

# DECISIO



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## ECONOMIC AND SOCIAL IMPACT OF THE PEACE PALACE

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## COVER PICTURE

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## Samenvatting

Het Vredespaleis in Den Haag werd in 1913 geopend na twee wereldconferenties over vrede door internationaal recht. Het is het wereldwijde symbool voor internationaal recht en vrede en is het centrale punt van Den Haag als Stad van Vrede en Recht. Het Vredespaleis huist de volgende instellingen:

- *Het Internationaal Gerechtshof (ICJ)*, het belangrijkste gerechtelijke orgaan van de Verenigde Naties, beslecht juridische geschillen die door staten worden voorgelegd en geeft advies over juridische kwesties die door VN-organen en gespecialiseerde organisaties worden voorgelegd.
- *Het Permanent Hof van Arbitrage (PCA)* beslecht internationale geschillen door middel van arbitrage.
- *De Haagse Academie voor Internationaal Recht* is het centrum voor onderwijs en onderzoek in het internationaal publiekrecht en privaatrecht.
- *De Carnegie Stichting* is de eigenaar en beheerder van het Vredespaleis en de bibliotheek. Deze bibliotheek is een van de meest prestigieuze bibliotheken ter wereld op het gebied van internationaal recht. De Carnegie Stichting organiseert en faciliteert publieksactiviteiten, publiekseducatie en publieke evenementen gericht op vrede en samenwerking.

In opdracht van de Carnegie Stichting en met hulp van vooraanstaande experts op het gebied van internationaal recht, deed Decisio onderzoek naar de economische en maatschappelijke impact van het Vredespaleis en de instellingen die het faciliteert anno 2019. De belangrijkste conclusies worden hieronder weergegeven.

### **Economische impact van het Vredespaleis**

In 2019 zijn het Vredespaleis en de instellingen die het huist goed voor ongeveer 720 fte in Den Haag en de rest van Nederland. Bijna 230 van deze fte zijn direct gerelateerd aan het Vredespaleis. 120 fte hebben betrekking op aankopen van de instellingen in het Vredespaleis in Nederland. 25 fte kan worden gerelateerd aan de private bestedingen van de internationale werknemers van instellingen in het Vredespaleis. En ongeveer 340 fte kunnen worden gerelateerd aan de zakelijke en particuliere / toeristische bezoekers van het Vredespaleis. Deze banen komen overeen met een totale jaarlijkse besteding van 120 miljoen euro in Den Haag en de regio en in totaal 70 miljoen euro aan toegevoegde waarde aan het Nederlandse bbp.

### **Maatschappelijke effecten van de rechtbanken**

Veel belangrijker en wereldwijd veel relevanter zijn de effecten van het ICJ en het PCA op gerechtigheid en het voorkomen van gewapende conflicten.

## *Voorkomen en oplossen van gewapende conflicten*

Het belangrijkste maatschappelijke effect is het voorkomen en oplossen van gewapende conflicten in de wereld en het bevorderen van vrede en stabiliteit door middel van internationaal recht. Omdat het onmogelijk is te voorspellen wat er zou zijn gebeurd zonder tussenkomst van ICJ en / of PCA, gebruiken we bij het schatten van deze impact drie scenario's met een grote variatie in het aantal en type conflicten dat door deze instellingen is voorkomen of opgelost. In het lage scenario is het uitgangspunt dat in de hele geschiedenis van ICJ en PCA 1 kleinschalig gewapend conflict werd voorkomen of opgelost, in het hoge scenario is er van uit gegaan dat 4 kleinschalige conflicten en 2 grootschalige conflicten werden voorkomen of opgelost. Dit zijn voorzichtige aannames.

De maatschappelijke waarde van de scenario's is groot. Zelfs in het lage scenario loopt de waarde op tot een geschatte totale besparing van 18 miljard euro op de kosten van conflicten en nog eens 11 miljard euro van het bbp dat zonder inmenging verloren zou zijn gegaan voor de betrokken landen. In het hoge scenario zijn deze cijfers respectievelijk € 508 miljard en € 260 miljard.

## *Schatting van maatschappelijke waarde van ICJ en PCA door gewapende conflicten op te lossen en/of te voorkomen (kosten in miljarden euro's, in hele bestaan van ICJ en PCA)*

	Laag scenario	Midden scenario	Hoog scenario
Aantal kleinere gewapende conflicten	1	2	4
Aantal grotere gewapende conflicten	0	1	2
Kosten van kleinschalige gewapende conflicten	18	36	73
Kosten van grootschalige gewapende conflicten	0	218	435
<b>Totale kosten van gewapende conflicten</b>	<b>18</b>	<b>254</b>	<b>508</b>
<b>Verlies van bbp-groei</b>	<b>11</b>	<b>130</b>	<b>260</b>

## *De waarde van gerechtigheid voor naties en burgers*

De gerechtshoven zijn ook van grote waarde voor veel staten en mensen alleen al omdat zij de internationale rechtsorde bevorderen en in stand houden. Dit is belangrijk voor de economische ontwikkeling van landen, de welvaart van huishoudens en voor het welzijn van burgers. Een goede kwaliteit van de rechtsstaat bespaart geld, zorgt voor vertrouwen en investeringen, en voorkomt dat mensen stress-gerelateerde ziekten krijgen. Het schatten van de geïsoleerde waarde van ICJ en PCA in dit opzicht is echter onmogelijk.



Het belang van het ICJ voor het welzijn van mensen wordt misschien het best geïllustreerd door de Rohingya-zaak tussen Gambia en Myanmar. Gambia beweert dat de Rohingya het slachtoffer zijn geworden van genocide en nergens anders terecht konden voor gerechtigheid dan bij het ICJ. Ze waren wanhopig en de emoties van de aanwezigen bij het horen van de voorlopige beschermingsmaatregelen laten zien hoe belangrijk toegang tot gerechtigheid voor mensen kan zijn, hoe indirect dit ook was.

### *Ontwikkeling en verbetering van internationaal recht*

Een andere belangrijke maatschappelijke impact van de rechtbanken is de jurisprudentie en de ontwikkeling en verbetering van het internationaal recht. Belangrijke voorbeelden die in het rapport worden genoemd zijn onder meer de manier waarop maritieme en territoriale grenzen tussen landen worden bepaald. Dit effect is ook niet kwantificeerbaar.

En ook de academie en de bibliotheek dragen hieraan sterk bij. In totaal zijn er sinds de oprichting van de academie circa 50.000 internationaal-juristen geweest die een intensieve drieweekse top-opleiding internationaal recht hebben gehad. Zij gebruiken die kennis in hun eigen land als hoge ambtenaren, ministers, ambassadeurs, raadgevers, academici, advocaten en zijn gedurende hun loopbaan in het internationale recht of de diplomatie ambassadeurs van Den Haag. De bibliotheek met haar unieke collectie draagt bij aan de kennisinfrastructuur, trekt veel bezoekers, lokaal, van internationale organisaties in Den Haag, maar ook via remote access (over internet) van over de hele wereld. Jaarlijks wordt deze bibliotheek door ongeveer 2.000 leden geraadpleegd (82.000 aangevraagde digitale stukken in 2019).

### **Andere maatschappelijke effecten**

Andere belangrijke maatschappelijke effecten die in het rapport worden beschreven, zijn:

- Het ontwikkelen en delen van kennis die plaatsvindt in het wereldwijde epicentrum van internationaal recht dat gezamenlijk wordt gevormd door het Vredespaleis en de internationaalrechtelijke organisaties.
- Het gebouw van het Vredespaleis is cultureel erfgoed en een belangrijk monument. De kunsthistorische waarde van het paleis en de kunstcollectie is buitengewoon.
- Het Vredespaleis staat voor vrede, gerechtigheid en internationaal recht en staat symbool voor het belang dat Nederland hecht aan de internationale rechtsorde. Een reden waarom internationale (zakelijke) delegaties het Vredespaleis graag opnemen in hun reisprogramma bij een bezoek aan ons land.

- Het Vredespaleis is een van de belangrijkste attracties voor bezoekers van Den Haag en voor sommigen ook de reden om de stad te bezoeken.
- De impact van het Vredespaleis op het vestigingsklimaat en het imago van Den Haag. Het Vredespaleis is een zeer belangrijke pijler van de sector van internationale organisaties in Den Haag, die werkgelegenheid biedt aan circa 40.000 mensen.
- Het symbool van het Vredespaleis is belangrijk voor het imago van Nederland in de wereld. Dit geldt vooral voor bevolkingsgroepen en landen die bij de casussen van ICJ en PCA betrokken zijn, maar ook breder voor professionals op het gebied van internationaal recht en internationale betrekkingen, diplomaten en politici.



## Summary

The Peace Palace in The Hague was opened in 1913 as a result of two world conferences on peace and international law. It is the worldwide symbol for international law, peace and justice, and the center for The Hague as City of Peace and Justice. The Peace Palace houses the following institutions:

- *The International Court of Justice (ICJ)*, the principal judicial organ of the United Nations, which settles legal disputes submitted by states and provides advisory opinions on legal questions referred to it by UN organs and specialized agencies.
- *The Permanent Court of Arbitration (PCA)*, which settles international disputes by means of arbitration.
- *The Hague Academy of International Law* is the center for teaching and research in public and private international law.
- *The Carnegie Foundation* is the owner and manager of the Peace Palace and its library, the world's most prestigious library in the field of international law. The Carnegie Foundation organizes and facilitates public education and public events to promote peace and international cooperation.

Commissioned by the Carnegie Foundation and with the help of leading experts in international law, Decisio researched the economic and social impact of the Peace Palace and the institutions it facilitates in the year 2019. The main conclusions are presented below.

### **Economic impact of the Peace Palace**

In 2019, the Peace Palace and the institutions it hosts accounted for approximately 720 FTE in the Netherlands. Nearly 230 of these FTE are directly related to the Peace Palace. 120 FTE are related to purchases by the Peace Palace (and institutions) in the Netherlands. 25 FTE can be related to private spending of the international employees of institutions in the Peace Palace. And approximately 340 FTE can be related to the business and private/touristic visitors to the Peace Palace. These jobs correspond to an annual total spending of 120 million euro in The Hague and the region and a total of 70 million euro as added value/contribution to the Dutch GDP.

### **Societal effects of the Courts**

Much more important and globally much more relevant are the effects of the ICJ and the PCA on justice and the prevention of armed conflicts.

## *Preventing and solving armed conflicts*

The most important societal effect is the prevention and solving of armed conflicts in the world and the promotion of peace, stability and development in the world by advancing the rule of law in international relations. Because it is impossible to predict what would have happened without the presence – directly, in resolving disputes, or indirectly, in inspiring the conduct of states through their jurisprudence - of the ICJ and/or the PCA, we used three scenarios with a wide variation of the number and type of conflicts that have been prevented or solved by these institutions. In the low scenario we assumed that in the whole history of the ICJ and the PCA 1 smaller-scale armed conflict was prevented or solved, in the high scenario 4 smaller-scale conflicts and 2 larger-scale conflicts were prevented or solved. These are modest assumptions.

The societal value of the scenarios is huge. Even in the low scenario this accumulates to an estimated total of € 18 billion saved on costs of conflict and a further € 11 billion of GDP that would have been lost by the countries involved without the presence of the ICJ and/or PCA. In the high scenario these numbers are respectively € 508 billion and € 260 billion.

## *Estimation of societal effects of ICJ and PCA by having solved and/or prevented armed conflicts (costs in billions of euros)*

	Low scenario	Middle scenario	High scenario
Number of smaller armed conflicts	1	2	4
Number of larger armed conflicts	0	1	2
Cost of smaller-scale armed conflicts	18	36	73
Cost of larger-scale armed conflicts	0	218	435
<b>Total costs of armed conflicts</b>	<b>18</b>	<b>254</b>	<b>508</b>
<b>Loss of GDP growth</b>	<b>11</b>	<b>130</b>	<b>260</b>

## *The value of justice to nations and citizens*

The Courts also are of high value to many states and people, because they further the international rule of law. The international rule of law contributes to the economic development of countries, the prosperity of households and for the well-being of citizens. A high rule of law score saves money, brings trust and investments and prevents people from getting stress-related diseases. However, estimating the isolated value of the ICJ and the PCA is impossible.

The importance of the ICJ for the well-being of people is perhaps best illustrated by the Rohingya case between The Gambia and Myanmar. The Gambia claims that the Rohingya have been victims of genocide and had nowhere to turn to for justice but the ICJ. They were desperate and the emotions of those present when hearing the order on provisional measures of protection show how important access to justice can be for the people concerned.

#### *Development and improvement of international law*

Another important societal impact of the Courts is the jurisprudence and the development and improvement of international law. Likewise, this effect is not quantifiable. Important examples mentioned in the report include the way maritime and territorial boundaries between countries are determined.

The Hague Academy of International Law and the Peace Palace Library also contribute strongly to the teaching of international law and international legal research as a means to resolve disputes, tackle common challenges and improve global governance. Since the foundation of the Academy, a total of around 50,000 international law practitioners and students have participated in an intensive three-week top level course on international law. They put the acquired knowledge to practice in their countries, in their capacity of high level civil servants, ministers, ambassadors, counsellors, academics and attorneys. They are eager to disseminate what has been called “the spirit of The Hague”, namely the need to rely on a common language, international law, to resolve disputes and cope with common challenges. The Peace Palace Library, with its unique collection of publications on international law, receives a multitude of visitors who make use of these publications. Both physical visitors and visitors through remote access (internet) from all over the world. Each year the library is used by approximately 2.000 members looking for knowledge of international law (82.000 requested electronic information units in 2019).

#### **Other factors of social impact**

Other important factors of social impact described in the report are:

- The developing and sharing of knowledge that happens in the worldwide epicenter of international law jointly formed by the Peace Palace and the international law organizations.
- The Peace Palace is a cultural heritage monument. The art historical value of the palace and the art collection are extraordinary.
- The Peace Palace stands for peace, justice and international law, and is a symbol of the importance attributed by the Netherlands to the international rule of law. A reason why international (business) delegations gladly include the Peace Palace in their travel itinerary when visiting the country.

- The Peace Palace is one of the main attractions for visitors of The Hague and for some international visitors *the* reason to visit the city.
- The impact of the Peace Palace on the business climate and the image of The Hague. The Peace Palace is a very important pillar of the sector of international organizations in The Hague, which provide employment to approximately 40,000 people.
- The symbol of the Peace Palace is important for the image of the Netherlands in the world. This applies especially to populations and countries involved in cases, diplomats and other professionals in the field of law and international relations, as well as politicians.

## 1. Introduction

In 1893, Tobias Asser (who won the Nobel Peace Prize in 1911) took the initiative for the Hague Conference on Private International Law. Shortly thereafter, in 1899, the First Hague Peace Conference was convened at the invitation of Tsar Nicholas II of Russia, after he saw the catastrophic consequences of war for his empire and for other countries. The city of The Hague was chosen as the location for this First Peace Conference because of the presence of the Conference on Private International Law and the traditional neutral stance of the Netherlands. During the Peace Conference, 26 countries gathered to speak about the possibility of international jurisdiction. This led to the establishment of the Permanent Court of Arbitration. A court that worked for world peace deserved an impressive and awe-inspiring residence. In 1903, Andrew Carnegie agreed with the Dutch government that he would fund through a foundation 'the building of a court house and library, a Temple of Peace for the world', to be established and managed by the Carnegie Foundation in perpetuity. In 1907, the Second Peace Conference was organized in The Hague and the first stone of the Peace Palace was laid. The Peace Palace opened its doors in 1913.

Today, the Peace Palace houses the following institutions:

- *The International Court of Justice (ICJ)* is the principal judicial organ of the United Nations. It settles legal disputes submitted by states by applying international law and gives advisory opinions on legal questions referred to by United Nations organs and specialized agencies. The Court is the only main organ of the United Nations to be located outside of New York.
- *The Permanent Court of Arbitration (PCA)* settles disputes by means of arbitration. Most disputes involve at least one state, but they may also involve international organizations, corporations or individuals.
- *The Hague Academy of International Law* is the center for teaching and conducting research in public and private international law. It hosts summer and winter courses, attracting academics and professionals of all nationalities, who are preparing to start a career or are already involved in the world of international law or diplomacy. The academy was established in 1914 and started its activities in 1923.
- *The Carnegie Foundation* is the owner and manager of the Peace Palace and its library. This library is one of the most prestigious libraries in the field of international law and is consulted by lawyers, scientists and students from all over the world. The Carnegie Foundation was established in 1903.

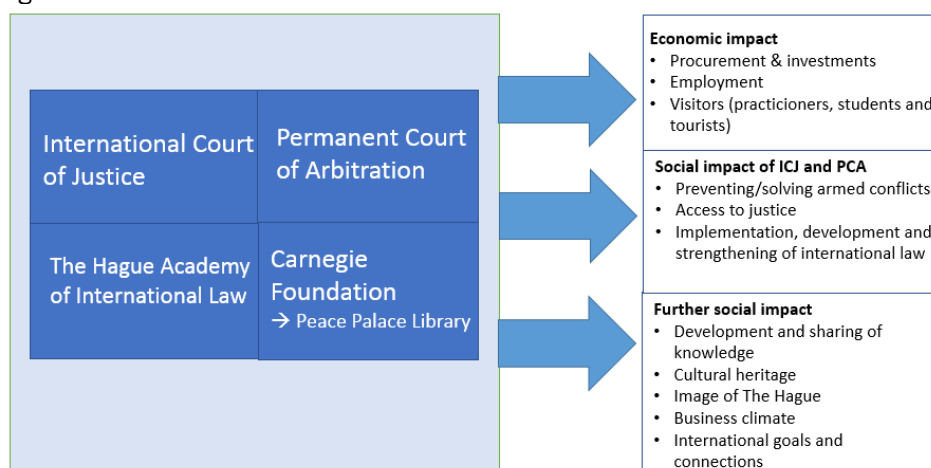
The Carnegie Foundation wishes to gain insight on the impact of the Peace Palace and the institutions it houses. This concerns the economic impact, but also the impact on society in general. This impact analysis of the Peace Palace serves a variety of purposes. It is part of the Carnegie Foundation's dialogue with local, regional and national government agencies and it increases awareness of the importance and impact of the Peace Palace among its employees, partners and the international community.

## Framework

To determine the economic impact, we created a framework of the impact model. The core of the impact model is formed by the four institutions housed in the Peace Palace. These core institutions and the interactions between them impact the economy and society in many different ways. The economic impact is related to the procurement of products and services, investments, employment and visits by practitioners of international law, students, professors, library visitors and tourists. The social impact is mainly the contribution to international stability by preventing international conflicts and resolving international disputes through peaceful means. In addition, the mere existence of (and access to) international law organizations represents great value.

In addition, there are other social effects such as an enhanced business climate, the image of The Hague as an international City of Peace and Justice, the development and sharing of knowledge, the cultural heritage of the building and art collection and the contribution to international objectives of the Netherlands.

Figure 1.1 Framework



## *Research methodology*

To study the impact of the Peace Palace, a combination of different methodologies was used. For the economic impact analysis, an online survey was conducted among the institutions in the Peace Palace. All institutions completed this survey, except for the PCA. In order to include the PCA we used data for an average intergovernmental organization in The Hague (based on number of FTE) that was collected in the economic impact analysis for international organizations in and around The Hague (2020). We then used the input-output model developed by Decisio to calculate the direct and indirect economic impact of the Peace Palace. For the social impact we conducted desk research and held 12 interviews with different experts and stakeholders of the Peace Palace. Furthermore, an advisory committee was created to verify the findings of the researchers.

## *Structure of the report*

The remainder of this report is structured as follows: Chapter 2 describes the economic impact of the Peace Palace in terms of expenditures, added value and jobs (in FTE). Chapter 3 describes the way the social impact of the work done by the ICJ and the PCA can be determined. Finally, Chapter 4 discusses the other social impact factors like business climate, the image of The Hague as City of Peace and Justice, the value of developing and sharing knowledge, the cultural heritage of the Peace Palace and the ambition of the Dutch government to create international connections and achieve international goals.



## 2. Economic impact

In this chapter we describe the economic significance of the Peace Palace in 2019. It is important to point out that the institutions in the Peace Palace are largely financed with foreign money (in particular public funds). Spending by international organizations headquartered in The Hague and their international employees has an additional economic impact on the Dutch economy. If these organizations were not headquartered in The Hague, they would not be in the Netherlands at all, but would have their main seat outside of the Netherlands.

The direct and indirect economic effects included in this study are:

Direct economic effects:

- Employment at the international institutions themselves, expressed in full-time equivalent (FTE),
- Expenditure by international institutions (total expenditure on personnel, goods and services),
- Added value of international institutions (difference between the budget of international institutions and purchases of goods and services from third parties). This is equal to the contribution to the Dutch Gross Domestic Product (GDP).

Indirect economic effects:

- Consumption effects: the expenditure of foreign employees and the foreign visitors of the Peace Palace institutions (and their employees). These expenditures are expressed in the production value of the products and services they purchase. Based on the added value of these products and services, we can calculate the employment related to this.
- Indirect consumption effects (second order effects): the companies where expats and foreign visitors purchase products and services, in turn also purchase goods and services. This creates further employment for suppliers. Again, the number of jobs linked to this can be calculated using the added value.
- Backward effects: the total amount that international institutions spend on third-party services and products (i.e. other than employee remuneration). The added value of these products and services provides insight into how many jobs this entails.

## 2.1 Methodology

The economic impact assessment of the Peace Palace was based on the methodology of the economic impact analysis for international organizations in and around The Hague <sup>1</sup>. This methodology consists of collecting data on employees, spending, visitors etc. via an online survey which was conducted among all international organizations in The Hague (including the institutions in the Peace Palace). The institutions in the Peace Palace completed this survey, except for the PCA. In order to include the PCA we used average data (per FTE) based on the information provided by other intergovernmental organizations (IGO's) in The Hague. The direct effects were based on information provided in these surveys. Subsequently, we used the input-output model developed by Decisio to calculate the indirect economic impact of the Peace Palace. This input-output model reflects the relationships between the various sectors and industries to determine how other sectors are affected by spending of the Peace Palace (see appendix 2).

The economic significance of the Peace Palace can be explained based on three indicators: employment, production and added value. All direct and indirect effects are presented based on these indicators, which are also further explained where necessary.

### *Employment*

Number of jobs expressed in FTE (full-time equivalents).

### *Production*

Total production in the Netherlands. For international organizations, this is equivalent to their expenditure in the Netherlands.

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<sup>1</sup> Decisio (2020) The Hague, international City of Peace and Justice. An analysis of the economic effect of the international non-profit sector

## Added value

This refers to the value an organization adds to a product or service: this is equal to revenue less the cost of goods and services purchased (i.e. intermediary use), i.e. equal to the total labor costs, profits and taxes less subsidies/grants. The added value also represents the share of GDP. We illustrate this with the following simple example:

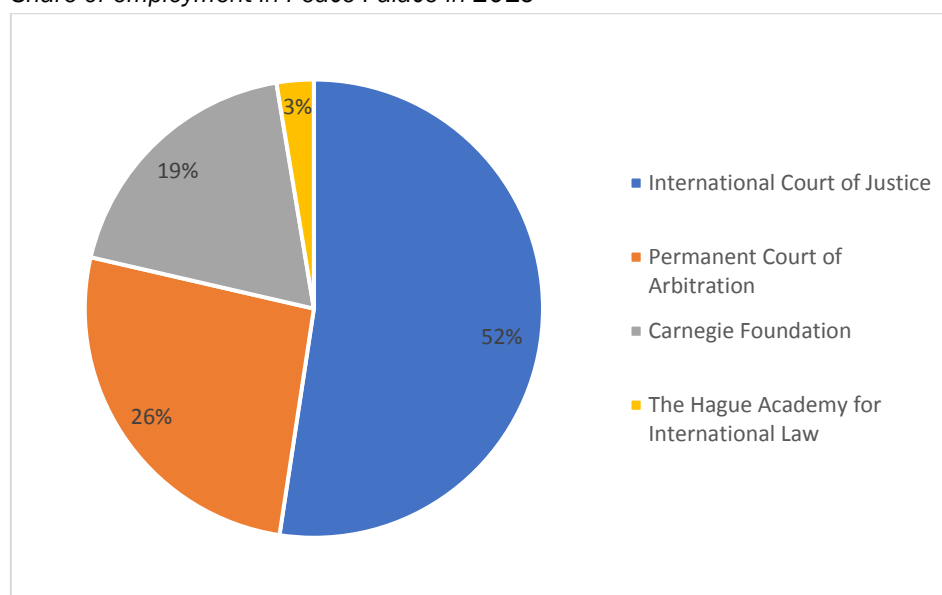
*A grain farmer purchases seeds and fertilizer for 15 euro and sells the grains to a baker for 100 euro. The added value in this case is equal to the value added by the farmer, i.e. 85 euro (100 euro minus 15 euro). The baker uses the grains to bake bread rolls, which he subsequently sells to his customers for 400 euro. He purchased the grain for 100 euro, and in addition he incurred 50 euro in expenses for salt and yeast, along with expenses associated with the oven and building. This means the added value of the baker is 250 euro.*

## 2.2 Direct effects

### 2.2.1 Employment

In 2019 a total of 229 FTE were working in the institutions in the Peace Palace. Of these employees, 50 percent were international employees and 50 percent had the Dutch nationality. Furthermore, 62 percent had a Bachelor or Master degree while 38 percent had a different qualification.

Share of employment in Peace Palace in 2019<sup>2</sup>



<sup>2</sup> Carnegie Foundation includes Peace Palace Library (PPL)

## 2.2.2 Production and added value

In terms of production or direct expenditures (the total budgets / expenditure of the institutions, both in terms of personnel and purchasing) and added value, the International Court of Justice is relatively important. Note that a higher production or added value does not indicate that an organization is more efficient<sup>3</sup>.

### *Production and added value of institutions in Peace Palace in 2019 (direct effects)*

Institutions		Production		Added value
International Court of Justice	€	24,460,000	€	20,302,000
Permanent Court of Arbitration	€	15,000,000	€	10,073,000
Carnegie Foundation	€	7,450,000	€	3,353,000
The Hague Academy of International Law	€	2,200,000	€	660,000
Total	€	49,110,000	€	34,388,000

## 2.3 Indirect effects

### 2.3.1 Direct consumption effects of expats

For the consumption effects, we distinguish between international employees (expats) and Dutch employees. Spending by expats in the Netherlands can be fully regarded as an extra effect for the Dutch economy. Only a small proportion of that extra effect can be attributed to expenditure by Dutch employees. After all, most Dutch employees would probably (in the long term) have worked for other organizations if the Peace Palace or the institutions housed therein had been located in another country<sup>4</sup>. We have therefore not included the expenditures of Dutch employees. In this study, the spending effects of international employees were determined on the basis of input-output tables and translated into jobs. The survey shows that on average, international employees at the Peace Palace spend 58 percent of their gross income in the Netherlands.

<sup>3</sup> The added value consists mainly of the direct personnel costs of the organisations. The Academy and Carnegie foundation spend more of their budget on purchasing from companies/organisations. This leads indirectly to added value for those companies. These are described in 2.3.6.

<sup>4</sup> Albeit perhaps for a slightly lower salary. The balance that markets (and in this case the labor market for well-educated professionals) will reach in the long term is an important message that the CPB in the Netherlands uses to give to policy makers).

## **2.3.2 The steps to be taken**

In order to determine the economic significance of the direct consumption effects, three steps have been taken:

### *Step 1: From expenditure to production*

The first step is to determine the value of the goods and services purchased / paid for by international employees, such as cars, furniture, hairdresser and cleaner. We call this value "production" (value). This type of expenditure amounts to 4 million euros in 2019.

### *Step 2: From production to added value*

The second step is to determine which part of the production value (expenditure by international employees) is "added value". The added value is the difference between the turnover (production) and the purchase of goods and services from companies that supply to expats. The added value in 2019 realized by expenditure by international employees of the institutions in the Peace Palace amounts to a total of 2 million euros.

### *Step 3: From added value to jobs*

In the third and last step, the added value is calculated for how many jobs are generated as a result of consumption expenditure by international employees. The total consumption expenditure by international employees of institutions in the Peace Palace leads to 16 FTE.

## **2.3.3 Indirect consumption effects of international employees**

The companies where international employees do their shopping, in turn, purchase goods and services from other companies. This also creates employment for the companies concerned that would not have existed without the presence of the international institutions (foreign money flows). Therefore, this effect is also included. We call this effect the indirect consumption effects. Indirect consumption effects of employees of institutions in the Peace Palace lead to 8 more FTE in 2019.

## **2.3.4 Direct consumption effects of visitors**

The institutions in the Peace Palace receive many international business, private and touristic visitors throughout the year. The number of business visitors to the institutions in 2019 is known, as well as the average number of days these visitors spend in the regions. Based on this information, the economic impact of business visitors is quantified as the number of jobs related to their spending. For the expenditure of business visitors, we have assumed the average daily expenditure of

an international business visitor. This is 320 euro per day.<sup>5</sup> This budget is subdivided into the different sectors in which it is spent (accommodation, transport, food and drink, etc.). Then, through the input-output analysis, the added value and the employment this yields are determined<sup>6</sup>.

In the survey we did not ask about the number of private visitors to employees. We used key figures from previous research to estimate the number of private visitors per FTE, such as the Decisio survey 'Economic significance of intergovernmental institutions 2012' commissioned by the Dutch Ministry of Foreign Affairs. Based on this we calculated the economic effect of private visitors to international employees employed by institutions in the Peace Palace. We assumed private visitors stayed in The Hague for an average of two days. Not all private visitors spend the night in a hotel in The Hague. Some stay with their family at the employee's home. Because the expenditure per visitor can vary widely, the average amount that international overnight tourists spend per day in the Netherlands was used. This is 180 euro per day.<sup>7</sup>

Besides business and private visitors, the Peace Palace also receives tourists visiting The Hague. In 2019 the Peace Palace Visitors Centre welcomed approximately 162,000 visitors. However not all of these visitors are likely to have come to The Hague for the Peace Palace only. In 2019, the Peace Palace welcomed 22,000 visitors who took a paid guided tour of which approximately 65 percent was a foreign visitor. These visitors are more likely to be specifically interested in the Peace Palace. Therefore, to be on the safe side, we assumed that the Peace Palace constituted only one of the reasons why these international touristic visitors came to The Hague. Only foreign visitors were taken into account. We further assumed that of their total spending, a half day's budget can be attributed to the Peace Palace. This equals 90 euro per day<sup>8</sup>.

Furthermore, the Academy receives 1,000 students every year for the Summer and Winter Courses. These students stay three weeks and spend on average 60 euro per day.

In total international visitors spend a total of 32 million euro in the Netherlands. These expenditures lead to approximately 250 direct FTE.

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<sup>5</sup> Source: NBTC, 'Kerncijfers 2019 Gastvrijheidseconomie'.

<sup>6</sup> Based on CBS supply-use tables that state how many jobs and how much added value result from spending in specific sectors.

<sup>7</sup> Source: NBTC, 'Kerncijfers 2019 Gastvrijheidseconomie'.

<sup>8</sup> Note that the price of the guided tour is €11,-.

## *Spending by foreign visitors to the Peace Palace in 2019*

	<b>Business visitors</b>	<b>Private visitors</b>	<b>Touristic visitors</b>	<b>Student visitors</b>	<b>Total</b>
Total number of visitors	22,200	700	14,300	1,000	38,200
Average number of days per visitor	4	2	2	21	29
Total number of days stayed	85,700	1,400	28,600	21,000	136,700
Average spending per day (€)	320	180	90	60	650
<b>Spending (mln €)</b>	<b>27,4</b>	<b>0.3</b>	<b>2.6</b>	<b>1.3</b>	<b>32,0</b>

### **2.3.5 Indirect consumption effects of visitors**

The expenditures of these visitors also have an effect, because the companies (shops, catering, museums) where the expenditure ends up primarily also have suppliers in the Netherlands who benefit from greater production. In total, the indirect consumption effects of international visitors lead to approximately 90 FTE. For both the direct and indirect effect, the majority of employment is generated by international business visitors. The direct effect is almost three times as great as the indirect effect.

### **2.3.6 Backward effects**

The value of the goods and services that the institutions in the Peace Palace purchased in the Netherlands amounted to 13 million euros.<sup>9</sup>

On the basis of updated input-output models, we calculated that these expenditures account for approximately 122 FTE. These jobs would not have existed if the Peace Palace had not been located in The Hague.

## **2.4 Total economic impact (direct and indirect)**

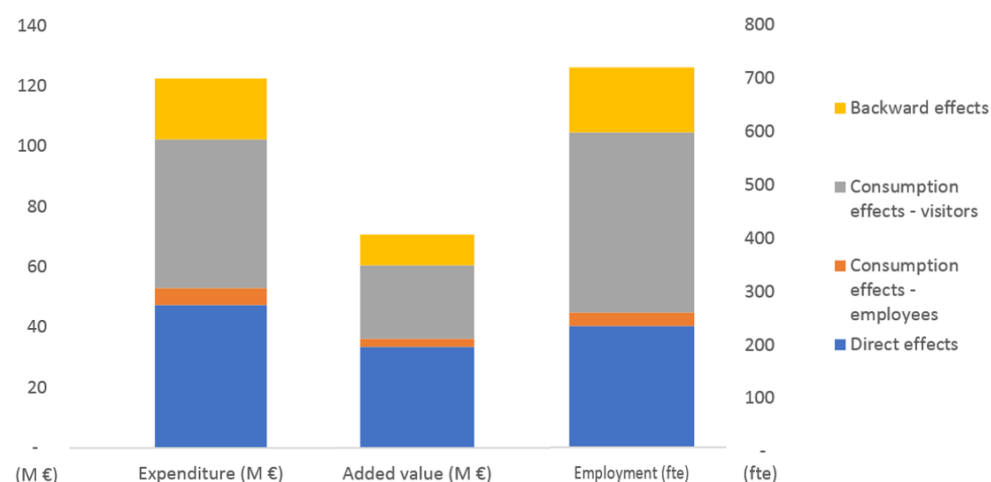
### **2.4.1 Total production, value added and employment**

In the previous sections, we presented the direct and indirect effects of the international institutions in 2019. Adding up these effects we see the total economic effect of the Peace Palace in terms of expenditure, added value and employment, as shown in the figure below.

<sup>9</sup> This is corrected for the contributions and rent paid by ICJ, PCA and the Academy to the Carnegie Foundation. As these effects are already incorporated in the spending of the Carnegie Foundation, including them would be double-counting.



## Total economic impact of Peace Palace in 2019



In 2019, the presence of the Peace Palace in The Hague directly and indirectly accounted for approximately 120 million euro in expenditures, 70 million euro in added value and 720 FTE in employment. With 229 FTE, the number of jobs at the Peace Palace itself is about 32 percent of the total impact. Based on this, we can conclude that one job at the Peace Palace provides approximately two jobs elsewhere in The Hague and the Netherlands, through the purchasing by the international institutions and the expenditures by foreign employees and visitors.

Over 60 percent of the direct employment in the Peace Palace are positions for employees holding a higher education degree (Bachelor, Master or Doctorate). For indirect employment this accounts for approximately 20 percent. Overall, 34 percent of the jobs are for employees with a Bachelor's or Master's degree and 66 percent for people otherwise educated.

## Total direct and indirect employment in education level in 2019

Education level	Direct employment		Indirect employment		Total	
	Abs.	%	Abs.	%	Abs.	%
Bachelor's or Master's degree	143	62%	104	21%	247	34%
Other education	86	38%	384	79%	470	66%
<b>Total</b>	<b>229</b>	<b>100%</b>	<b>488</b>	<b>100%</b>	<b>717</b>	<b>100%</b>

## 3. Societal effects of the Courts

Without doubt the most important global effects of the Peace Palace are the effects that ICJ and PCA have on international law and on the resolution of international disputes and prevention of conflicts. As the Peace Palace functions like a well-oiled knowledge system in which the Courts can function and profit from the library, the Academy and the physical palace with the special atmosphere that make the complex and each individual organization more effective, these effects can also be attributed to the Peace Palace complex. The Academy benefits from its closeness to the ICJ and the PCA, which makes it a unique center in the world for study and research of international law.

In this study we studied the following societal effects:

1. Effects of preventing/solving armed conflict (paragraph 3.2)
2. Effects of (access to) justice (paragraph 3.3)
3. Development of international law (paragraph 3.4)

As a starting point, we take a closer look of what ICJ and PCA actually do.

### 3.1 What do the ICJ and the PCA actually do?

#### 3.1.1 The International Court of Justice

The ICJ is one of the six principal organs of the United Nations. It was established in 1945, though its predecessor, the Permanent Court of International Justice, dates back to 1920. The Court consists of fifteen judges from fifteen different countries who are elected for a period of nine years with five judges being elected every three years. The Court has two roles. The first is to settle legal disputes submitted to it by States in accordance with international law (contentious cases). The second is to give advisory opinions on legal questions (advisory proceedings). Besides that, the activities of the ICJ also lead to jurisprudence which contributes to international law.

##### *Contentious cases ICJ*

The contentious cases may be instituted either through the notification of a special agreement which can be lodged with the Court by either or both of the states in question or through an application by an applicant state against a respondent State. In the section below we will take a closer look at the contentious cases and try to categorize them.

## *Advisory proceedings ICJ*

Advisory opinions are given by the ICJ upon request by the General Assembly, the Security Council or the Economic and Social Council of the United Nations and 17 agencies of the United Nations family. Unlike the Court's judgments in contentious cases, advisory opinions are not binding. However, if the organ or agency endorses the opinion it is binding as if it were sanctioned by international law. An example is the ICJ's advisory opinion on the question whether the process of decolonization of Mauritius was lawfully completed in 1968, following the separation from it of the Chagos Archipelago in 1965.

Other important examples of these advisory proceedings include:

- Accordance with International Law of the Unilateral Declaration of Independence in Respect of Kosovo
- Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory (2003-2004)
- Legality of the Threat or Use of Nuclear Weapons (1995 – 1996)
- Legal Status of Western Sahara (1974-1975)
- Legal Consequences for States of the Continued Presence of South Africa in Namibia (South West Africa notwithstanding Security Council Resolution 276 (1970-1971))

## *Jurisprudence*

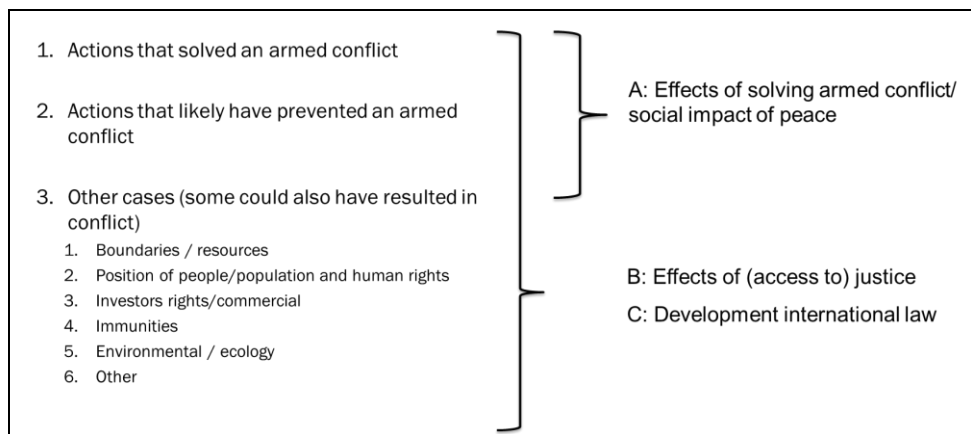
Judgments by the ICJ can have an important impact on future cases in other courts. An example is the 1951 Fisheries Case ending a long controversy between the United Kingdom and Norway. The ICJ acknowledged the righteousness of the way Norway had drawn its baseline which determines its territorial sea. In the case the Court defined criteria to determine such a baseline. These criteria were subsequently codified in the Geneva Convention on the Territorial Sea and Contiguous Zone (1958) and later in the United Nations Convention on the Law of the Sea (UNCLOS, 1982).

### **3.1.2 The Permanent Court of Arbitration**

Founded in 1899, the Permanent Court of Arbitration is the oldest institution for international dispute resolution. Currently, it has 122 member states. The PCA settles disputes between states, international institutions, corporations or individuals. Most disputes involve one state. The Court aims to settle disputes by means of arbitration. However, the decision of the arbitrators appointed by the parties is binding. An example of such a case is the Guyana v. Suriname case on disputed maritime territory. The Tribunal used jurisprudence of the ICJ and earlier arbitral tribunals which helped it to reach an equitable solution.

The judicial activities of both institutions have societal effects. Probably the most important ones are the prevention or solving of armed conflicts between countries or populations. These cases have been very important to the populations of the countries involved. These effects are discussed in paragraph 3.2.

All other actions have had at least the effect that justice has been done. This effect will be discussed in paragraph 3.3. And, not unimportantly, both the ICJ and the PCA have contributed significantly to the development of international law. Quite a number of “new norms” have been formulated, that are widely used as the standard in international law issues. We will go into that in paragraph 3.4.



To give a clearer image of the different types of effects, we took a closer look at the cases that both the ICJ and the PCA have dealt with. Together with the experts of the Peace Palace institutions, we split these cases into three categories.

## International Court of Justice

Total of all cases: 178 cases

### Type 1: After armed conflict

- Frontier Dispute (Burkina Faso / Mali, 1983-1986)
- Military and Paramilitary Activities in and against Nicaragua (Nicaragua v. United States of America, 1984-1991)
- Land and Maritime Boundary between Cameroon and Nigeria (Cameroon v. Nigeria: Equatorial Guinea intervening) (1994-2002)
- Armed Activities on the Territory of the Congo (Democratic Republic of the Congo v. Uganda, 1999 - 2009 and 2015 - 2021)

### Type 2: Prevented possible armed conflict

- Certain Activities Carried Out by Nicaragua in the Border Area (Costa Rica v. Nicaragua, 2010-2018)
- Temple of Preah Vihear disputes (Cambodia v. Thailand, 1959-1962 and 2011-2013)
- Territorial Dispute (Libyan Arab Jamahiriya/Chad, 1990-1994)

### Type 3: Other international disputes settled in accordance with international law

- Maritime Dispute (Peru v. Chile, 2008-2014)
- Frontier Dispute (Benin / Niger, 2002-2005)
- Frontier Dispute (Burkina Faso / Niger, 2010-2013)
- Maritime delimitation in the Black Sea (Romania v. Ukraine, 2004-2009)
- Sovereignty over Pulau Ligitan and Pulau Sipadan (Indonesia / Malaysia, 1998-2002)
- Territorial and Maritime Dispute (Nicaragua v. Colombia, 2001-2012)
- Oil Platforms (Islamic Republic of Iran v. United States of America, 1992-2003)
- Case concerning Avena and Other Mexican Nationals (Mexico v. United States of America, 2003-2004 and 2008-2009)
- Pulp Mills on the River Uruguay (Argentina v. Uruguay, 2006-2010)
- Kasikili/Sedudu Island (Botswana / Namibia, 1996-1999)
- Jadhav (India v. Pakistan, 2017-2019)
- Sovereignty over Pedra Branca/Pulau Batu Puteh, Middle Rocks and South Ledge (Malaysia / Singapore, 2003-2008)
- Obligation to Negotiate Access to the Pacific Ocean (Bolivia v. Chile, 2013-2018)
- Land, Island and Maritime Frontier Dispute (El Salvador v. Honduras: Nicaragua intervening, 1986-1992 and 2002-2003)

## Permanent Court of Arbitration

Number of cases in 2019: 199 cases (out of which 4 inter-state disputes)

### Type 1: After armed conflict

- Boundaries Commission (Eritrea / Ethiopia, 2000-2002) and Claims Commission (2000 - 2009)
- The Government of Sudan / The Sudan People's Liberation Movement/Army (Abyei Arbitration, 2008-2009)

### Type 2: Prevented possible armed conflict

- Guyana v. Suriname (2004-2007)
- Indus Waters Kishenganga Arbitration (Pakistan v. India, 2010-2013)
- Eritrea/Yemen - Sovereignty and Maritime Delimitation in the Red Sea (1996-1999).

### Type 3: Other international disputes settled in accordance with international law

- Barbados v. Trinidad and Tobago (2004-2006)
- Timor Sea Conciliation (Timor-Leste v. Australia, 2016-2018)
- Arbitration Between the Republic of Croatia and the Republic of Slovenia (2012-2017)
- Bay of Bengal Maritime Boundary Arbitration between Bangladesh and India (2009-2014)
- Land Reclamation by Singapore in and around the Straits of Johor (Malaysia v. Singapore, 2003-2005)
- The Arctic Sunrise Arbitration (Netherlands v. Russia, 2013-2017)
- Iron Rhine Arbitration (Netherlands / Belgium, 2003-2005)
- The Rhine Chlorines Arbitration concerning the Auditing of Accounts (The Netherlands / France, 1999-2004)
- The South China Sea Arbitration (The Republic of Philippines v. The People's Republic of China, 2013-2016)
- Chagos Marine Protected Area Arbitration (Mauritius v. United Kingdom, 2010-2015)

## 3.2 Estimating the quantitative effects of armed conflict

As to estimating the costs of armed conflict, we searched for studies that make a comprehensive estimate of the costs of particular wars. It turns out that examples are hard to find. We did not succeed in finding any research on the costs of armed conflict of the type 1 and 2 cases for the ICJ and the PCA (see previous paragraph). However, in the cases we did find, the cost of war easily rises to 40% of the GDP of the countries involved as long as the conflict lasts<sup>10</sup> and a lower growth of GDP in the years after the war.

So instead of describing particular cases of armed conflict, we opted for two different approaches:

1. A macro-economic approach (based on a large number of case studies about the costs of war)
2. The value of peace to civilians (their willingness to pay).

<sup>10</sup> See for example 'South Sudan, the cost of war' – Frontier Economics, 2015.

We will describe the approaches briefly and then try to come to a synthesis of how we can make an estimation of the costs of quantitative effects of armed conflict.

### 3.2.1 Macro-economic approach: the cost of war

We found two interesting studies that were both aimed at estimating the macro-economic costs of war, one produced by the Stockholm International Peace Research Institute (SIPRI), the other by the Institute of Economics and Peace (IEP).

#### *The SIPRI study 'The Costs of Armed Conflict'*

Elisabeth Sköns of the Stockholm International Peace Research Institute (SIPRI) has reviewed the empirical post-Cold War literature on the costs of armed conflict<sup>11</sup>. She makes an important distinction between internal and international conflicts. The costs of international conflicts are much higher than the costs of internal conflicts. However, as the number of international conflicts in the post-Cold War period is much more limited than internal conflicts, the study also makes an estimate for the costs of internal conflict. SIPRI takes the following cost types into account:

- military versus civilian costs
- costs during conflict versus costs after conflict
- costs to the parties in conflict versus costs to external parties
- the indirect costs of conflict include the costs to surrounding countries and the global economy and the post-conflict costs.

The combined costs of conflict discussed in the five studies reviewed by Sköns include military expenditure of the parties in conflict (both during and after the conflict), military casualties, military expenditure in neighboring countries, the economic and social impact, civilian casualties, refugees, humanitarian aid, aid for reconstruction, international or regional peace operation and post-conflict reconstruction.

Sköns made an estimate for a typical internal armed conflict in low-income countries (based on a study by Collier and Hoeffler in 2004). A typical internal armed conflict lasts 7 years, after which it takes the country another 14 years for its GDP to return to the original level. During the first 7 years military spending increases by 1.8% of GDP, while this spending remains around 1.3% higher than before the conflict over the 10 years after. This comes to extra military spending of 18% of the original GDP. Furthermore, the growth rate of GDP during conflict is reduced by 2.2% during the 7 year period. With the assumption that the country

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<sup>11</sup> Elisabeth Sköns, SIPRI, 'The Costs of Armed Conflict',

recovers from this over the next 14 years the economic costs come to 105% of the original GDP. The study uses similar methods for neighboring countries and finds the military costs and the economic costs in neighboring countries to be 12% and 115% of the initial GDP of the country in conflict, respectively. This comes to a total economic and military costs for the region of around 250% of initial GDP of the country in which the conflict takes place. With an average GDP for these countries of € 16.7 billion, plus € 4.2 billion towards health costs, this amounts to a conflict cost of € 46 billion.

If the increased risk of another conflict were to be included, the total cost of such a conflict is estimated to be € 54 billion. This would then add up to around 325% of the initial GDP of the country in which the internal armed conflict takes place. The authors claim that all estimations made in the research were conservative.

To put this simply: every year this internal conflict lasts, costs 35 to 45% of the country's annual GDP.

Further important conclusions from this study are as follows:

- The indirect costs of conflict are important, although it is difficult to distinguish empirically between developments that result from war and those that would have happened anyway.
- The costs to external parties (countries) are often greater than the costs to the country in conflict. Neighboring countries suffer significantly, but there are also major global costs of internal armed conflicts in poor countries.
- The costs after the end of violence are often as great as the costs during conflict. They are particularly significant if the definition of post-conflict costs includes external assistance to the country, such as peace operations and foreign aid for post-conflict reconstruction.

It is therefore fair to claim that the estimate of the annual cost of 35-45% of GDP is on the low side, all the more so in the case of an international (state-to-state) conflict.

### *The IEP study*

The Institute for Economics & Peace has produced the study "The Value of Peace. Measuring the global economic impact of violence and conflict." Rather than just looking at the cost of international conflict, this paper discusses the cost of violence in general and the costs that countries are incurring to prevent violence.



IEP makes a distinction between direct and indirect costs of violence which they divide into three domains:

1. Costs for security services and aimed at conflict prevention. These include military expenditure, external security expenditure, security agencies, private security, UN peacekeeping and ODA peacebuilding expenditure (Official Development Assistance).
2. Costs related to armed conflict. These include the direct costs of death from internal and external violent conflict, indirect costs of violent conflict (GDP losses), loss of status by refugees and IDPs, import of small arms and terrorism.
3. Consequential costs of interpersonal violence. These include the costs related to homicide, violent assault, sexual assault, fear of crime and the indirect costs of incarceration.

Security services and prevention oriented costs	Armed conflict related costs	Interpersonal violence
1. Military expenditure	1. Direct costs of deaths from internal violent conflict	1. Homicide
2. Internal security expenditure	2. Direct costs of deaths from external violent conflict	2. Violent assault
3. Security agencies	3. Indirect costs of violent conflict (GDP losses due to conflict)	3. Sexual assault
4. Private security	4. Loss of status by refugees and IDPs	4. Fear of crime
5. UN peacekeeping	5. Small arms imports	5. Indirect costs of incarceration
6. ODA peacebuilding expenditure <sup>12</sup>	6. Terrorism	

Source: IEP, The value of peace, Measuring the global economic impact of violence and conflict - 2018

<sup>12</sup> It is not clear whether these costs also include the reconstruction costs after armed conflict. Arguably other costs, such as health services could be included here. But these are the categories used by IEP.

In 2017, the economic costs of violence (without including the economic multiplier) as a percentage of GDP was highest in Syria with 68%, while other countries with armed conflict such Afghanistan (63%) and Iraq (51%) also had very high economic cost of violence. The cost of violence of the 10 worst affected countries are all over 30% of their GDP. In comparison: the cost of violence of the ten least affected countries are 2.4% of GDP on average. Looking at all countries in the study, the average cost of violence is almost 11% of GDP.

A clear conclusion is that countries at war have a much higher cost of violence than other countries. For the least peaceful countries, this difference is at least 40% of their GDP on an annual basis.

Furthermore, the research finds that peaceful countries on average have a much higher GDP growth with the least peaceful countries having an average per capita GDP growth of 1 percent and the most peaceful countries having a per capita GDP growth of 2.8 percent.

### *Conclusion*

Looking at both studies, it is safe to assume that for severe conflicts, and especially for international conflicts, the costs of conflict are at least 40% of GDP of the countries involved, and on top of that it will lead to a reduced economic growth by approximately 2% for quite some years.

### **3.2.2 Value of peace to civilians: willingness to pay**

Another approach to valuing peace is asking people what it would be worth for them if the place they live in was safe and their country was not involved in any armed conflicts.

Gregory D. Hess of the ifo institute studied exactly this question in 2003. He made an empirical study of the willingness to pay of civilians to avoid a country being in conflict<sup>13</sup>. For the study he used data from 147 countries from 1960 – 1998 and used macro-economic and conflict data to build an econometric model to measure the welfare effects of (avoiding) conflict.

Although this study is not very recent, we do not think there is any reason why the willingness to pay has decreased since then. On the contrary, there are many reasons to think that the willingness to pay (also as a percentage of income) has

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<sup>13</sup> Hess, Gregory D. (2003): The Economic Welfare Cost of Conflict: An Empirical Assessment, CESifo Working Paper, No. 852, Center for Economic Studies and ifo Institute (CESifo), Munich

increased since then. The most important one being that average income has increased significantly and worldwide poverty has decreased significantly. This means that the importance of safety will probably have increased for the average global citizen, relative to basic needs such as food and housing. So we can consider the outcome of Hess' study as a minimum estimation of the value of peace to civilians.

The main conclusion of the study is that all civilians all over the world are on average willing to pay 8% of their consumption to avoid their countries being in a conflict. Of course this percentage differs from country to country and from conflict to conflict. Civilians of countries that have (at the time) recently been into a serious conflict (and are in a better position to judge the value of peace) are willing to give up much more of their consumption: 33% (Congo), 40% (Angola) and even 65% (Iraq).

Therefore, there are many reasons to say that the average willingness to pay 8% of consumption is on a very low estimate and that people in countries in conflict (or with a risk of conflict) are willing to pay much more.

It is interesting to note that consumption is the main component of GDP worldwide (60%). In most developing countries consumption has a 70-80% share of GDP. This means that also Hess' approach leads to the conclusion that the costs of conflict may add up to 35 to 40% of GDP.

### **3.2.3 A quantification in scenarios**

Looking at the studies described, we believe that it is safe to assume that for severe conflicts, and especially for international conflicts, the costs of conflict are at least 40% of GDP of the countries involved, and on top of that it will lead to a reduced economic growth of approximately 2% for quite some years (depending on the severity of the conflict).

For minor conflicts, the effects will be smaller, but still very significant. An important note is that in all the studies mentioned, only the "hard" welfare effects have been taken into account. If one were also to take into account the "soft" effects like fear, grief, uncertainty, traumas that may have an effect for generations, we believe it is safe to assume that 40% is a very low estimate and also in smaller conflicts the total costs may easily add up to 20% of the annual GDP.

We use these figures to try and estimate the value of the prevention of armed conflict by the Courts. In order to do that, we use three scenarios, to show the high

level of uncertainty of the effects of the actions of both institutions. After all, it is very difficult to predict what would have happened with a conflict if the ICJ or the PCA had not been involved. Even if we think that an armed conflict was prevented, it is hard to say how severe this conflict might have become. The same is true for a conflict solved in an early phase: it is equally hard to say how long it would have continued and how severe it could have become.

Looking at all cases which both Courts dealt with throughout their existence, we have concluded that in 10 cases an armed conflict was solved or was probably prevented. The culmination and length of these conflicts is unknown. For many other cases which the Courts dealt with, we cannot rule out that the conflict could have deteriorated and eventually could have ended up in an armed conflict. Besides the cases, the advisory opinions and jurisprudence may also have helped to prevent armed conflicts.

Overseeing everything and taking all uncertainties into account, we present the following scenarios in the effectiveness of preventing/solving armed conflicts between nations.

In the scenarios we distinguish between prevented/solved smaller-scale armed conflicts between two countries, that last for half a year and prevented/solved larger scale armed conflicts between two countries that last for three years.

*Introduction scenarios: Number of conflicts solved or prevented by the ICJ and the PCA (throughout their existence)*

Scenario	Low	Middle	High
Number of smaller scale armed conflicts	1	2	4
Number of larger scale armed conflicts	0	1	2

For the calculations of the costs of conflict and the impact on GDP growth we use the following assumptions (based on the research described in this chapter):

- The average GDP of type 1/2 countries is €91 billion<sup>14</sup>. We assumed that all of the conflicts in the scenarios are countries of this scale<sup>15</sup>.
- The costs of conflict of small-scale armed conflict: 20% of GDP per year of the two countries involved

<sup>14</sup> Source: World Bank national accounts data, and OECD National Accounts data files. We used most recent data and excluded the top 3 richest countries: USA, India and Indonesia.

<sup>15</sup> As a reference: The GDP of Ethiopia was €71 billion in 2018, of Nigeria €336 billion, Mali €14 billion.

- Costs of conflict of severe armed conflict: 40% of GDP per year of the two countries involved
- Impact of a smaller conflict on GDP growth of the two countries involved: 1% for three years of the two countries involved
- Impact of a larger conflict on GDP growth of the two countries involved: 2% for seven years

*Estimating societal effects of the ICJ and the PCA by solving and preventing armed conflicts (costs in billions of euros)*

	Low scenario	Middle scenario	High scenario
Number of smaller armed conflicts	1	2	4
Number of larger armed conflicts	0	1	2
Cost of smaller scale armed conflicts	18	36	73
Cost of larger scale armed conflicts	0	218	435
<b>Total costs of armed conflicts</b>	<b>18</b>	<b>254</b>	<b>508</b>
<b>Loss of GDP growth</b>	<b>11</b>	<b>130</b>	<b>260</b>

Conclusion of this analysis is that the prevented costs of armed conflicts that can be attributed to the ICJ and the PCA may vary between 18 and 500 billion euros, and the missed GDP growth caused by these conflicts between 11 and 260 billion euros. In the middle scenario the total costs of armed conflict are 254 billion euros, and the missed GDP growth 130 billion euros.

Of course the uncertainties around these estimations are considerable, but it clearly shows that even if the Courts prevent just a single smaller-scale armed conflict between states, the societal and economic effects for the countries involved are enormous.

### 3.3 The value of (access to) justice

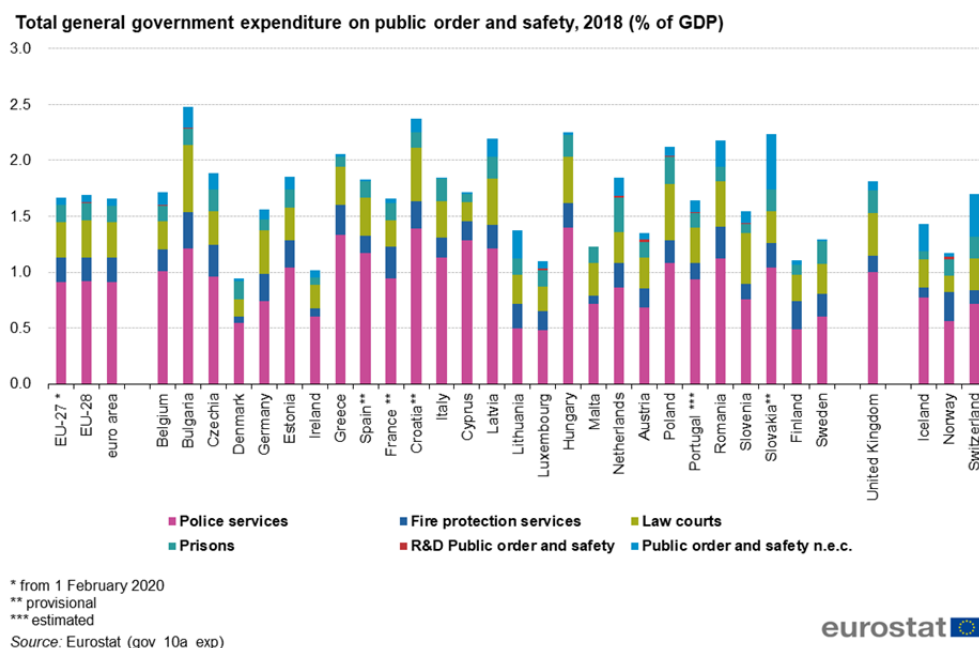
Besides the prevention and solving of armed conflicts, the institutions in the Peace Palace bring more benefits to the world. The concept of justice has a value in itself. For all people and companies it is important that laws exist, and that institutions exist that help to enforce them. But how to value this? And more specifically: how to value what the institutions in the Peace Palace bring to international justice?

In order to discuss this, in this section we address the value of justice to nations and citizens (in 1.3.1) and the value of rule of law to the prosperity of nations and the well-being of their citizens (1.3.2).

### 3.3.1 The value of justice to nations and citizens

The value of justice and safety should at least be the amount that a democracy spends on them. After all, in a democratic country public money is only spent in a certain sector if the societal value of this spending is at least equal to these costs.

If we look at the spending on safety and justice in Europe, we see that the money spent on safety and justice is on average 1.7% of the GDP. So we can assume this to be the minimum value of justice.



Another way of looking at the value of justice is looking at the costs that occur when access to justice is not sufficient. The OECD made an analysis of these costs in different countries and found that these costs add up to 0.5 to 3 percent of GDP<sup>16</sup>. These costs include the direct costs that people and companies/organizations make in attempting to access and achieve justice, the costs of loss of income and unemployment because of injustice and the health impact caused by the stress of being treated unfairly.

The World Bank also studied these effects, but mainly in the economic domain<sup>17</sup>. The World Bank monitors the “difficulty of enforcing contracts” in many countries of the world and concludes that there is clearly a strong correlation between the ease of enforcing contracts and the economic prosperity of that nation. This is very

<sup>16</sup> OECD, 2019, Building a Business Case for Access to Justice

<sup>17</sup> World Bank 2019 “Doing Business – Enforcing Contracts: Why it Matters”

relevant, as a large proportion of the cases of PCA in particular are investor-state cases.

All these examples illustrate the importance of access to justice and may provide an estimate of the value of this on a national scale. We did not find any research on the specific value of access to international justice and the value of enforcing international contracts.

Perhaps this value is best illustrated by how desperate people can become in a situation where they are treated in an unjust manner and have no place to go to find justice. A good example is the Rohingya case<sup>18</sup> and the extreme emotions of the Rohingya representatives present in the Great Hall of Justice in the Peace Palace, when the ICJ issued an order for provisional measures to prevent genocidal acts against their people. There was immense relief among the Rohingya people because they had finally found an institution that could help them after being treated extremely unjustly for such a long time without recourse to legal action.

### **3.3.2 The value of the rule of law to the prosperity of nations and the well-being of their citizens**

Another way of assessing the value of the rule of law is looking at what peace and stability (in a broad sense) bring to nations and people. The Institute of Economics and Peace (IEP) calls it “positive peace” and defines it as “the attitudes, institutions and structures that create and sustain peaceful societies”<sup>19</sup>. The IEP issues the annual Positive Peace Index which ranks countries in terms of positive peace. The concept is based on an empirical model that tries to identify all factors relevant for positive peace. The model now consists of 24 indicators that define a country’s place on the index.

The IEP shows that every improvement of a country in the Positive Peace Index is associated with:

- A rise in GDP per capita
- A rise in household consumption
- Growth in business activity
- A stronger currency
- A stable inflation rate
- A growth in foreign direct investment

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<sup>18</sup> The Gambia v. Myanmar ICJ case, commonly referred to as the Rohingya genocide case.

<sup>19</sup> IEP (2019), Positive Peace Report 2019, analysing the factors that sustain peace.



Relevant to this study is that of all 24 indicators in the Positive Peace Index, the one with the highest correlation coefficient (0,81) with the above mentioned outcomes is “rule of law”. This indicator is categorized under “well-functioning government, institutions, rule of law”, and defined as: *Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.*<sup>20</sup>

Unfortunately, again, it is impossible to isolate and specify the impact of the ICJ and the PCA on this. Nevertheless we are convinced that, because of the growing number of cases before the ICJ and PCA relating to natural resources and the large number of investor-state cases before the PCA, this is a very strong argument for the importance of institutions like the ICJ and PCA for the economic growth (and the prosperity of their citizens) of countries that recognize the jurisdiction of the ICJ and are open to using the services of the PCA.

### 3.3.3 Conclusion societal effects of the ICJ and the PCA

We can conclude that the societal effects of the ICJ and the PCA are very difficult to quantify. If we look at the effects of preventing or solving armed conflicts it is easy to say that these effects are huge. We built three scenarios. In the very conservative low scenario the effects add up to about € 18 billion of prevented costs of conflict and another €11 billion on GDP growth that would not have occurred in case of an armed conflict. These effects could add up to over €500 billion and €260 billion respectively in the high scenario.

Furthermore, we found that the Courts also have a high value to many states, companies and people, just by implementing the international rule of law. This is important for the economic development of countries, for investors and companies, for the prosperity of households and for the well-being of citizens. A high level of “rule of law” saves money, generates trust and investments and prevents people from getting stress related diseases. However, estimating the isolated value of the ICJ and the PCA is impossible.

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<sup>20</sup> Three other of the 24 indicators are related to ‘acceptance to right of others’. These include gender inequality, group grievance and exclusion by socio economic group.

## 3.4 Implementation, development and strengthening of international law

The organizations in the Peace Palace also contribute a great deal to the development, improvement, dissemination and implementation of international law. The Hague Academy of International Law and the Peace Palace Library do this by training (future) international lawyers and disseminating knowledge of international law, and the ICJ and the PCA by their jurisprudence.

### 3.4.1 Jurisprudence from the ICJ and the PCA

The activities of the ICJ and the PCA lead to a continuous development of international law. The judgments and advisory opinions of the ICJ result in authoritative jurisprudence that is used by other courts throughout the world that deal with international law. The ICJ awards rendered by arbitral tribunals acting under the aegis of the PCA are also frequently referred to by other courts. To give some examples:

- In the case of Romania and Ukraine the ICJ clarified in its judgment (2009) the methodology for determining the maritime boundaries. This methodology set a precedent for other cases of maritime delimitation.
- In the case of Germany and Italy, jurisprudence was developed on state immunity.
- In the case between Hungary and Slovakia the ICJ in its judgment (1997) clarified the rules of international law on treaties, succession to treaties, international responsibility and environmental protection

These examples demonstrate the importance of ICJ and PCA jurisprudence and their contributions to the development of international law. It is difficult to value this effect. But it also helps preventing conflicts between states and helps to improve the rule of international law worldwide.

### 3.4.2 Academy of International Law and Peace Palace Library

The Academy of International Law organizes annual high-level summer (since 1923) and winter (since 2019) courses on international law for practitioners and students in international law. The Academy is seen worldwide as a “high-level teaching institution” where courses, seminars, conferences, and exchanges on various topics are organized throughout the year. The two courses (summer and winter) last each for three weeks and are given by the world’s most eminent and renowned professors of international law, judges and specialists.

Approximately a thousand attendees from all over the world follow these courses in the most recent years (500 in summer course and 500 in winter course). Apart from that, the Academy facilitates advanced research work and organizes all kinds of other meetings where knowledge and opinions are exchanged. Since the foundation of the Academy an estimated total of around 50,000 international law practitioners and students have followed an intensive three-week high-level course in international law. They use the acquired knowledge in their practices in their countries and also help disseminate it.

Recent Dutch research of the 'Centraal Planbureau'<sup>21</sup> shows that the benefits of the internationalisation of education outweigh its costs, both for the students and for the country that facilitates the international education. Although this research was about all higher international education in the Netherlands, we believe this conclusion is certainly true for the education at the Academy of international law, given the unique quality of the courses and the unique collection of students that follow these courses.

The Peace Palace Library, with its unique collection of publications on international law, receives large numbers of visitors from all over the world, both physical and remote (via Internet access) who use these publications. Each year the library is used by approximately 2,000 members looking for knowledge of international law (82,000 requested electronic information units in 2019).

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<sup>21</sup> Centraal Planbureau, economische effecten van internationalisering in het hoger onderwijs en mbo. September 2019.

## 4. Other sources of social impact

### 4.1 Developing and sharing knowledge

The presence of the Peace Palace, The Hague Academy for International Law and the Peace Palace Library in particular, make The Hague a breeding ground for developing and sharing knowledge and new ideas to deal with global challenges and cope with common challenges. Approximately 1.000 international students and talented young professionals come to The Hague every year to take courses at The Hague Academy of International Law (approximately 50.000 since the start in 1923). They are preparing for a career or are already deeply involved in international law very close to where it all happens and learn from the best professionals in the world. Getting similar education from these professors at top ranked universities would be much more costly. Furthermore, the Peace Palace offers a place far away from conflicts where these students and professionals can peacefully discuss issues and build a lifelong network of international experts and friendships. As a core value for all academics and practitioners, the library houses one of the largest collections of professional literature on international law in the world and is therefore consulted by lawyers, scientists and students from all over the world. In this way, the Peace Palace contributes to the development and sharing of knowledge in the world.

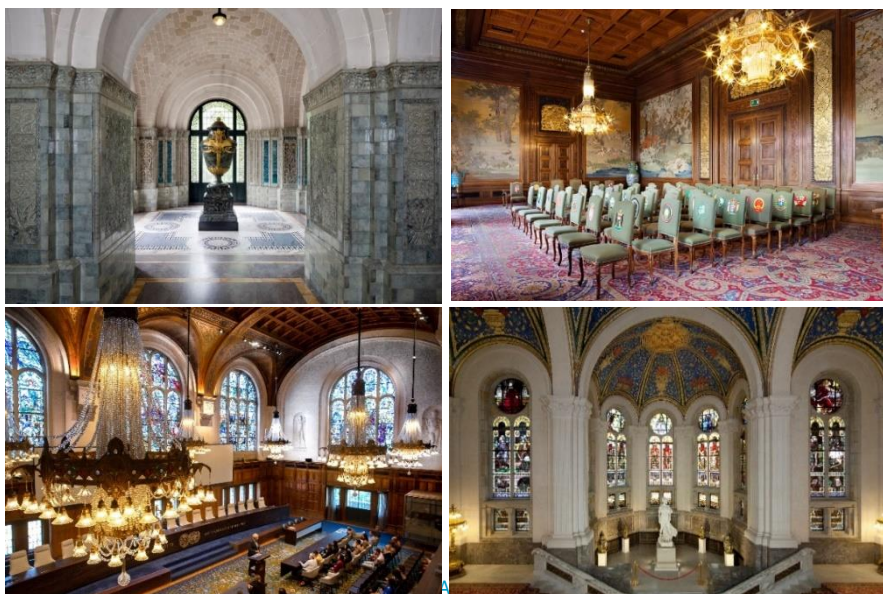
Organizations like the HCCH also benefit from the library, the Academy and the premises of the Peace Palace. But by doing that, organizations like HCCH also help to develop and strengthen the epicenter of international law that exists in and around the Peace Palace. In urban economics such complexes of relatively many firms in the same type of industry are called localization economies. Economies of localization have several benefits. The first benefit is that due to there being many people with knowledge of international law in close proximity to each other, interaction is enhanced and ideas are more easily exchanged. This increases labor productivity of the people working in the industry. Because of the international nature of the industry, ideas or knowledge picked up in the area of The Hague may also be used and shared all around the world. Secondly, a larger pool of people specialized in international law and an abundance of organizations and companies looking to employ these people causes a more optimal labor allocation. This is not only a positive effect for employers who can find the right people more quickly. It is also positive for employees who are less likely to be without a job and have more job opportunities to choose from, thus are more likely to find a job they enjoy.

## 4.2 Cultural heritage

The Peace Palace is a monumental building with a rich history which goes back more than 100 years. It was established after the First Peace Conference in 1899 through an international architecture competition. This competition was won by French architect Louis Cordonnier who was inspired by architecture from earlier centuries. This led to a debate because many had hoped for a building that would inaugurate a new age also in its appearance. The building is surrounded by a garden in the former Zorgvliet park, also designed subsequent to an international competition. The inside of the palace is richly decorated and contains art objects donated by countries from around the world. It forms a unique art collection including vases from Russia, China and Poland, chandeliers from the Austro-Hungarian Empire, statues from the United States, Argentina, South Korea, large paintings from France, carpets from Turkey and Persia, wood and stones from Scandinavia and Brazil and marble from Italy. This results in a building of international style and a surprising variety of colors and shapes.

In 2019 the Bureau of Bouwhistorie en Architectuurgeschiedenis (BBA) issued a report on the cultural and historic value of the Peace Palace architecture. They concluded that, as much of the original building period has been preserved, almost all considered elements of the building are of high monumental value. It is international in its architectural design, but deeply Dutch in its construction.

Nowadays the palace is still used for the purpose it was built for and it is the oldest of a small number of buildings related to the United Nations. It is therefore the ultimate concrete evidence and symbol of international jurisdiction. No wonder it is registered as a national monument by the Dutch government and on the European Heritage List. In short the building is of high cultural, historic and architectural value and due to this, as well as its beauty, it is an important tourist attraction in the Netherlands.



Besides the traditional value of cultural heritage and the value for visitors, passers-by and tourism there is another interesting value to cultural heritage. Data analysis shows<sup>22</sup> that cities with more cultural heritage are more attractive as a place to live than places with less cultural heritage. This leads to the effect that the housing/property prices near cultural heritage are significantly higher<sup>2324</sup>. The researchers also estimated the effect that cultural heritage has on the housing prices in a number of Dutch cities. Their estimate is that, *without any cultural heritage* in these cities the average housing prices would be 17% lower in Amsterdam, 12% lower in Rotterdam and 7% in Haarlem. Although they did not publish a specific value for the city of The Hague, we believe it would probably be in the same range. These studies underline the importance of cultural heritage to cities, but it also shows that cultural heritage generates direct financial resources to municipalities, as their revenues from real estate taxes are higher.

## 4.3 Image of the city of The Hague

The Peace Palace plays a central role in the city marketing of The Hague as The City of Peace and Justice. It serves as an important symbol for international justice done in the Netherlands. This symbolic meaning of the Peace Palace leads to many visitors of events, business delegations, students and tourists to come to The Hague and see the International City of Peace and Justice.

### *Tourism*

In 2.3.4 we described the economic impact of the visitors to the Peace Palace and made a quantitative estimate of this impact. But the effect of the Peace Palace on tourism is broader than that. The city of the Hague has ambitions in the field of (international) tourism. Since 2019, the city has three touristic narratives<sup>25</sup>:

- The Hague, royal city
- The Hague, city at sea
- The Hague, city of law and justice: Peace Palace.

The city uses the Peace Palace as the core of this third touristic narratives (or DNA as it is called in the report). And for a good reason, because the city of the Hague wants to improve its international touristic image and create an internationally

<sup>22</sup> Mark van Duijn and Jan Rouwendal (2013). Cultural heritage and the location choice of Dutch households in a residential sorting model, Vrije Universiteit.

<sup>23</sup> Hans R.A. Koster and Jan Rouwendal, Vrije Universiteit (2015). Historic amenities and housing externalities, evidence from the Netherlands.

<sup>24</sup> Farook Lazrak & Jan Rouwendal, Vrije Universiteit Amsterdam (2013). Cultureel erfgoed en de waarde-ontwikkeling van vastgoed,. From the publication: Cultureel erfgoed op waarde geschat, Platform 31, March 2013.

<sup>25</sup> City of the Hague, policy letter 'Voortgangsbericht Toerisme', 18 januari 2019



competitive tourist offer. To cite the city: *'The Peace Palace is the pounding heart of The Hague, city of peace and justice. The Peace Palace often appears in worldwide media because of international law cases dealt with by the PCA and the ICJ. This makes the Peace Palace iconic and very interesting to (inter)national visitors.'*

## *Extra value for events in The Hague*

Many companies and organizations (such as the Hague Conference on Private International Law (HCCH) like to organize events in the Peace Palace, because the atmosphere of the building stresses the importance, seriousness and justness of the matters that are discussed and presented. Furthermore, many other important international events take place at the Peace Palace such as the Walk of Hope, the Gandhi March and the One Young World summit. This not only ensures a better business climate, but also more events, conferences, business and leisure visitors and a strong reputation abroad. The events organized in the Peace Palace have extra value for organizers compared to events organized at other locations. Because of the international reputation of the Peace Palace, visitors of events will be more likely to remember such an event and this reputation may give events extra credibility. Some organizers even indicate that events in the Peace Palace attract larger crowds than similar events organized elsewhere. Both the extra credibility and the extra visitors add to the surplus of the organizers and visitors of these events.



## *Symbol of a well-organized and structured country*

International business delegations also often pay a visit to the Peace Palace. Not only because the building is so impressive and beautiful, but mainly for its symbolic meaning: this is the place where international justice is done. It also symbolizes that the Netherlands and particularly The Hague are places where the rule of law is very important, where justice is done and where the state and society are very well-developed and well-organized.

## *Peace Palace as a popular and educational attraction*

The Peace Palace is also a popular stop for students and tourists from all over the world. Apart from the economic impact discussed in chapter 2 there is extra value to these particular visitors. These visitors hear the history of the Peace Palace, the work done by the institutions and the importance of international law. They are often impressed by both the building, the work done there and its symbolic meaning. This positively influences the view visiting tourists and students have of the Netherlands and The Hague. Furthermore, tourists who come to the Netherlands specifically to visit the Peace Palace are likely to be interested in international law and are willing to expand their horizons. The Peace Palace therefore attracts a quite specific, well-educated type of tourist with a broad interest in global affairs and international jurisdiction.

## 4.4 Business climate

As mentioned in the introduction of this report, Tobias Asser (later Nobel Prize winner) established The Hague Conference on Private International Law in the city of The Hague in 1893. This was followed by the first Peace Conference in 1899, which led to the establishment of the Permanent Court of Arbitration. In 1907 a second peace conference was organized in The Hague and the first stone of the Peace Palace was laid. The Peace Palace was then opened in 1913. Since then, not only the Permanent Court of Arbitration held its seances in the Peace Palace, but also The Hague Conference on Private International Law. In 1920, after World War I and the Paris Peace Conference, the Permanent Court of International Justice (PCIJ) was founded and also located at the Peace Palace. In 1946 the PCIJ was dissolved and succeeded by the ICJ.

The presence of the Peace Palace in The Hague and the institutions within the Peace Palace have historically contributed a great deal to the (re)location of many other international organizations in the legal and international relations sector in The Hague and the surrounding area. As is evident from the large share of important international organizations in The Hague that are active in the legal sector like the Iran – United States Claims Tribunal, the International Criminal Tribunal for the Former Yugoslavia (now succeeded by the Residual Mechanism for International Criminal Tribunals), the International Criminal Court and the Kosovo Specialist Chambers & Specialist Prosecutor's Office.



Decisio<sup>26</sup> has found in another study that 40,000 FTE are directly and indirectly related to international organizations in The Hague. The Peace Palace has been an important factor in developing this sector and making The Hague the City of Peace and Justice that it is now. The role and function of the Peace Palace have been an important factor, but not the only one for the establishment of these organizations in The Hague and its region. Other factors like proper facilities and good quality of life for employees are important as well.

## 4.5 International goals and relations of the Netherlands

The Dutch government sets out to contribute to world peace and security. Article 90 of the Dutch Constitution states that the Dutch government shall promote the development of the international legal order and thus the application of the rule of law in international affairs. Furthermore, the Peace Palace was selected as one of the first “SGD houses” in the Netherlands. Sustainable Development Goal 16 on peace, justice and strong institutions states that it will promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. Housing the International Court of Justice and the Permanent Court of Arbitration, The Hague Academy of International Law, the Peace Palace Library and with the additional programming of the Carnegie Foundation in public education and peace dialogue, the Peace Palace contributes to the SDGs.

Furthermore, the presence of the Peace Palace in the Netherlands plays an important role for the Dutch government in establishing strong relations with other countries at an economic and political level. It is the symbol of justice that is known all over the world which is connected to the Netherlands and The Hague. This helps the Netherlands to acquire strong international positions. Furthermore, it increases the incentive for high-ranking diplomats and ambassadors to be sent to The Hague, because countries want to be well-represented and close to the Peace Palace. More important international events, meetings and state visits are expected to come to the Netherlands as a result. Being the host country of the international institutions in the Peace Palace shows that the Netherlands is an important, eager and highly capable country.

Some of the people we interviewed for this project believe that the Netherlands does not sufficiently appreciate the image that comes with the Peace Palace and all the international legal organizations in The Hague. We take it more or less for granted while other countries are willing to invest heavily to achieve such a position.

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<sup>26</sup> Decisio (2020) The Hague, international city of peace and justice. An economic effect analysis of the international non-profit sector

## Appendix 1 – Advisory committee and interview partners

We are very grateful for the help that we received from the advisory committee and the interview partners.

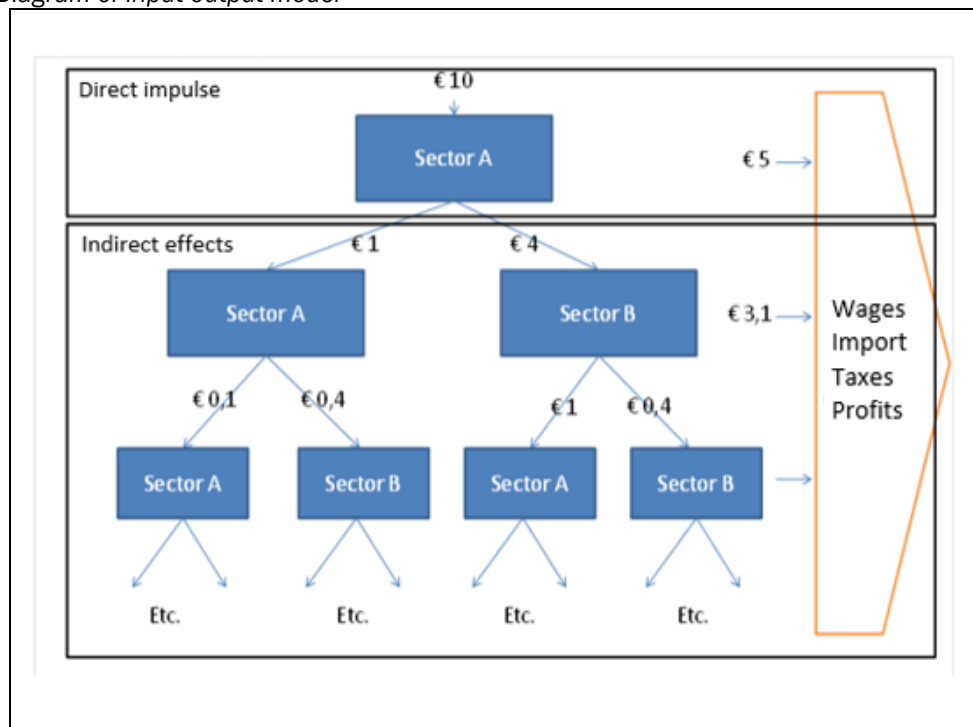
<b>Advisory committee</b>	<b>Organization</b>
Peter Tomka Nico Schrijver	International Court of Justice Leiden University – Council of State, the Netherlands
Jean-Marc Thouvenin Rob Schuurmans	The Hague Academy of International Law City of The Hague
Erik de Baedts Jeroen Vervliet	Carnegie Foundation Carnegie Foundation - Peace Palace Library
Nicole Engering	Carnegie Foundation

<b>Interview Partners</b>	<b>Organization</b>
Peter Tomka Nico Schrijver	International Court of Justice Leiden University – Council of State, the Netherlands
Jean-Marc Thouvenin Christophe Bernasconi	The Hague Academy of International Law HCCH
Maria Teresa De Jesus Infante Caffi Tigran Balayan	Embassy of Chile Embassy of Armenia
Rob Schuurmans Kees Kingma	City of The Hague Consultant peacekeeping and development
Diana Eggleston Erik de Baedts	The Hague Business Bureau Carnegie Foundation
Jeroen Vervliet Christien Uringa	Carnegie Foundation Peace Palace Library Carnegie Foundation

## Appendix 2 – Input-Output model

The figure below shows how the input-output model works for an economy with two sectors (A and B). For each sector we know what the supplying sectors are and how much money is spent in these sectors. This enables us to determine the effects in sectors A and B of an impulse in sector A.

*Diagram of input-output model*



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# DECISIO

