lashkar-e-Taiba, Jaish-e-Mohammed, and even the Hurriyat Conference. The intricate hawala networks benefited a broad cross-section of society in the state, and militancy emerged as a highly lucrative “industry” for thousands of families.

In Pakistan, Jihadi groups have increasingly turned to criminal activities to fund their operations. Sectarian groups like Sipah-e-Sahaba initially employed local

criminals to carry out attacks against Shia Muslims. Over time, drug traders developed ties with these sectarian groups, further blurring the lines between crime and ideological militancy. Despite being officially banned, these groups continued to operate and received substantial funding from external sources, such as the estimated \$1 million per month from Saudi patrons to Sipah-e-Sahaba. (Zaidi, 2003).

In Sri Lanka, the prolonged conflict unleashed forces that benefited from its continuation. The war created a new elite within the armed forces, many of whom grew wealthy through corruption (Rajasingham-Senanayake, 1999). The expansion of the security forces and the war budget provided economic opportunities for many rural poor, creating a constituency that became economically dependent on the conflict. This dynamic limited the space for anti-war mobilisation and established structures that perpetuated violence.

The war economy that emerged during the conflict played a significant role in sustaining the violence. The LTTE (Liberation Tigers of Tamil Eelam) established a parallel economy in the areas under their control, engaging in activities such as smuggling, extortion, and taxation to finance their military operations. They also developed a global network to raise funds through various illicit activities, including extortion, arms trade, narcotics trafficking, smuggling of illegal immigrants, and money laundering. The expatriate Sri Lankan Tamil community contributed substantially through donations and extortion. Their control over key resources, including agricultural land and fisheries, allowed them to sustain their insurgency for decades while providing economic benefits to their supporters. This war economy allowed the LTTE to continue their insurgency even as the conflict devastated the broader economy of the country (Stokke, 2006).

The influx of foreign aid following the U.S. invasion of Afghanistan in 2001 had mixed results. While aid helped rebuild infrastructure and provide basic services, it fuelled corruption. It created a “war economy” in which various actors profited from the conflict, including warlords and insurgent groups. The mismanagement of aid funds, coupled with a lack of accountability, undermined efforts to build a stable and self-sufficient economy, thereby contributing to the persistence of the conflict. The “war economy,” which became profitable for specific actors, was critical in sustaining the armed conflict. The opium trade became deeply entrenched in the conflict, providing significant revenue for insurgent groups like

the Taliban. The profits generated by the narcotics trade created powerful incentives for various actors to perpetuate the conflict, as peace would threaten their economic interests (Mansfield, 2016).

### **Impact of Armed Conflicts on South Asia's Economies**

Armed conflicts have had devastating economic consequences across South Asia, destroying infrastructure, loss of human capital, and long-term economic instability. The economic costs of the armed conflicts are often felt for years, if not decades, after the conflict has ended, making recovery and rebuilding particularly challenging for affected countries.

The prolonged conflict in Afghanistan has caused widespread destruction of infrastructure, including essential facilities such as roads, schools, hospitals, and power plants. The loss of human capital has been equally severe, with many skilled workers either fleeing the country or being killed during the conflict. Moreover, the opium trade has had a corrosive effect on Afghan society and governance. The vast sums of money generated by the drug trade have fuelled corruption, undermined the legitimacy of the Afghan government, and weakened state institutions. International efforts to eradicate opium production have had limited success and have sometimes exacerbated tensions by depriving rural communities of their livelihoods without providing viable alternatives (Mansfield, 2016).

The ongoing conflict in Afghanistan has also had profound implications for regional stability in South Asia and beyond. The spillover effects, including the influx of refugees, the spread of militant ideology, and the proliferation of narcotics, have destabilised neighbouring countries, particularly Pakistan. The economic costs of the conflict extend beyond Afghanistan, affecting the entire region as trade and investment have been hampered by persistent insecurity.

The civil war in Sri Lanka had a devastating impact on the country's economy, particularly in the northern and eastern regions. The destruction of infrastructure in these areas has made it extremely difficult for them to recover post-conflict. Additionally, the loss of human capital, particularly among the Tamil minority, has been significant, further hampering economic recovery. The economic marginalisation of the Tamil population persists, with high levels of unemployment, poverty, and underdevelopment in the former conflict zones. The

continued militarisation of the north and east, with large tracts of land still under military control, has also hampered economic recovery. The lack of meaningful economic opportunities and the failure to address historical grievances pose significant obstacles to achieving durable peace in Sri Lanka (Goodhand, 2010).

The economic costs of the conflict have been exacerbated by the continued militarisation of the region and the numerous challenges associated with post-war reconstruction. The government's post-war reconstruction efforts have been criticised for favouring Sinhalese-majority areas and focusing on large-scale infrastructure projects that do not address the needs of the Tamil population. Many of these projects, funded by foreign investments and loans, have been concentrated in the south and west of the country, neglecting the war-torn north and east (Venugopal, 2011).

Economically, the civil war devastated Nepal's economy, particularly in rural areas where agriculture was the primary source of livelihood. The destruction of infrastructure, coupled with the disruption of economic activities, pushed many people into poverty. The conflict also deterred foreign investment and tourism—two sectors crucial to the country's economic well-being. As a result, the economic foundations of Nepal were severely weakened, with long-lasting effects that continue to hinder the country's development.

Armed conflicts have also significantly impacted trade and investment in South Asia. The region's conflicts have disrupted trade routes, reduced investor confidence, and created an environment of uncertainty that has hindered economic growth. In Pakistan, the conflict in the tribal areas and ongoing tensions with India have negatively affected trade and investment. The disruption of trade routes, particularly with Afghanistan, has reduced economic opportunities for businesses in the region. Furthermore, the conflict has deterred foreign investment, particularly in the energy and infrastructure sectors, critical for Pakistan's economic development.

In Afghanistan, the ongoing violence and insecurity have severely limited the country's ability to attract foreign investment. Many investors are deterred by the high risks associated with business in the country. The conflict has also disrupted trade routes, particularly with Pakistan and Iran, further limiting economic opportunities and deepening the country's economic woes.

Armed conflicts in South Asia have also led to the displacement of millions of people, creating significant



economic and social challenges for the region. The displacement of populations has profoundly impacted the economies of both the countries of origin and the host countries, creating challenges for social integration, employment, and access to basic services. In Afghanistan, decades of conflict have displaced millions of people, both within the country and across its borders. This displacement has created significant challenges for the Afghan economy, as displaced populations often lack access to employment, education, and healthcare. The return of refugees from neighbouring countries, particularly Pakistan and Iran, has also created challenges for the Afghan government, which lacks the resources to support their reintegration.

In Sri Lanka, the civil war displaced hundreds of thousands of people, particularly in the north and east. The displacement created significant challenges for the economy, as many displaced people were unable to return to their homes and livelihoods after the war. The challenges of resettlement and reintegration have been compounded by the continued militarisation of the region and the lack of economic opportunities, making it difficult for the region to recover fully.

The social fabric of Nepalese society was severely damaged due to the civil war, which exacerbated existing divisions along caste, ethnic, and geographical lines, deepening the rifts within the population. The violence and instability forced thousands of people to flee their homes, leading to widespread displacement which had enduring effects, disrupting traditional social structures and contributing to increased urbanisation as displaced populations sought refuge in cities. The upheaval strained social cohesion and created new challenges for community life in both rural and urban areas.

The long-term economic instability created by armed conflicts in South Asia has made it difficult for countries to achieve sustainable development. Rebuilding economies after conflict and ongoing political and security challenges have hindered efforts to achieve long-term economic growth and development. In Afghanistan, the long-term economic instability created by the conflict has made it difficult for the country to achieve sustainable development. The challenges of rebuilding infrastructure, restoring human capital, and creating economic opportunities for the population have been compounded by ongoing insecurity and a need for effective governance. The continued reliance on foreign aid has also created challenges for the Afghan economy, as the

country struggles to build a self-sufficient economy.

In Sri Lanka, the challenges of post-war reconstruction have created significant obstacles to long-term economic development. The continued militarisation of the region, combined with the lack of economic opportunities for the population, has made it difficult to achieve sustainable development. The challenges of reintegrating displaced populations and addressing the economic grievances of the Tamil minority have also created significant hurdles for the Sri Lankan economy.

## Conclusion

The political economy of armed conflicts in South Asia presents a complex and multifaceted challenge deeply rooted in historical legacies, economic disparities, and the strategic interests of regional and global powers. While distinct in their specific contexts, the conflicts in South Asia share common underlying factors such as competition over resources, economic marginalisation, and the influence of external actors. These conflicts have caused immense human suffering and hindered South Asia's economic development and regional integration.

One of the key insights from this analysis is the significant role that economic factors play in driving and sustaining conflicts in the region. Economic marginalisation, whether due to historical injustices, discriminatory policies, or the unequal distribution of resources, has fuelled grievances that often manifest in violent conflict. At the same time, the existence of war economies—where conflict becomes economically profitable for certain actors—creates powerful incentives for the continuation of violence.

Globalisation and neoliberal economic policies have also had mixed impacts on conflict dynamics in South Asia. While globalisation has opened up new economic opportunities and fostered greater interdependence between countries, it has also exacerbated economic inequalities and exposed vulnerable populations to global market fluctuations, increasing the risk of conflict. Adopting neoliberal policies, characterised by privatisation, deregulation, and austerity measures, has often led to social and economic dislocation, particularly in conflict-prone areas.

The political economy of armed conflicts in South Asia is a complex and multifaceted issue shaped by a range of historical, economic, political, and social factors. The region's intra-state armed conflicts have profoundly impacted its economies, creating significant challenges

for development, governance, and security. Understanding the political economy of these conflicts is crucial for addressing the root causes of violence and promoting sustainable peace and development in the region.

## REFERENCES

- Ahmed, Viqar and Rashid Amjad. (1987). *The Management of Pakistan's Economy 1947-82*. Karachi: Oxford University Press.
- Banerjee, Dipankar (ed.). (2000). *South Asia at Gun Point: Small Arms and Light Weapons Proliferation*. Colombo: Regional Centre for Strategic Studies.
- Barfield, T. (2010). *Afghanistan: A Cultural and Political History*. Princeton: Princeton University Press.
- Bayly, C. A. (1988). *Indian Society and the Making of the British Empire*. Cambridge: Cambridge University Press.
- Beblawi, Hazem, and Giacomo Luciani (eds.). (1987). *The Rentier State*. London: Croom Helm.
- Collier, P. and Hoeffler, A. (2004). Greed and Grievance in Civil War. *Oxford Economic Papers*, 56 (4).
- DeVotta, N. (2004). *Blowback: Linguistic Nationalism, Institutional Decay, and Ethnic Conflict in Sri Lanka*. Stanford: Stanford University Press.
- Ganguly, S. (1997). *The Crisis in Kashmir: Portents of War, Hopes of Peace*. Cambridge: Cambridge University Press.
- Goodhand, J. (2005). Frontiers and Wars: The Opium Economy in Afghanistan. *Journal of Agrarian Change*, 5(2).
- Goodhand, J. (2010). Stabilising a Victor's Peace? Humanitarian Action and Reconstruction in Eastern Sri Lanka. *Disasters*, 34(S3).
- Habibullah, Wajahat (2004). The Political Economy of the Kashmir Conflict: Opportunities for Economic Peacebuilding and for U.S. Policy. United States Institute of Peace, Special Report No. 121, June. URL: <http://www.usip.org/pubs/specialreports/sr121.pdf>.
- Hussain, Akmal (2003). Terrorism, Development and Democracy: The Case of Pakistan. in Shidhar K. Khatri and Gert W. Kueck (eds.). *Terrorism in South Asia: Impact on Development and Democratic Process*. New Delhi: Shipra Publications.
- Kaldor, Mary (2001). *New and Old Wars: Organised Violence in a Global Era*. Cambridge: Polity Press.
- Keen, D. (2000). Incentives and Disincentives for Violence. in Mats Berdal and David Malone (eds.). *Greed and Grievance: Economic Agendas in Civil Wars*. Boulder: Lynne Rienner Publishers.
- Little, D. (1994). *Sri Lanka: The Invention of Enmity*. Washington, D.C.: United States Institute of Peace Press.
- Mansfield, D. (2016). *A State Built on Sand: How Opium Undermined Afghanistan*. New York: Oxford University Press.
- Murtazashvili, I. (2016). The Political Economy of the Rentier State in Afghanistan. *International Studies Quarterly*, 60(3).
- Peet, R. (2009). *Unholy Trinity: The IMF, World Bank and WTO*. London: Zed Books.
- Rajasingham-Senanayake, Darini (1999). The Dangers of Devolution: The Hidden Economies of Armed Conflict. in Robert I. Rotberg (ed.), *Creating Peace in Sri Lanka: Civil War and Reconciliation*. Washington, D.C: The Brookings Institution Press.
- Sahani, Ajai (2001). The Terrorist Economy in India's Northeast: Preliminary Explorations. *Faultlines*, 8, April.
- Shastri, A. (1997). The Post-Colonial State and the Prospects for Democratisation in Sri Lanka. *Democratisation*, 4(4).
- Stokke, K. (2006). Building the Tamil Eelam State: Emerging State Institutions and Forms of Governance in LTTE-controlled Areas in Sri Lanka. *Third World Quarterly*, 27(6).
- Talbot, I. and Singh, G. (2009). *The Partition of India*. Cambridge: Cambridge University Press.
- Upreti, B. R. (2006). *Armed Conflict and Peace Process in Nepal: The Maoist Insurgency, Past Negotiations, and Opportunities for Conflict Transformation*. New Delhi, Adroit Publishers.
- Venugopal, R. (2011). The Politics of Market Reform at a Time of Civil War: Military Fiscalism in Sri Lanka. *Economic and Political Weekly*, 46(49).
- Winslow, Deborah and Woost, Michael D. (2004). Articulations of Economy and Ethnic Conflict in Sri Lanka. in Deborah Winslow and Michael D. Woost (eds.). *Economy, Culture, and Civil War in Sri Lanka*. Bloomington: Indiana University Press.
- Zaidi, Mubashir (2003). Back to the Drawing Board. *Herald*, 34(9).
- Zaidi, S. Akbar (1999). *Issues in Pakistan's Economy*. Karachi: Oxford University Press.

\*\*\*\*\*