SWP Research Paper
Stiftung Wissenschaft und Politik
German Institute for International
and Security Affairs

Citha D. Maass

Afghanistan's Drug Career

Evolution from a War Economy to a Drug Economy

RP 4
March 2011
Berlin

SWP Research Papers are peer reviewed by senior researchers and the directing staff of the Institute. They express exclusively the personal views of the author(s).

SWP
Stiftung Wissenschaft
und Politik
German Institute
for International
and Security Affairs

Ludwigkirchplatz 3–4
10719 Berlin
Germany
Phone +49 30 880 07-0
Fax +49 30 880 07-100
www.swp-berlin.org
swp@swp-berlin.org

ISSN 1863-1053

Translation by David Barnes
in cooperation with
Afghanistan Analysts Network (AAN)
www.aan-afghanistan.org

(English version of
SWP-Studie 2/2010)

Table of Contents

5 **Problems and Recommendations**

7 **The drug economy:**
A result of the new post-war order

10 **Genesis and consolidation of the drug economy (1979–2001)**
10 The expansion of drug production:
External factors and central actors
11 The war economy and the war entrepreneurs:
Transformation and consolidation

17 **The transformation into a drug economy (2002–2008)**
17 The structure of drug production in 2008
17 *Doubts regarding sustainable decline*
19 *The interdependence between instability, neo-Taleban, and drug production*
21 *A misleading measure of success*
22 The intertwining of political interests
26 The intertwining of economic structures

31 **Conclusion and recommendations**

32 **Abbreviations**

Dr. Citha D. Maass is a researcher at SWP's Asia Division

Afghanistan's Drug Career
Evolution from a War Economy to a Drug Economy

The commercial production of drugs in Afghanistan began with the anti-Soviet jihad launched by mujahedeen groups in 1979 with the financial and logistical support of the CIA, the United States and other Western states. The subsequent thirty years have seen a continuous increase in drug production, with Afghanistan advancing to become the world's number one drug producer by the mid-2000s. With a current share of 93% of the global market in illicit opiates (opium, morphine and heroin), Afghanistan has achieved a monopoly. Recently Afghanistan has also become one of the world's leading suppliers of cannabis (hashish).

The first light production decline in 2008 gave the UN Office on Drugs and Crime (UNODC), which monitors narcotics control in Afghanistan, reason for cautious optimism. But an analysis of the reasons for the decline suggests that one should not expect a turning point in the effort to establish sustainable, effective drug control any time soon. Furthermore, it is doubtful whether the shifting of drug production to Afghanistan's southern provinces that has taken place can be viewed as the strategic success UNODC claims it to be. UNODC has deduced that this southward shift – which has resulted in a geographic north-south divide – has brought about a direct interrelationship among drug production, the strengthening of insurgency groups, and growing insecurity. This assessment, in turn, has prompted the international community and the Karzai government to blame neo-Taleban forces in southern Afghanistan, where they are particularly strong, for the flourishing drug trade.

Placing the blame on one single entity is not particularly helpful when trying to identify the causes of Afghanistan's long drug history. The sharp decrease in drug production in 2001 – which surprised the international community – illustrated that the causes are more complex. At the time, the Taleban regime had managed to prohibit drug cultivation within its areas of control, as a result of which total production volume had fallen back to the low level of 1979. What was overlooked, however, was that the remaining volume was being produced in regions controlled by the adversary Northern Alliance, which in turn financed its activities through the drug business. The

Northern Alliance was composed primarily of the original Sunni mujahedeen groups that had fought against the Soviet invaders as allies of the United States beginning in 1979. When in the aftermath of September 11, 2001 the United States once again needed allies in the war against the Taleban/Al Qaeda network, they reactivated the old contacts, rehabilitating the warlords of the Northern Alliance and upgrading them to official parties to the Bonn Agreement of December 2001.

An analysis of the politico-economic developments in Afghanistan reveals that three transformation processes have taken place. The first process entailed a transformation of the roles of the actors, for example those of the mujahedeen leaders and (neo-)Taleban. This process was complemented by a second transformation in which economic structures changed. In the course of these two processes – and amid a war which began as a proxy war and later became internalized – there developed a brand of political economy definable as a war economy.

In a third transformation process, the drug business took on a new function for the warring parties. In the first phase of this process (1979–1989), the drug trade raised additional profits for the anti-Soviet forces. In the second phase (1989–1996), the commercially-driven drug industry advanced to become the most significant illicit source of revenue in the war economy. In the third phase (1996–2001), the war economy was consolidated. The drug industry served as a source of fiscal revenue for the Taleban regime while providing the "war entrepreneurs" of the Northern Alliance in their fragmented territories with an illicit source of funding.

In the fourth phase (from 2001), the war entrepreneurs of the former Northern Alliance integrated themselves into the emerging political system under the guise of legitimate politicians. This new breed of politicians (hereafter termed "warlord politicians") occupies powerful positions in the new state institutions while remaining actively involved in the illicit economic fabric from which the war economy stems. The drug economy which subsequently developed in post-war Afghanistan (and which has consolidated since 2005) is characterized by the following traits:

- An alliance of interests links the weak, corruptible Karzai government with regional "warlord politicians" backed by decentralized power centers. Weak state institutions and the formal sector make it possible to secure power, political appointments and profits. The weakness of these legal structures opens up a regulatory gray area in which the regional politicians operate as "security providers", maximizing profits from illicit commercial activities (the drug trade and the shadow economy) and laundering these profits in the formal sector.
- The rudimentary formal sector is dominated by the informal sector, which in turn is based on the drug industry. Accompanying the concentration of power, a shrinking group of political leaders form the political "upperworld". The members of this "upperworld" ostentatiously distance themselves from the "dirty" illicit drug business but control trading through dependent drug dealers, businessmen and relatives while buying political protection from the Karzai government with large bribes.

The drug economy has produced a post-war order in which peace is deformed by crime ("criminalized peace"). Neither the government nor the political "upperworld" has an interest in allowing the country to relapse into the chaos of civil war; they therefore seek to achieve standstill agreements with subversive forces (neo-Taleban and other insurgent groups).

The drug economy as a new regulatory system in post-war Afghanistan can only be overcome by applying a comprehensive approach. The guiding idea of such an approach is that while the drug industry does need to be fought as a *symptom* of the unstable post-war order, the primary focus must be placed on eliminating the *structural causes*. The larger the space for legal political and economic activity is expanded, the smaller will become the space for the illicit drug economy and the shadow economy. Realistically it will take twenty to thirty years to weaken the drug Industry and establish a stable peace framework. At the moment conditions are unfavorable: The massive electoral fraud in the presidential elections of August 20, 2009 has put a heavy strain on Hamid Karzai's second term in office and has undermined his legitimacy. Power entanglements in the criminalized peace framework can be expected to restrict his room for manoeuver in pushing through far-reaching reforms.

The drug economy: A result of the new post-war order

In 2008 opium production in Afghanistan decreased for the first time by approximately 6% compared with the previous year. This is in no way an indication that the power of drug profiteers in Afghanistan had been broken. In its annual report, UNODC ascribed the slight decrease to two factors: on the one hand the determined steps taken by several governors against opium poppy cultivation and drug production in their provinces; and on the other hand the widespread drought in Afghanistan. Especially in the north and north-west, drought reduced crop yields sharply and precluded a second springtime harvest in some regions.[1] However, the shift to alternative crops (for example, wheat) observed by UNODC in some regions suggests a different motive: Drug profiteers reacted flexibly to external developments and followed market-based laws of supply adjustment and price regulation. Owing to the global food crisis, the domestic wheat price had risen due to the scarce supply of wheat. In contrast, the opium price which was paid to Afghan farmers had sunk due to overproduction.[2]

External incentives evidently combined with internal forces. In the case of Afghanistan, this interplay can even be said to have provided the decisive impetus for the emergence of drug production, since opium poppy was not a traditional crop and no "opium culture" had existed in Afghanistan before the war.[3] But economic factors alone did not bring about the rise and stabilization of the war economy and its transformation into a drug economy under the new framework conditions after 2002. On the contrary, from the very start political factors also played a decisive role, since the internal actors reaped political benefits from interaction with their external allies. Since its beginnings in 1979, drug expansion stood in direct connection with war-related events in Afghanistan; this interaction therefore also changed the internal power structures in both political and economic terms.

These *structural long-term consequences* confirm the general insight that David Keen has gained from his analysis of the upheavals of war. According to this analysis, conflict is not the seemingly "irrational" breaking down of societies and economies; rather, it is the re-ordering of society in particular ways: "In wars, we see the creation of a new type of political economy, not simply a destruction of the old one."[4] In the case of Afghanistan, the reorganization of society brought about the evolution of a war economy based on drug profits in the 1980s and 1990s.

The form originally taken by the war economy and later the drug economy in Afghanistan was different from that of other drug-producing states. In February 2004, then Afghan Minister of the Interior Ali Ahmed Jalali stressed the dominant role of the drug traffickers: "In other countries, cultivators are creating smugglers; in Afghanistan smugglers create cultivators."[5] According to Jalali, it was the traffickers – not the producers (opium poppy farmers) – who were the driving force behind the exploding drug economy. However, a closer look at the drug trade reveals a continuity in personnel. The most important drug traffickers in 2002 belonged to the same groups that had been responsible for drug production as early as 1979, that is to say during the war decades. Some of those responsible were even the same individuals who now had a say in the new power structures of Afghanistan – as political representatives in high government positions or as members of regional or local armed groups.

1 The amount of opium produced in Afghanistan in 2008 was estimated at 7,700 tons (2007: 8,200 tons). Cf. United Nations Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2008. Executive Summary*, August 2008, p. 9, www.unodc.org/documents/publications/Afghanistan_Opium_Survey_2008. pdf.

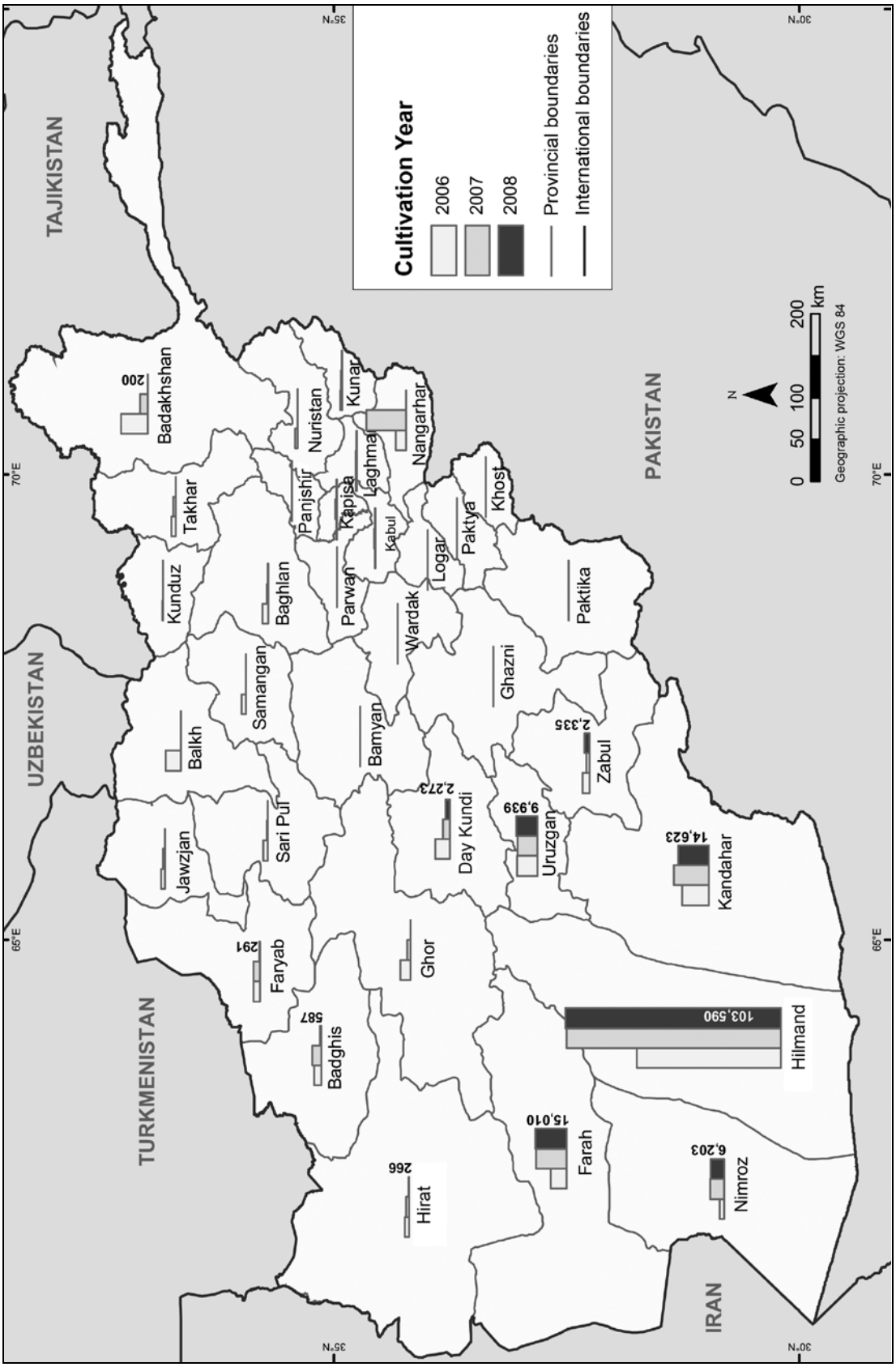
2 Cf. UNODC, *Afghanistan Opium Survey 2008. Executive Summary*, ibid., Foreword, p. vii.

3 Cf. UNODC, *The Opium Economy in Afghanistan. An International Problem*, New York 2003, p. 87, www.unodc.org/pdf/publications/afg_opium_economy_www.pdf.

4 David Keen, *The Political Economy of War*. Here cited in: Jonathan Goodhand, "From Holy War to Opium War? A case study of the opium economy in North Eastern Afghanistan", *Central Asian Survey*, Vol. 19, No. 2, 2000, p. 265.

5 Matt Weiner, *An Afghan "Narco-State?" Dynamics, Assessment and Security Implications of the Afghan Opium Industry*, Canberrra: Australian National University, August 2004 (Canberra papers on strategy and defence, Nr. 158), p. 25.

Map
Cultivation of opium poppy by province, 2006–2008 (in metric tons)



Source: United Nations Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2008. Executive Summary*, August 2008, p. 24, http://www.unodc.org/documents/publications/Afghanistan_Opium_Survey_2008.pdf. The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the UN.

In the course of the developments set in motion by the start of the anti-Soviet jihad, a new politico-economic order gradually came into existence. This process can be divided into four phases:[6]

- 1979–1989: In the early phase, drug production increased gradually. At first, the profits served mujahedeen leaders merely as a supplementary source of income to finance their anti-Soviet jihad. This source was not considered scandalous because the mujahedeen viewed themselves as "religious freedom fighters" and were classified as such by their Western allies.
- 1989–1996: In the second phase, the internal civil war accelerated the transformation into a war economy. The drug industry was now commercially operated and rose to become the mujahedeen's most important illicit source of funding. In this process the mujahedeen became "war entrepreneurs".
- 1996–2001: In the third phase, the war economy was consolidated. The Taleban, who emerged from the mujahedeen, established a quasi-governmental regime and exploited the drug industry as a source of tax revenue. The adversary Northern Alliance, for their part, used drug profits as an illicit means of financially maintaining their powerful position.
- From 2002: During the early phase of state-building, the transformation into a drug economy took place. Under the protection of legal institutions, drug profits functioned as the engine of the shadow economy and served as a source of income for former war entrepreneurs. These entrepreneurs transformed themselves into a new class of "warlord politicians": by assuming official offices, they became the political "patrons" of the informal sector.

Starting in 2002, steadily increasing drug production served the "warlord politicians" as a source of political and economic power. Drug production flourished under the combined presence of an overly powerful shadow economy and a weak state. Hence, from the very beginning these politicians sabotaged the international stabilization process after the overthrow of the Taleban regime at the end of 2001. To this end they made use of their former contacts with external allies dating back to the emergence phase of the drug economy, in particular the United States. In order to understand the driving forces behind the current drug economy, we must first analyze the preconditions which favored it: the transformation of actors, and the transformation of economic structures.

Glossary: Conceptualization

The terms used to characterize the individual phases denote the changing economic function of drug production and the accompanying transformation of the political order of the Afghan state. These concepts are intended to further encourage scientific discussion regarding "narco-states" and contribute to the finding of standardized definitions.

- *Historical production methods:* production which is limited to satisfying local demand.
- *Drug business or drug trade:* subsistence farming which is practiced in order to finance guerrilla groups that are also subsidized externally.
- *Drug industry:* commercial production of drugs for export to the global market as a financial basis for the warring factions of the civil war. The drug industry serves to build power structures in the regional territories controlled by the factions.
- *War economy as a new type of political economy:* In territories controlled by the quasi-governmental Taleban regime, the drug economy evolved into a legally taxed source of revenue. In territories controlled by Taleban adversaries, the drug industry constitutes an illicit source of financing which enables the war entrepreneurs to exercise their decentralized power.
- *Drug economy as a new type of political economy in post-war Afghanistan:* President Karzai co-opts former war entrepreneurs who have transformed themselves into politicians and incorporated their drug networks into the developing state structures. A hidden symbiosis between the strong informal sector and the weak formal sector constitutes *criminalized peace*.
- *Narco-state:* Power is exercised formally by the puppet government, which de facto is controlled by the drug cartels or political "patrons". Afghanistan has not yet reached this state.

6 The division into periods is made on the basis of three criteria: (1) What is the defining feature of the transformation that characterizes the phase in question? (2) How does the function of the drug business change in the particular phase? (3) How do the roles of the main actors change?

Genesis and consolidation of the drug economy (1979–2001)

Historically, Afghanistan was not a classical producer of opiates (opium and processed heroin). Only in the mountainous Badakhshan region in north-eastern Afghanistan was opium produced for local consumption as early as the 18th century. Cultivation spread from China and Bukhara along the Silk Road, evidencing the traditional connection between the northern Afghan hinterland and Central Asian transit routes, which has retained its importance until today. From the beginning of the 20th century, small amounts of opium were also grown in Herat in western Afghanistan and in Nangarhar in eastern Afghanistan.[7]

Only after the United States and the Western-sponsored mujahedeen became involved in the 1980s did Afghanistan ascend to become the world's largest exporter of opiates. Afghanistan's opium production, which was estimated at only 100 tons in 1971, suddenly skyrocketed after the start of the anti-Soviet jihad at the end of 1979. In 1991 an estimated 2,000 tons were produced; by the end of the 1990s production had reached 4,600 tons.[8] Although President Karzai banned the production, sale and consumption of opium as early as January 2002, Afghanistan became the number one global producer in the following years and relegated Myanmar (Burma) to second place. No other country has ever managed to achieve such a monopoly. In 2007 Afghanistan produced 8,200 tons of opiates, an amount which constitutes 93% of the global drug market. Afghanistan was able to maintain this share of the market in 2008 even though production slightly decreased for the first time.[9]

The expansion of drug production: External factors and central actors

External circumstances were responsible for the rapid takeoff of Afghanistan's "drug career".

- production shifts among the most important delivery regions in Asia
- political and economic interests among both external and internal actors in the war against the Soviet occupation

Three shifts in the Asian drug market increased the incentive for Afghan producers to close the supply gap on the world market: the reduction of Turkish opium cultivation starting in 1974;[10] geographic shifts from the Golden Triangle in Southeast Asia (Burma, Laos, Thailand) to the Golden Crescent in Central Asia (Iran, Afghanistan, Pakistan) in the 1970s;[11] and shifts within the Golden Crescent. The latter factor had a direct effect on Afghanistan. Because Iran also suffered from high production levels and widespread drug addiction, Shah Reza Pahlewi had tried since 1955 – albeit in vain – to curtail production. After his overthrow in February 1979, the leader of the Iranian revolution, Ayatollah Khomeini, achieved an important partial success in the fight against drug production. Total volume was considerably reduced, and the remaining stockpiles were almost completely consumed by the domestic market. As there was no surplus left over for heroin exports to the United States and Europe, the supply gap was soon filled by producers in the Afghan-

7 Cf. Weiner, *An Afghan "Narco-State?"* [as in footnote 5], p. 19. One must distinguish here between opium cultivation and the cultivation of cannabis (hemp), from which marijuana and hashish are derived. The latter is common in Afghanistan.

8 Cf. Alfred W. McCoy, *The Politics of Heroin. CIA Complicity in the Global Drug Trade*, 2nd, revised edition, Chicago 2003, p. 16.

9 Cf. UNODC, *Afghanistan Opium Survey 2007. Executive Summary*, August 2007, p. iv. www.unodc.org/pdf/research/AFG07_ExSum_web.pdf.

10 In 1974 the Turkish government brought the opium production under control and licensed opium cultivation for medical purposes. Cf. Dorian Jones, "Opium: Legal Solutions", in: *ISN Security Watch* (Eidgenössische Technische Hochschule Zürich, International Relations and Security Network [ISN]), August 24, 2008, www.isn.ethz.ch/news/sw/details.cfm?id=18392.

11 Although the countries of the Golden Triangle still constituted the world's largest opium-producing region in the 1950s and 1960s, several factors contributed to a reduction in production levels: droughts; a consistent policy of destruction and substitution applied by the Thai government; and United States tenacity in targeting and pursuing the most important drug traders in the region – with the exception of Burma. Cf. McCoy, *The Politics of Heroin* [as in footnote 8], pp. 283 et seq.

Pakistan border region.[12] Ultimately, however, production was concentrated on Afghan territory, as the United States forced Pakistan's military dictator, Zia ul-Haq to clamp down on cultivation in the Pakistani border region in the mid-1980s. As a result, the opium was produced on Afghan opium poppy fields but processed in Pakistani heroin laboratories before being sent via transit routes from there to Europe and the United States. This cross-border entanglement formed the structural foundation of the war economy in Afghanistan.

The second force driving drug production in Afghanistan is more elusive. Earlier international analyses of the drug business in Afghanistan focused primarily on the role of *internal* actors: the mujahedeen and the Taleban. However, not until the end of the 1990s was the secret strategic cooperation of the most important *external* partners more closely examined: the "proxy method" employed by the CIA in the 1980s. With the aid of the Pakistani military intelligence service, Inter-Services Intelligence (ISI), and selected mujahedeen guerrilla leaders, the CIA tried to give the Soviets a dose of "their own Vietnam" (Zbigniew Brzezinski).[13] Through these proxies, the CIA waged the Afghan jihad that caused drug production to skyrocket: a "direct consequence of the CIA's holy war of 1979-89".[14]

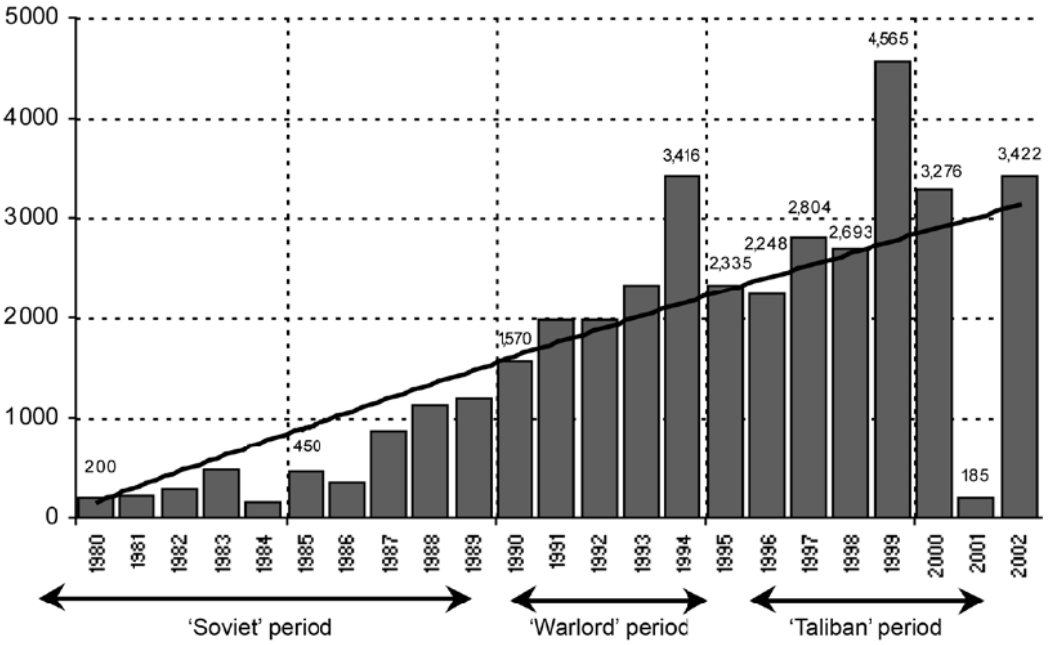
The CIA derived great political benefit from this cooperation, including the establishment of a "weapons-drugs pipeline". The CIA used the ISI as an intermediary to provide the seven Sunni mujahedeen leaders across the border in Afghanistan with weapons and logistical supplies. On the return route, the mujahedeen leaders sent drugs. These transports were logistically supported by ISI and politically protected through CIA operations. The financial profits were processed mainly by the Pakistani Bank of Credit & Commerce International (BCCI).[15] Though the CIA did not fund their own secret operations with drug profits, they enabled the mujahedeen as their internal partners to use the drug business to finance their operations. The CIA profited from this arrangement in two ways:[16] On the one hand, they could use the mujahedeen leaders to mobilize armed groups for the anti-Soviet resistance without having to bear the costs. On the other hand, they secured the loyalty of the mujahedeen leaders, who exploited the drug trade as an additional source of funding. As these leaders were able to maintain ever-larger clientele systems, their influence grew. In this way Gulbuddin Hekmatyar, who received the largest share by far of the weapons provided by the CIA, systematically employed opium profits to build up a hierarchically organized party and a conventional army.[17] The more completely the war destroyed the agricultural subsistence economy, the more mujahedeen leaders and local commanders relied on the drug business to provide for their militias.[18] As a result, drug production grew continuously from the beginning of the 1980s (see Figure 1, p. 12); and Afghanistan became one of the world's leading opium exporters.

The war economy and the war entrepreneurs: Transformation and consolidation

In political terms, the collapse of the Communist regime under President Najibullah in April 1992 marked the end of the anti-Soviet jihad and the transition to the civil war set off by the mujahedeen. But the transformation to a drug economy had already begun three years earlier. In mid-February 1989 the withdrawal of Soviet troops was concluded within the nine-month time limit agreed upon by United States and the Soviet Union as the "principal guarantors" of Afghanistan's warring parties in the Geneva Accords of April 1988. The two Cold War adversaries both took advantage of this phase to arm their respective Afghan clienteles by all available means for the subsequent internal struggle for power in Afghanistan.

12 Cf. McCoy, *The Politics of Heroin* [as in footnote 8], p. 471.
13 Cf. Peter Dale Scott, *Drugs, Oil, and War. The United States in Afghanistan, Colombia, and Indochina*, Lanham et al. 2003, p. 30; and »Oui, la CIA est entrée en Afghanistan avant les Russes ...«, Interview by Vincent Jauvert with Zbigniew Brzezinski, in: *Le Nouvel Observateur*, No. 1732, January 15, 1998, http://hebdo.nouvelobs.com/hebdo/parution/p19980115/articles/a19460-.html.
14 John K. Cooley, *Unholy Wars. Afghanistan, America and International Terrorism*, 2nd edition, London 2000, p. 5.
15 Cf. Barnett R. Rubin, *The Fragmentation of Afghanistan. State Formation and Collapse in the International System*, New Haven/London 1995, pp. 196 et seq.; McCoy, *The Politics of Heroin* [as in footnote 8], pp. 15–16.
16 This strategy was not specially developed for Afghanistan. In fact, the CIA had already applied it in the 1950s in Burma und in the 1960s in Laos. Cf. Scott, *Drugs, Oil, and War* [as in footnote 13], p. 28; McCoy, *The Politics of Heroin* [as in footnote 8], p. 15.
17 Cf. Rubin, *The Fragmentation of Afghanistan* [as in footnote 15], p. 257.
18 Cf. Weiner, *An Afghan "Narco-State"?* [as in footnote 5], pp. 20–21.

Figure 1
Opium production in Afghanistan 1980–2002 (in metric tons)



Source: UNODC, *The Opium Economy in Afghanistan. An International Problem*, New York 2003, p. 81, http://www.unodc.org/documents/data-and-analysis/afg_opium_economy_2003.pdf.

Following the conclusion of the military withdrawal, however, Washington and Moscow changed their strategy. First, both the Soviet Union and the United States as well as the other Western nations reduced their financial backing, halting funding completely in 1992 – the Soviet Union as a result of its break-up in late 1991 and the United States after successfully toppling the Soviet regime. The drying up of external aid in 1992 was the decisive external factor which accelerated the structural transformation to a war economy. President Najibullah attempted to balance the national budget by printing more banknotes but in doing so triggered rampant inflation. Between 1987 and 1992, the face value of banknotes in circulation rose by 45%. A food crisis drove up food prices, and the Afghan currency rapidly fell in value against the dollar.[19]

As mujahedeen leaders and local commanders were no longer receiving Western funding, they too had to search for alternative sources of income. At the same time, in view of the catastrophic economic situation, they – as well as the rural population – were forced develop new survival strategies. For the traders (mujahedeen leaders, local commanders) and the producers (the rural population), the answer lay in the expansion of the drug industry. Due to the high inflation there was abundant cash in circulation, which served as seed money for the transformation of the war-torn agricultural subsistence economy into a commercial, export-oriented drug industry.[20] Opium poppy and opiates were suitable products: traffickers reaped large profits from their illicit export, and producers received microcredits that enabled them to survive in winter. Opium poppy needs little water and is more resistant to drought than wheat, which meant it could be cultivated despite widely destroyed irrigation systems. Cultivation was very labor-intensive in the harvest season and provided many farm workers, who were fighting for their survival, with a source of modest earnings. Pressed opium, which can be stored

19 Cf. Barnett R. Rubin, "The Political Economy of War and Peace in Afghanistan", in: *World Development*, Vol. 28, No. 10, 2000, pp. 1789–1803 (1792).

20 Cf. Jonathan Goodhand, "Corrupting or Consolidating the Peace? The Drugs Economy and Post-conflict Peacebuilding in Afghanistan", in: *International Peacekeeping*, Vol. 15, No. 3, June 2008, pp. 405–423 (408).

for several years,[21] fulfilled three functions: On the one hand, it could be hidden as a special contingency reserve; on the other hand, it served as a capital investment, since it appreciated in value against the dollar. And finally, it was favored over worthless Afghan banknotes as a substitute currency.

Around the end of the 1980s, transport routes became safer and the drug industry could be operated more professionally. Opium was no longer transported using animals on mule tracks but with trucks on roads in a transnational distribution system. Both important mujahedeen leaders and local commanders taxed cultivation, production and distribution, but only in their own territories; the decentralized structure thus continued to exist. The drug industry functioned smoothly, and annual growth rates continuously increased.[22] Opium became Afghanistan's most important export, and the share of global production skyrocketed (see Figure 2, p. 12).

As of 1989, the drug industry gradually developed into the most significant (though by no means the only) source of revenue. Nevertheless, the profits did not suffice to compensate for the drying up of external aid and the rising demand for resources to finance the civil war that began in 1992. The civil war was one internal factor that accelerated the transformation into a war economy, since the rival mujahedeen leaders needed additional income sources. The second most important illicit source of funds was transnational trafficking in a wide range of commodities, which turned Afghanistan into a hub for the wider surrounding region. The Afghanistan Transit-Trade Agreement (ATTA) of 1965 further encouraged trafficking. Under the agreement, goods moved freely through Pakistani ports to the Afghan interior, where they were immediately transported back to Pakistani territory and sold at special smugglers' markets.

International funding for various warring parties constituted a third source of income. Trans-regional religious networks were used to funnel money from the Gulf States – in particular Dubai – to various mujahedeen factions, as well as to the Taleban, who began gaining ground in 1994. The latter are also likely to have received private financial contributions from the Union Oil Company of California (UNOCAL) to facilitate the planned construction of a pipeline from Turkmenistan through Afghanistan to Pakistan. UNOCAL did not formally abandon this project until 1998.[23] Starting in the mid-1990s, Western funding also accrued to the adversaries of the Taleban. These funds were channeled through contacts with mujahedeen factions established in the 1980s and distributed to the needy Afghan population in the form of humanitarian aid. In the war economy that emerged from the civil war, it was common for warlords to earn illicit income as decentralized "war entrepreneurs", taxing the drug industry in their own territories without being subject to governmental control or a national economic regulatory system.

The war economy was consolidated with the takeover of Kabul by the Taleban in September 1996. The Taleban gradually brought approximately 90% of Afghanistan – including all transit roads, airports and border crossings – under their control, thereby gaining access to all revenue accruing from these sources. The decentralized power structures which had previously existed were replaced by quasi-governmental control exercised by the Taleban leadership, the so-called Kandahar Shura under Mullah Omar. The drug industry, which generated fiscal revenue for the Taleban regime, evolved into a legal source of finance. The Taleban taxed opium production with the traditional 10% agricultural tax (*ushr*) as well as a 20% alms tax (*zakat*), levying taxes on landowners and drug traders alike.[24] As long as they rendered these payments, commanders who defected to the Taleban were permitted to continue trading in drugs. According to

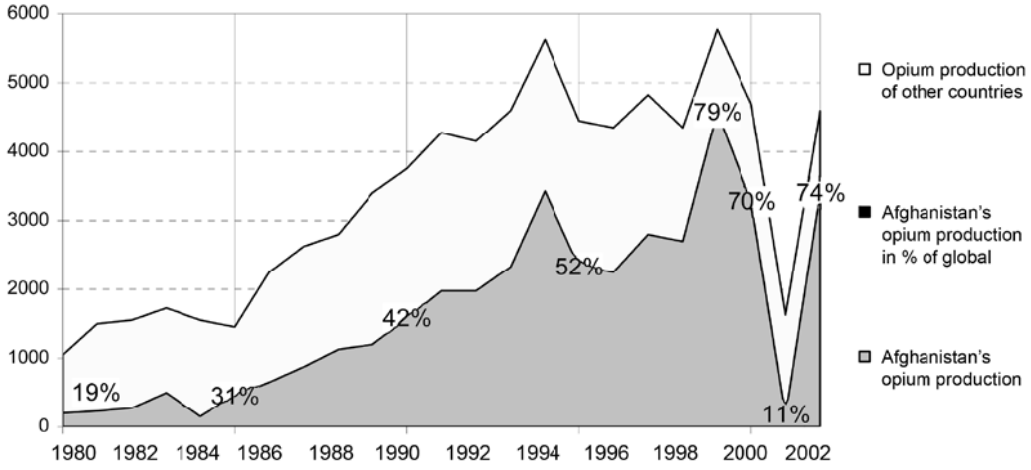
21 Opium is a durable good that when stored for several years as "dry" opium loses weight in comparison with freshly extracted "wet" opium, though this difference has no influence on the profit margin. In addition, opium can be stored longer than powder heroin. Cf. William A. Byrd, *Responding to Afghanistan's Opium Economy Challenge: Lessons and Policy Implications from a Development Perspective*, Washington, D.C.: World Bank, South Asia Region, March 2008 (Policy Research Working Paper 4545), p. 8, www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2008/03/04/000158349_20080304082230/Rendered/PDF/wps4545.pdf.

22 Cf. UNODC, *The Opium Economy in Afghanistan* [as in footnote 3], p. 90.

23 Since the appearance of the Taleban, UNOCAL maintained close contacts with the Taleban leadership in order to realize the pipeline project. UNOCAL financed a training center at the University of Omaha in Nebraska, USA, where Afghan technicians were to be trained for the construction of the pipeline. The US missile attacks on Osama bin Laden's training camp in the Afghan-Pakistani border region in August 1998 and the resistance of ecological and feminist groups in the USA in September 1998 eventually forced UNOCAL to abandon their plans. Cf. Ahmed Rashid, *Taliban. Islam, Oil and the New Great Game in Central Asia*, London/New York 2000, pp. 170–175.

24 Cf. UNODC, *The Opium Economy in Afghanistan* [as in footnote 3], p. 92.

Figure 2
Afghanistan's share of global opium production, 1980–2002 (in metric tons)



Source: UNODC, *The Opium Economy in Afghanistan. An International Problem*, New York 2003, p. 89, http://www.unodc.org/documents/data-and-analysis/afg_opium_economy_2003.pdf.

rough estimates, the tax yield the Taleban reaped from the drug industry was substantial: In 1999, for example, around US$15m was raised through the *ushr* tax and US$30m from the centrally levied *zakat* – in addition to revenue from the other sources of funding prevalent in the war economy mentioned above.[25]

The structural transformation to a war economy was accompanied by a change in the roles of the various actors. The eyes of the international community were trained on the Taleban as the dominant warring party, thereby neglecting their adversaries, foremost the various Sunni mujahedeen factions. Starting in 1999, the Taleban regime increasingly fell under the radical influence of Osama bin Laden's Al Qaeda and isolated itself internationally. Mullah Omar reacted to international sanctions and demands for the containment of drug production by demonstratively banning the cultivation of opium poppy (but not drug trading) on July 27, 2000 – before the start of planting for the 2001 crop year. The measure was surprisingly successful: the total 2001 harvest dwindled abruptly to only 185 tons, i.e., to the level of the early 1980s (see Figure 1, p. 12).[26] The total area under cultivation shrank by 91%; total opium production sank by 94%. International analyses ascribed this development mainly to a price-adjusting intervention by the Taleban regime aimed at keeping the global market price stable after earlier overproduction. After all, in 2000 Afghanistan was already producing 70% of the world's opium.

Two aspects, however, were largely ignored. First, it was only much later acknowledged that the Taleban leadership had used the ban on cultivation to demonstrate their (quasi-)governmental authority.[27] Second, the question of who was responsible for the remaining production was not posed. Closer inspection revealed a more complex picture. The remaining opium stock came almost exclusively from two provinces that were controlled by adversaries of the Taleban: Badakhshan Province in the north-east and Samangan Province in the north. Badakhshan accounted for 83% of the harvest in 2001; the cultivation area had tripled over the previous year. 8% of the remaining production was contributed by Samangan.[28] All of Badakhshan and a large part of Samangan were controlled by Taleban adversaries.

These adversaries had joined forces in the loosely organized Northern Alliance, which was plagued by

25 Cf. Rubin, "The Political Economy of War and Peace in Afghanistan" [as in footnote 19], p. 1796

26 Cf. UNODC, *The Opium Economy in Afghanistan* [as in footnote 3], p. 93.

27 Cf. Mark Shaw, "Drug Trafficking and the Development of Organized Crime in Post-Taliban Afghanistan", in: Doris Buddenberg and William A. Byrd (Eds.), *Afghanistan's Drug Industry. Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy*, Washington, D.C.: UNODC/The World Bank, November 2006, p. 210, Box 7.1, www.unodc.org/pdf/Afgh_drugindustry_Nov06.pdf.

28 Cf. UNODC, *The Opium Economy in Afghanistan* [as in footnote 3], p. 93.

internal power struggles. The Alliance comprised the most important Sunni mujahedeen factions; Shiite mujahedeen leaders (intermittently); and former Communists who had changed sides after the ouster of Najibullah in 1992. Badakhshan played a special role, as it had successfully defended against the incursion of the Taleban. The province was the stronghold of Islamic scholar Professor Burhanuddin Rabbani, the official leader of the Northern Alliance. Rabbani, who was President of Afghanistan from 1992 to 1996, continued to be recognized by the international community as nominal president and officially held the seat of Afghanistan at the United Nations. Not until the Petersberg Conference in December 2001 was he forced to abdicate in favor of Hamid Karzai.

The 2001 shift in production from territories controlled by the Taleban to those controlled by the Northern Alliance was part of an underlying pattern of role transformations undergone by various actors in the course of the prolonged war from 1979 to 2001. This transformation ensued in three phases:

- During the anti-Soviet jihad, the seven Sunni mujahedeen factions functioned as guerrilla fighters with exile headquarters in Pakistani Peshawar.[29] They supplemented the external funding they received from their most important ally, the United States, with drug profits.
- Between 1989 and 1994, the guerrilla leaders became war entrepreneurs. In order to be able to assert authority in their respective territories, they decentrally raised illicit income from the war economy, which in turn was sustained by the drug industry. In 1994 the Taleban emerged from two of the seven Sunni factions.[30] After the overthrow of the Najibullah regime in 1992, Shiite mujahedeen leaders and former Communists also developed into war entrepreneurs in their regional areas of control.
- In response to the increasing fragmentation, the Taleban was built up with Pakistani backing. From this point on, the development of the Taleban and myriad other larger and smaller war entrepreneurs took various courses. The Taleban took steps to supplant the fragmented power structure with centralized political authority, exercising quasi-governmental control and converting illicitly generated funds into governmental revenue. The adversaries consolidated in the Northern Alliance, in contrast, adhered to their role as war entrepreneurs in mutual competition with one another. The Sunni Peshawar factions, in particular, reactivated the contacts they had established with the United States and other Western states in the 1980s. These factions especially profited from the new funding and political support accorded them after international recognition of the Taleban was ruled out in 1999.

After the attacks of September 11, 2001, and as a result of the US aerial war against the Taleban which began on October 7, the quasi-governmental Taleban regime was defeated.[31] Just as in 1979, the United States needed Afghan allies who could provide ground forces to support the aerial raids. The war entrepreneurs of the Northern Alliance mutated into allies of the United States and captured the core ministries in Kabul in November 2001 as a symbol of their newly acquired power. In late November and early December 2001 they assumed the role of official Afghan negotiating partners at the Petersberg Conference[32] and

29 Only Tajik commander Ahmad Shah Massoud, who belonged to Rabbani's *Jamiat-e Islami* faction, operated out of the Panjsher Valley (near the Salang Tunnel north of Kabul), though he also maintained a liaison office in Peshawar. Massoud was killed on September 9, 2001 in a suicide attack carried out by Al Qaeda members in northern Afghanistan.

30 The Islamic factions were led by Gulbuddin Hekmatyar, Rabbani (with Shah Massoud), Younus Khales and Abdulrabb Rasul Sayyaf; the traditionalist factions were led by Mohammad Nabi Mohammadi, Sebghatullah Mojaddedi and Pir Ahmad Gailani. Cf. Asta Olesen, *Islam and Politics in Afghanistan*, Richmond 1995, p. 284. – Pashtun commander Maulawi Mohammad Nabi Mohammadi founded the *Harakat Inqilab-i Islami*. One of the *Harakat* commanders was Mullah Mohammad Omar, later leader of the Taleban. Cf. Michael Griffin, *Reaping the Whirlwind. The Taliban Movement in Afghanistan*, London 2001, p. 256.

31 Some of the leaders and followers nevertheless managed to flee or went underground. They reorganized as neo-Taleban in the following years in the form of decentrally operating guerrilla groups. Cf. Thomas Ruttig, *The Other Side: Dimensions of the Afghan Insurgency: Causes, Actors and Approaches to Talks*, Afghanistan Analysts Network (AAN), July 2009 (Thematic Report 01/2009), www.aan-afghanistan.org/index.asp?id=114.

32 Northern Alliance negotiators wielded the largest influence of the four Afghan delegations. The other three represented the interests of various warring parties or interest groups: The Rome Group represented individuals associated with former King Zahir Shah, who was living in exile in Rome; the Peshawar Group was closely linked to Pakistani circles; and the Cyprus Group had contacts to Iran. C f. Thomas Ruttig, *Afghanistan: Institutionen ohne Demokratie. Strukturelle Schwächen des Staatsaufbaus und Ansätze für eine politische Stabilisierung*, Berlin: Stiftung Wissenschaft und Politik, June 2008 (SWP-Studie 17/2008), p. 17.

appointed Hamid Karzai as Afghanistan's new president. Once they had entered the ranks of the most important United States allies, the former war entrepreneurs became the power brokers of "post-war" Afghanistan and were rehabilitated by the United States and the international community as the body responsible for the new political order. If they wanted to increase their influence under the playing rules of the emerging system, they would have to combine forces. To this end, in spring 2007 the members of the former Northern Alliance banned together with representatives of former adversarial warring factions to form a new party, the "National Front". Under the new designation *jihadis*, which now included Sunni and Shiite mujahedeen leaders, they ascended to become central actors under the government of Hamid Karzai (see Table 1). When they occupied new power positions, however, they also retained the economic network and patronage structures that originated in the war economy – both of which continued to rely on the drug industry as the most important source of financing. Drug traders and producers who had formerly operated within the areas of control of the Taleban were incorporated into the reorganized political networks.

Table 1
Former leaders from the camp of the mujahedeen/jihadis ("warlord politicians")

Prominent jihadi leaders hold high-ranking offices in the Karzai government:

Sunni jihadi leaders

- Prof. Abdulrabb Rasul Sayyaf
  Leader of the *Dawat-e Islami* party and Chairman of the Foreign Policy Committee in the lower house of the Afghan parliament *(Wolesi Jirga)*
- Former President Prof. Burhanuddin Rabbani
  Leader of the *Jamiat-e Islami* (Islamic Society of Afghanistan) and Chairman of the Legislative Committee in the lower house *(Wolesi Jirga)*
- Former President Prof. Sebghatullah Mojadeddi
  Chairman of the Senate *(Meshrano Jirga)* and of the program to promote reconciliation with formerly hostile armed opposition groups
- Pir Sayyed Ahmad Gailani
  Leader of the National Islamic Front of Afghanistan (NIFA) and spiritual leader of the Qadiriyya Order in Afghanistan, one of the oldest Sufi orders *(tariqa)*
- Abdulhadi Shinwari
  Chief Justice of the Supreme Court until 2006, today Chairman of the Senior Ulema Council

Shiite jihadi leaders

- Karim Khalili
  Leader of the *Wahdat* party (Islamic Unity Party) and Vice President of Afghanistan
- Ustad Mohammad Mohaqeq
  Chairman of the rival People's Islamic Party/ *Wahdat* and of the lower house Committee for Religious Issues
- Ayatollah Muhammad Asef Mohseni
  Chairman of the separate Shia Ulema Council

Source: Thomas Ruttig, *Afghanistan: Institutionen ohne Demokratie. Strukturelle Schwächen des Staatsaufbaus und Ansätze für eine politische Stabilisierung*, Berlin: Stiftung Wissenschaft und Politik, June 2008 (SWP-Studie 17/2008), p. 18.

The transformation into a drug economy (2002–2008)

The fourth phase of the transformation began with the assumption of office by Hamid Karzai in December of 2001. At the actor level, an alliance of interests was formed consisting of rehabilitated "drug politicians" (former war entrepreneurs); the weak Karzai government; underpaid, easily corrupted government employees; and relatives of high officials.[33] This reorganization of actors was accompanied by an economic transformation. Thanks to international development aid, a rudimentary formal sector developed, but the Afghan economy continued to be dominated by the informal sector, the basis of which was the drug economy.

The structure of drug production in 2008

The term "drug industry" comprises an array of economic activities: from the cultivation, production, processing and smuggling of opiates to the levying of protection fees, the acceptance of bribes, and the clandestine taxation of the opium poppy harvest. The spectrum of beneficiaries is accordingly broad: opium farmer households, harvest workers, trader networks, political officials, state security agencies, private militias, and insurgent groups. Of these, the traders remain the driving force. The largest profits are made in the value added chain beyond Afghanistan's borders on the trafficking routes to Europe, Russia, the United States and, more recently, China, India and Southeast Asia. Since 2002, however, Afghan traders have been increasing their profit margins by processing an ever-larger portion of the opium (up to 70%) into substantially more profitable heroin before it leaves Afghanistan. The production behavior of all parties involved in the Afghan drug industry is determined by high flexibility at one end of value chain and low flexibility at the other end. Thus, when it comes to making decisions as to how much land will be cultivated and in which districts opium poppy is to be planted, producers are very flexible. Before every season, new decisions are made regarding the planting of opium poppy, which is an annual plant. In this way, areas under cultivation can be quickly changed or relocated, making it very difficult to achieve lasting successes in drug eradication. In contrast, the demand side – the global illicit drug market – is characterized by low price elasticity.[34] Despite global overproduction and three successive record harvests in Afghanistan, profit margins remained high in 2008 and with them the incentive to plant for the next growing season.

Under the Karzai government (i.e., from 2002 on), opium production continued to skyrocket. Total production and cultivation area (see Figure 3, p. 18) reached new record levels in 2006, making Afghanistan the world's largest producer (see Table 2, p. 18). The first slight decrease in 2008 would seem at first glance to confirm the success of the drug-fighting measures undertaken by the international community and the Karzai government. But a close analysis of the production structure calls this assessment into question.

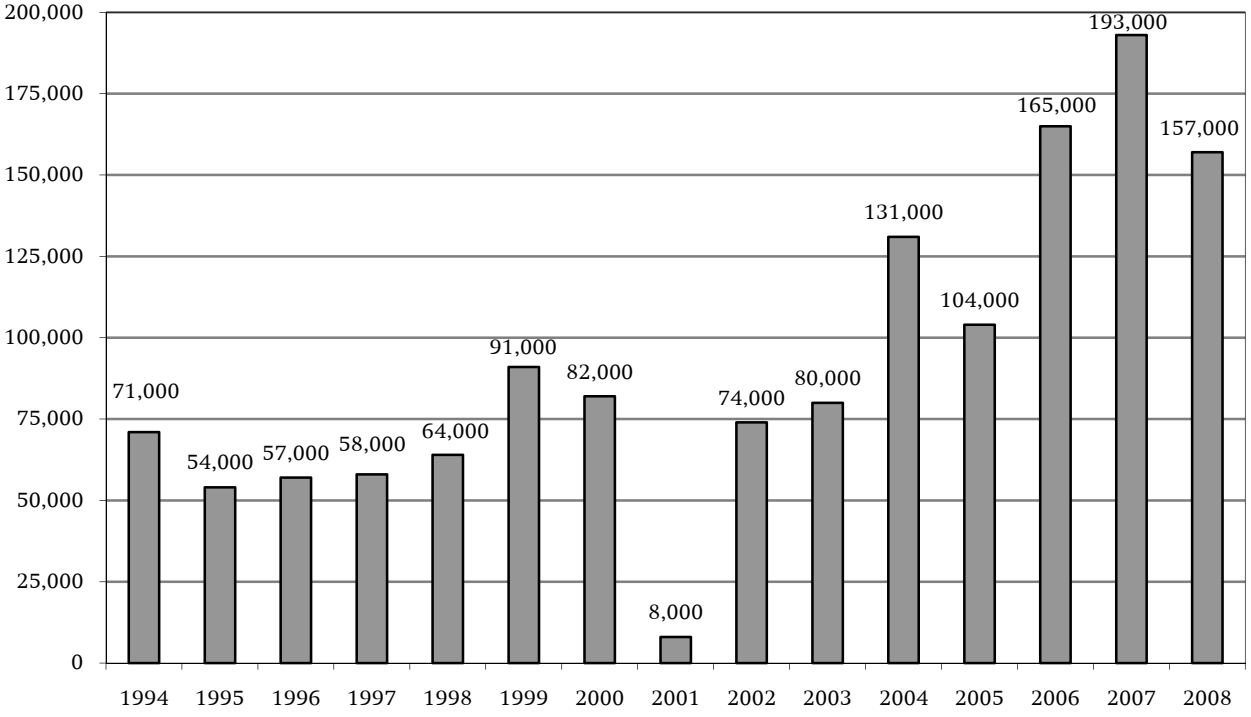
Doubts regarding sustainable decline

In 2008 total area under cultivation dropped to 157,000 ha; total cultivation area in 2007 was 193,000 ha. However, to put this remarkable 19% decrease into perspective, one must consider the fact that *total opium production* decreased by only 6%: 7,700 tons in 2008 compared with 8,200 tons in 2007. This discrepancy can be attributed to new record crop yields, which had increased from 42.5 kg/ha in 2007 to 48.8 kg/ha in 2008, suggesting that more professional cultivation

33 Cf. Antonio Giustozzi, "War and Peace Economies of Afghanistan's Strongmen", in: *International Peacekeeping*, Vol. 14, No. 1, January 2007, pp. 75–89. The author describes the transformation of the most influential warlords into politicians, businessmen and backers of the drug and informal economy after 2001.

34 This information and the following figures are taken from: UNODC, *Afghanistan Opium Survey 2008. Executive Summary* [as in footnote 1].

Figure 3
Opium poppy cultivation in Afghanistan, 1994–2008 (Hectares)



Source: United Nations Office on Drugs and Crime (UNODC), *Afghanistan Opium Survey 2008. Executive Summary*, August 2008, p. 3, http://www.unodc.org/documents/publications/ Afghanistan_Opium_Survey_2008.pdf.

Table 2
Afghanistan's contribution to global opium production, 1998–2008

Year	*Afghanistan's opium production (metric tons)*	*Global opium production (in Tonnen)*	*Percentage of global production accounted for by Afghanistan (per cent)*
1998	2693	4346	62%
1999	4565	5764	79%
2000	3276	4691	70%
2001	185	1596	12%
2002	3400	4491	76%
2003	3600	4765	76%
2004	4200	4850	87%
2005	4100	4620	89%
2006	6100	6610	92%
2007	8200	8847	93%
2008	7700	8298	93%

Source: UNODC, *Afghanistan Opium Survey 2008,* November 2008, Table 35, p. 92, http://www.unodc.org/documents/crop-monitoring/Afghanistan_Opium_Survey_2008.pdf.

and irrigation methods were being applied.[35] UNODC concedes that in any case the eradication of poppy fields did not significantly contribute to the production decrease. Among other things, the decline in area under cultivation was ascribed to successful awareness campaigns conducted by a number of dedicated governors aimed at informing traditional authorities in the rural areas (village elders and mullahs). However, UNODC did not question the motives of these governors. Are politically ambitious politicians truly interested in combating the drug industry? Or do they primarily want to increase their chances in the Kabul power struggle and the competition for preferential access to international development aid by demonstratively distancing themselves from the "dirty business" of drug cultivation and processing?[36] It is not difficult for these politicians to outwardly disassociate themselves from the drug trade because they have already amassed sufficient resources from illicit profiteering. Furthermore, their new "clean" image guarantees them higher protection fees from the drug industry and the informal sector in general, especially when important trafficking routes pass through their provinces, for example as is in Balkh and Nangarhar.[37]

UNODC also attributed the fall in production to the drought and the dramatic escalation in food prices in Afghanistan that began in spring 2008. The rise in prices had prompted many farmers to plant wheat due to the comparably high profit margin and low labor costs.[38] However, it may have been precisely the drought and the famine of the winter of 2008/2009 that drove these farmers to return to the cultivation of opium poppy. In order to survive in winter, many of them must borrow money from drug traders. Since traders distribute loans together with new seed, many farmers are likely to opt for opium poppy again in order to be able to repay their debts. A sustained decrease in production is therefore unlikely.

The interdependence between instability, neo-Taleban, and drug production

The growth of insurgent groups in the south and east since 2006 has contributed to the deepening of the north-south divide which is characteristic for the geographic distribution of poppy cultivation. In 2008, opium production was concentrated in only seven of Afghanistan's 34 provinces, all of which were located in the south and south-west. These provinces accounted for 98% of total opium production (measured by cultivation area): Helmand 66%; Kandahar 9%; Uruzgan 6%; and Farah 10%. Nimroz, Zabul and Daikundi accounted for the remaining 7% in this group. The other provinces contributed the small remainder of 2%.

This finding seems to confirm the interdependence between high instability, de facto rule by insurgent commanders, and professional drug production. The reorganized neo-Taleban secretly levy a 10% agricultural tax (*ushr*) on poppy cultivation, offering protection from crop eradication in return. But placing the blame for drug production solely on the insurgents does not do justice to the complex interplay of actors. For only in cooperation with other actors and political "patrons" can the neo-Taleban exercise control over the areas under cultivation.[39] This cooperation fosters the creation of a heterogeneous alliance of interests, termed "opposing militant forces" (OMF).[40] Under the leadership of the neo-Taleban, the OMFs comprise militant leaders such as the Pashtuns Gulbuddin Hekmatyar (active in northern and eastern Afghanistan) and Jalaluddin Haqqani together with his son Sirajuddin (based in Waziristan and active in south-eastern Afghanistan); the latter are affiliated with the Al Qaeda network. Other OMFs, however, are made up

35 Southern Afghan traders provided higher-quality seeds which produced higher yields. In addition, the harvesting experts based there were better trained. Cf. Shaw, "Drug Trafficking" [as in footnote 27], p. 206.

36 Cf. ibid., pp. 197–198.

37 For a history of governors Ustad Mohammad Atta (Balkh) and Gul Agha Sherzai (Nangarhar, formerly governor of Kandahar), cf. Giustozzi, "War and Peace Economies of Afghanistan's Strongmen" [as in footnote 33].

38 The labor costs for the cultivation of opium poppy are twice to three times as high as those for the cultivation of wheat, primarily because considerably more manpower is required, especially during the harvest. For each hectare of cultivated land, 350 man-hours are required for the harvest of opium poppy and only 200 man-hours for that of wheat. Cf. Edouard Martin and Steven Symansky, "Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts", in: Buddenberg and Byrd (Eds.), *Afghanistan's Drug Industry* [as in footnote 27], p. 30.

39 Cf. Antonio Giustozzi, *Koran, Kalashnikov, and Laptop. The Neo-Taliban Insurgency in Afghanistan*, New York 2008.

40 Cf. Citha D. Maass, *Eskalation in Afghanistan und der Tornado-Einsatz. Deutsche Initiativen für eine umfassende Stabilisierungsstrategie gefordert*, Berlin: Stiftung Wissenschaft und Politik, February 2007 (SWP-Aktuell 14/2007), www.swp-berlin.org/common/get_document.php?asset_id=3793.

Overview
The main approaches in the fight against drugs

Since 2002 the Afghan government and international organizations have applied various concepts and instruments. The government in Kabul has revised its "national drug control strategy" several times, thereby emphasizing that it will take several years and a sustained process to implement the strategy. In the fight to eradicate poppy fields, the cultivation of alternative crops is given priority over the deployment of chemicals and crop dusters. However, the strategy suffers from three major deficits: It fails to set short-term priorities or map out how the various components can be effectively coordinated; the financing is inadequate; and finally, the political will to implement it is lacking.

Afghan and international approaches focus on three instruments:

- *Focus on production* (main instrument): physically eradicating the harvest or forcing farmers to renounce poppy cultivation. Physical eradication is carried out either by the centrally controlled "poppy eradication force" (PEF) or by police and special forces within the framework of "governor-led eradication" (GLE) at the provincial level. Pressure to refrain from cultivating drugs is exerted by district officials, village councils and mullahs. Eradication has a limited, unsustainable and tendentially even counterproductive effect, for three reasons: (1) Eradication is difficult because cultivation can be shifted to other fields at short notice. (2) Political resistance and the corruption surrounding eradication drive poppy farmers to seek refuge with insurgents and local "patrons". (3) Eradication ignores the hidden structural forces that drive the drug industry.
- *Focus on distribution and processing* (instrument under development): disrupting trafficking routes, seizing and incinerating shipments, destroying heroin laboratories, arresting traders, and building up counter-narcotics police and special courts. The effectiveness of such an approach is limited, as the deterrent effect is diminished by poor implementation due to corruption, the forced release of prisoners (e.g., by extortion), and the de facto immunity of large-scale traders and political "patrons". Competitors are denounced to the authorities, leading to a consolidation of the drug market in the hands of a small number of traders.
- *Focus on substitution* (instrument which triggers activism): promoting the cultivation of alternative seeds and fruits and fostering alternative cultivation methods. Despite the great number of internationally financed initiatives, the effectiveness is limited because the projects are limited to local areas and fail to sufficiently take into account economic and social dependencies. The programs now being promoted, in contrast, are based on more comprehensive planning; how they fare in practice remains to be seen.

of drug traders and organized criminal groups who do not subscribe to the ideology of the neo-Taleban.

At the same time, it is also likely that representatives of the Karzai government who hold governorships or other high posts in the southern provinces maintain tacit contacts with OMF groups. This applies, for example, to the members of the Akhundzada clan in Helmand, who for years have had a controlling position in the local drug industry and whose leader, Sher Mohammad, played a key role in the southern Afghan drug market.[41] In autumn 2005, Karzai appointed him Senator in the Afghan upper house in Kabul in order to remove him from his region and weaken his influence. Nevertheless, the clan was able to maintain their central role, as their militias supported US-led troops in the framework of Operation Enduring Freedom (OEF).

Karzai's brother, Ahmad Wali Karzai, is said to have ties to the intricately interwoven drug market in Helmand and Kandahar. Wali Karzai is chairman of the provincial council in Kandahar and has been suspected in UN circles since 2004 – as well as in the

41 Cf. Alain Labrousse, "Angriff auf die falschen Ziele. Der Krieg gegen die Drogen wird von Machtpolitik geleitet", in: *Welt-Sichten*, November 2008, www.welt-sichten.org/artikel/art-11-008/angriff-auf-die-falschen-ziele.html.

international media since 2008 – of involvement in heroin trafficking.[42] On October 28, 2009 the *New York Times* published an article claiming that Ahmed Wali Karzai had been on CIA payroll for eight years and continued to serve as the most important liaison in the fight against insurgents.[43] In reference to Wali Karzai's alleged involvement in drug trafficking, a spokesperson for the US government evasively commented that there was "no conclusive evidence" that "would stand up in court".[44]

A misleading measure of success

UNODC measures progress in the fight against drug trafficking primarily in terms of the number of provinces which have been rendered "poppy free". A province is considered "free" when area under cultivation has shrunk to less than 100 ha. UNODC stresses the positive development: Whereas only 6 provinces were poppy free in 2006, in 2007 the number had already increased to 13 and in 2008 even to 18. In other words, in over half of the provinces nearly no opium poppy was being cultivated.

The track record is remarkable, though it is based on just one single product: opium. It neglects the fact that the range of products has in the meantime become diversified. The manufacture of heroin from opium within Afghanistan, for example, continues to rise steadily. According to estimates for 2008, 60–70% of opium harvested was processed into morphine and heroin in mobile laboratories.[45] Heroin manufacture requires acetanhybrid, which is optically indistinguishable from water. Large amounts of acetanhybrid must therefore be smuggled into Afghanistan – a further source of income within the drug industry. Recently the share of hashish – which is made from cannabis (hemp) – in the Afghan product range has seen significant growth. As a result of opium poppy eradication, many farmers have switched to cultivating cannabis. Cannabis is also grown in provinces that are officially considered "poppy free". The cultivation of cannabis is financially attractive. Though the gross profits are higher for opium poppy than for cannabis, cannabis yields higher net profits per hectare due to the lower labor costs.[46] By the mid-2000s Afghanistan had become not only the largest opium exporter in the world but also the largest cannabis exporter.[47]

Finally, two aspects of the drug industry must be considered which have thus far been completely overlooked or ignored for political reasons: bumper harvests and selective blindness with regard to influential drug traders. Due to low price elasticity, there is still a strong incentive to maintain high levels of opium production despite repeated record harvests. On the global drug market, however, demand has not grown at the same pace as production, thus prompting UNODC in early 2008 to investigate what had happened to the missing opium. Inquiries revealed that the farmers in the various regions of Afghanistan had stockpiled only modest stores. Thus, the enormous surpluses must have been hidden in secret warehouses by large-scale Afghan traders and their international distribution partners. UNODC gravely warns that

42 The author was confidentially informed of this fact by a staff member of the United Nations Assistance Mission in Afghanistan (UNAMA). Cf. Abdul Waheed Wafa, "Brother of Karzai Denies Links to Heroin", in: *New York Times*, October 7, 2008, www.nytimes.com/2008/10/07/world/asia/07afghan.html?ref=asia.

43 Cf. Dexter Filkins/Mark Mazzetti/James Risen, "Brother of Afghan Leader Is Said to Be on C.I.A. Payroll", in: *New York Times*, October 28, 2009, www.nytimes.com/2009/10/28/world/asia/28intel.html?_r=1&ref=world; Matthias Gebauer, "Der Al Capone von Kandahar. CIA-Mission in Afghanistan", in: *Spiegel online*, October 28, 2009, www.spiegel.de/politik/ausland/0,1518,657878,00.html.

44 The president's brother systematically and flagrantly manipulated the presidential elections across Kandahar Province on August 20, 2009 in his brother's favor. Wali Karzai emerged unscathed from subsequent investigations by the independent Electoral Complaints Commission because the commission did not have sufficient evidence of his direct involvement. Potential witnesses did not testify out of fear of reprisals.

45 For 1995 the share of opium production converted into heroin in Afghanistan was estimated at only 41%. The morphine content of opium cultivated in Afghanistan is very high: the highest yields are attained in Badakhshan. In many opium-producing countries, e.g., in Southeast Asia, the physical transformation ratio of opium to heroin is 10:1, that is, about 10 kg of opium is needed to produce one kg of heroin. In contrast, the ratio in Afghanistan is 7:1, that is, only 7 kg of opium is needed to produce one kg of heroin. On this basis the estimated 7,700 mt in 2008 was converted into 1,100 mt of heroin, of which only 30-40% was exported as unprocessed opium. UNODC, *Afghanistan Opium Survey 2008* [as in footnote 1], p. 9; Martin and Symansky, "Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts" [as in footnote 38], p. 26.

46 Cf. UNODC, *Afghanistan Opium Survey 2008. Executive Summary* [as in footnote 1], p. viii.

47 Cf. UNODC, *Afghanistan. Opium Winter Rapid Assessment Survey*, February 2008, Preface, www.unodc.org/documents/crop-monitoring/Afghan-winter-survey-Feb08-short.pdf.

these stockpiles are a "time bomb for public health and global security".[48]

A no less sensitive issue is the selective political blindness of the international community toward large-scale traders and narco-politicians who hold high posts in the Karzai government. The interdependence between insurgency-driven instability and high drug production levels has increasingly brought the neo-Taleban into the focus of international counter-narcotics efforts. In contrast, a laissez-faire policy is practiced toward local commanders and forces who – though involved in the drug industry – serve the intelligence agencies of the US-led OEF coalition forces and the ISAF troops as allies and sources of information. The skyrocketing of drug production after 2002 was also fostered by the CIA practice of buying commanders in southern and eastern Afghanistan for "several hundred million US dollars" and then standing by as they converted the funds into loans to poppy farmers.[49]

A laissez-faire attitude also dominates vis-à-vis the "upperworld" at the top of the Afghan power pyramid. UNODC complains that the Afghan government and the international community have not mustered the will to bring wanted drug traders to justice.[50] The international donors are blamed for tolerating Karzai's protective hand over office-holders with alleged drug involvement. For example, for three years the international community allowed Karzai to leave in office the reputedly incompetent Minister of the Interior, Ahmad Moqbel Zarar, and to delay a reform of the Ministry of the Interior, which was considered "Kabul's most corrupt ministry". Most of the employees are involved in extortion, patronage systems, drug-trading networks, and other organized crime schemes.[51] Not until October 2008 did Karzai give into US pressure and install Mohammad Hanif Atmar as Minister of the Interior – an "Afghan Hercules" tasked with cleaning out the Augean stables of the Ministry of the Interior and the Police.[52]

The intertwining of political interests

The interaction of the various actors cultivates a drug economy which in turn determines the power structure of the emerging post-war order. An alliance of interests between President Karzai and the former war entrepreneurs took shape as early as 2002. At the *Emergency Loya Jirga* in May and June 2002, Karzai secured the support of the drug politicians for his election as interim president by making political compromises – with the active support of then US Special Envoy and later Ambassador Zalmay Khalilzad. Most of the former war entrepreneurs used their political rehabilitation by the international community to establish new power positions within the emerging post-war order. To achieve this end, they needed state institutions that could help them gain access to official status, power and pecuniary advantages (corruption profits). In those regions in which the weak Karzai government was unable to assert the rule of law and the state's monopoly on the use of force, these "warlord politicians" served as regional "security providers". Supported by their local militias, they sold security in return for protection fees,[53] forming pragmatic alliances with commanders of the reorganized neo-Taleban, Gulbuddin Hekmatyar and other OMF groups.

The presidential elections in October 2004 marked a turning point, because President Karzai acquired formal legitimation. Since then, however, the weakness of Karzai's leadership has become ever more apparent. The President is increasingly dependent on the support of the "warlord politicians", which has reinforced the cooperation between the reorganized power elites and the Karzai government since 2005 (see Figure 4, p. 24). Karzai secures the political backing of the "warlord politicians" who in turn consolidate their patronage system within state institutions and in the social power structures of their regional strongholds. As the Karzai government can offer only

48 Cf. UNODC, *Afghanistan Opium Survey 2008. Executive Summary* [as in footnote 1], p. viii.
49 Cf. Goodhand, "Corrupting or Consolidating the Peace?" [as in footnote 20], p. 409.
50 Cf. UNODC, *Afghanistan Opium Survey 2008. Executive Summary* [as in footnote 1], p. viii.
51 Cf. Andrew Wilder, *Cops or Robbers? The Struggle to Reform the Afghan National Police*, Kabul: Afghan Research and Evaluation Unit (AREU), July 2007 (Issues Paper Series), pp. 52–53, www.areu.org.af.
52 It remains to be seen, however, whether Hanif Atmar can make significant headway against the clientele system in the Ministry of the Interior. Cf. John F. Burns, "Afghan President, Pressured, Reshuffles Cabinet", in: *New York Times*, October 11, 2008, www.nytimes.com/2008/10/12/world/asia/12afghan.html.
53 Cf. Conrad Schetter, "Grauzonen der Macht. Warlords und Bürgerkriegsökonomie in Afghanistan", in: Claudia Gomm-Ernsting and Annett Günther (Eds.), *Unterwegs in die Zukunft. Afghanistan – drei Jahre nach dem Aufbruch vom Petersberg. Grundlagen und Perspektiven deutsch-afghanischer Sicherheitskooperation*, Berlin 2005, p. 113; Jonathan Goodhand, "Frontiers and War: The Opium Economy in Afghanistan", in: *Journal of Agrarian Change*, Vol. 5, No. 2, April 2005, p. 203.

limited protection for legal activities, the drug economy thrives in the weak security environment. Part of the daily business of the drug industry is bribing government employees who in return facilitate the unhindered flow of drugs both within Afghanistan and at border crossings to international transit routes. Large illicit payments fuel corruption and undermine the development of state institutions. The powerful "patrons" of the drug industry (bona fide officials as well as illicit large-scale traders) oversee and regulate the production structure and the sale of drugs.

It is not the producers, i.e., around 366,000 to 500,000 poppy farmers,[54] but rather small groups of large-scale traders who make decisions regarding production changes in the drug industry. At the same time, they pull the strings in the drug economy, which is closely interlinked with the political system. Unlike in other drug-producing states, however, they do not constitute a closed cartel; nor do they exercise cartel-like control over price setting or structural changes.[55] Though some skirmishes in the south and along inner-Afghan transit routes can be ascribed to the drug trade, very few real "drug wars" have been observed between rival mafia organizations, as is common among Latin American drug cartels. The Afghan drug economy is instead characterized by the presence of a variety of actors, partly with legal status and partly with illegal status, who work together to regulate the drug market, often by exploiting family clan ties. When warranted by mutual interest, this cooperation can transcend ethnic and regional boundaries; but even the largest traders have been unable to exert influence beyond Afghanistan's borders and therefore have no control over the international sales markets in Europe, Russia or Asia.

At the national level, the political alliance of interests rests on a hierarchically structured pyramid of protection and patronage systems that extend from the capital to the remotest growing regions. At the top of this pyramid are political "patrons" in the Karzai government; at the base are the innumerable small farmers in the Afghan villages (see Figure 5, p. 25). The pyramid depicts a complex network of control, protection and dependency in which the "warlord politicians" ostensibly constitute the political "upperworld" and the drug networks the illicit "criminal underworld". The symbiotic relationship between the "upperworld" and the "underworld" is safeguarded by state institutions ranging from the Kabul Ministry of the Interior and the Police under its direction down to provincial/district police chiefs or equivalent government officials.[56]

The poppy farmers at the base of the pyramid are dependent on the small opium traders in the village, because it is they who either buy the opium from them or exchange foodstuffs directly for opium. These small traders also provide access to loans, poppy seed, fertilizer and pesticides. Both groups must pay protection fees to local authorities: police, government representatives, local commanders, and violent neo-Taleban groups or OMFs operating in the respective area. Both the farmers and the small traders pay protection fees; the former to prevent their fields from being eradicated, the latter so that they can transport the opium to mid-level traders outside the immediate vicinity of their villages.

The crossover to the tier of the mid-level traders marks the "line of criminal control". The mid-level traders operate on the fringes of the "criminal underworld". They are flexible as to how they organize their trading downwards and have little reason for concealment. Upwards, in contrast, they are integrated into networks and webs of relationships that increasingly take on a more fixed organizational structure in the course of consolidation and which are subject to strict secrecy. They pay protection fees to the next-highest rank of police forces and government officials as well as to local or regional "security providers".

From the middle tier upwards the pyramid narrows considerably. Transactions take place only under absolute secrecy. The operative business (smuggling and processing into heroin) is in the hands of a shrinking coterie of large-scale traffickers. These traffickers organize drug transports within Afghanistan and across the border to international drug rings. In carrying out this increasingly risky business, they also make use of impoverished sporadic smugglers and routinely bribe border officials on both sides.[57] In

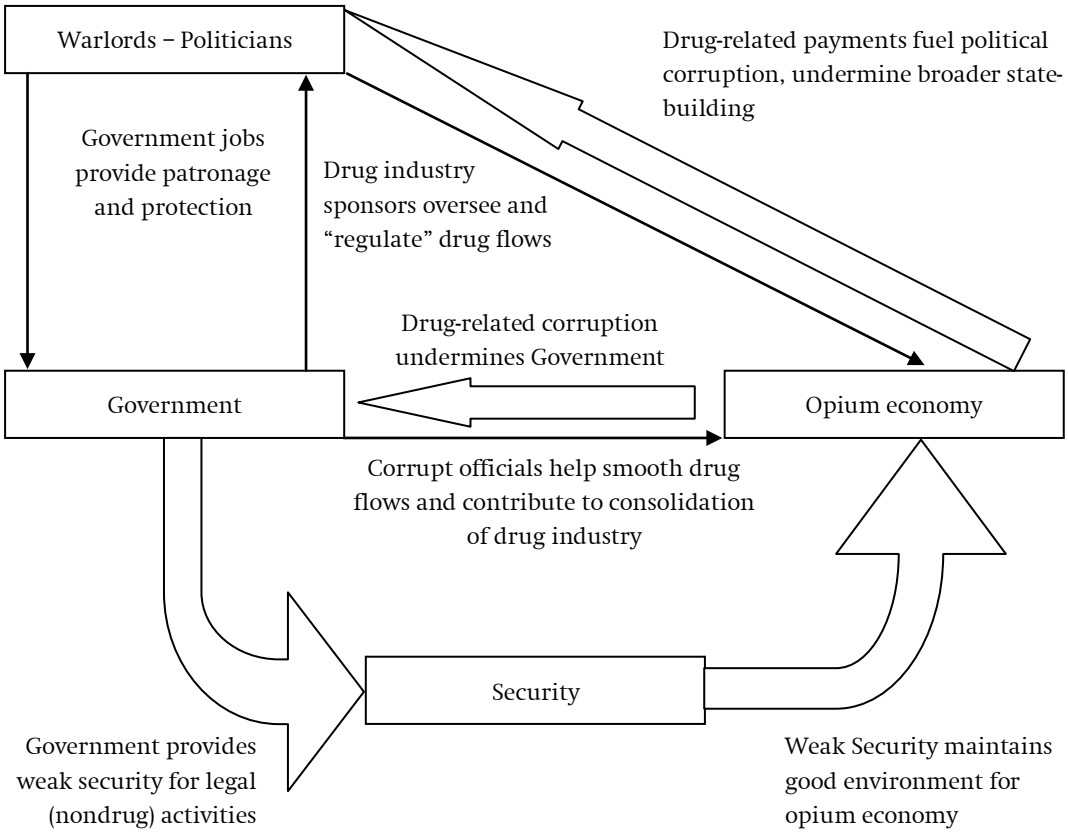
54 In 2006 the number of poppy farmers (excluding working family members and hired seasonal workers) was estimated at 448,000. In 2007 the number increased to 509,000 and sank in 2008 to 366,500. Cf. UNODC, *Afghanistan Opium Survey 2008* [as in footnote 1], p. 125.

55 Cf. Byrd, *Responding to Afghanistan's Opium Economy Challenge* [as in footnote 21], p. 8.

56 Cf. Shaw, "Drug Trafficking" [as in footnote 27], pp. 198 et seq.

57 Cf. Friederike Böge, "Für dreißig Euro das Leben riskiert", in: *Welt-Sichten*, November 2008, www.welt-sichten.org/artikel/art-11-008/fuer-dreissig-euro-das-leben-riskiert.html.

Figure 4
Consolidation of the drug economy



Source: William A. Byrd, *Responding to Afghanistan's Opium Economy Challenge: Lessons and Policy Implications from a Development Perspective*, Washington, D.C.: World Bank, March 2008, p. 15, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2008/03/04/000158349_20080304082230/Rendered/PDF/wps4545.pdf.

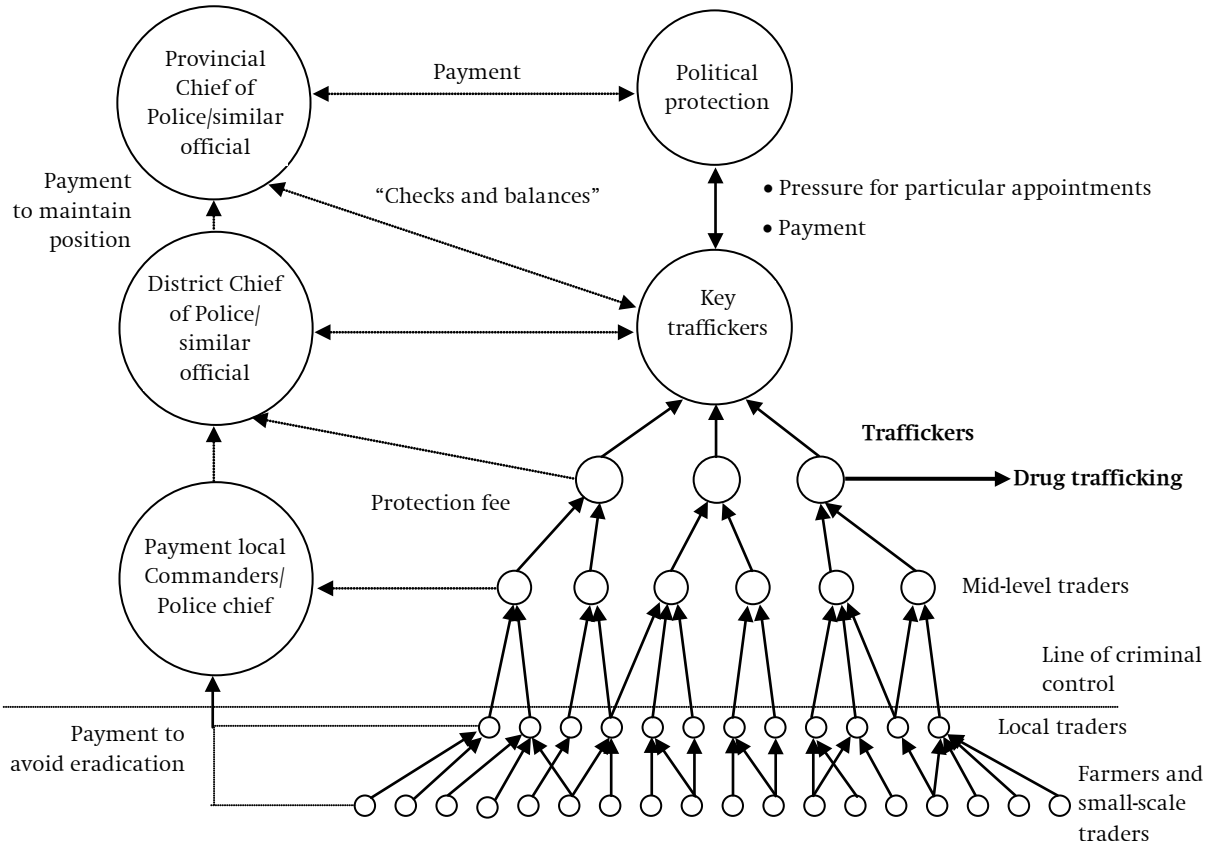
addition, protection fees flow to district officials in the respective government institutions.

At the top of the pyramid is the small "trafficking elite", which comprises only a few dozen key players who control the national drug market. This elite leaves the "dirty business" to the large-scale traders, who are generally dependent on one key individual by whom they are strictly controlled. The trafficking elite collaborates with the "warlord politicians", many of whom have crossed over from the trafficking elite to the political "upperworld" in the course of the consolidation process. The key players secure political protection by transferring large sums of money to governors or police chiefs at the district and provincial levels or by forwarding payments directly to the bank accounts of Kabul politicians in Dubai.

In the hierarchically structured pyramid, complementary dependency and control mechanisms ensure effectiveness, secrecy, and political protection. *From the bottom up*, producers and traders are personally dependent on their respective "patrons" further up the pyramid, who guarantee them business and shield them politically through the payment of protection fees at the respective level. Governmental recipients of protection fees are also bound by a hierarchical payment system, since they must surrender part of their illicit income to their superiors, thereby contributing to corruption within state institutions. At the same time, the personal patronage system is regulated by control mechanisms that work *from the top down*. Thus, key players can monitor whether traders have in fact made protection payments to their political and administrative "patrons" at the respective level.

Three factors combine to consolidate the political alliance of interests by means of a "market adjustment": The "patrons" of the political "upperworld"

Figure 5
Pyramid of protection and patronage systems

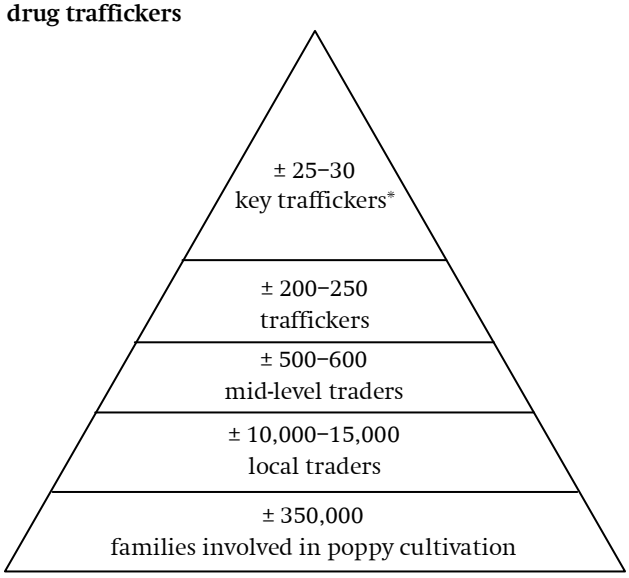


Source: Mark Shaw, "Drug Trafficking and the Development of Organized Crime in Post-Taliban Afghanistan", in: Doris Buddenberg and William A. Byrd (Eds.), *Afghanistan's Drug Industry. Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy*, UNODC/ The World Bank, November 2006, Figure 7.1, p. 200, http://www.unodc.org/pdf/Afgh_drugindustry_Nov06.pdf.

broaden their influence; the trafficking elite step up controls and secrecy regarding transactions; and the international community presses the Karzai government to combat drugs more effectively. The latter in turn increases "operating costs" and fuels corruption in the political system. In the course of this process, power and control is concentrated in ever-fewer hands, because top-level key players as well as traders at all subordinate levels are excluded from the market if they do not have enough political protection. This political concentration is accompanied by a geographical concentration, for the center of power and regulation of the national drug industry is shifting to the south of Afghanistan, with Helmand and Kandahar as a unified central drug market. Political and operative concentration processes lead to the formation of a "consolidated pyramid" (see Figure 6, p. 26). The trafficking elite is reduced to approximately 25 to 30 key players, 15 of whom operate out of southern Afghanistan, where they exploit the instability that is exacerbated by neo-Taleban-led insurgent groups. The number of large-scale traders responsible for the operative business has dropped to an estimated 200 to 250 individuals. The mid-level traders, who operate on the fringes of the criminal underworld, are estimated to number 500 to 600 individuals.

However, the geographic shift of the market center in no way implies that the "warlord politicians" in the poppy free provinces of the north have withdrawn from the drug industry. Although they demonstratively distance themselves from the "dirty" part of the drug industry, they have diversified their activities and continue to profit directly from payoffs, protection money and "taxation". The drug industry in the north-eastern province of Badakhshan maintains a certain degree of autonomy due to its location in the

Figure 6
Consolidation trhough concentration of drug traffickers



* of which an estimated 15 are based in the South

Source: Mark Shaw, "Drug Trafficking and the Development of Organized Crime in Post-Taliban Afghanistan", in: Doris Buddenberg and William A. Byrd (Eds.), *Afghanistan's Drug Industry. Structure, Functioning, Dynamics, and Implications for Counter-Narcotics Policy*, UNODC/The World Bank, November 2006, Figure 7.3, p. 204, http://www.unodc.org/pdf/Afgh_drugindustry_Nov06.pdf.

high mountains. The province disposes of well-developed heroin laboratories that can be relocated at short notice and is directly connected to the trafficking routes to Tajikistan. The resignation expressed by one Afghan judge illustrates how smoothly the alliance of interests between licit and illicit "patrons" and the Karzai government functions: "The top drug dealers are beyond the law – no one can touch them. Small-scale traffickers and smugglers are sometimes brought to the court – it gives me shame to sentence them as none of the big traffickers are arrested – they cannot be stopped, their hand is law."[58]

The intertwining of economic structures

The power arrangement between the "criminal underworld", the political "upperworld", and the Karzai government has converted the war economy into an economic system characterized by a symbiotic relationship between the dominant informal sector and the small formal sector. The drug industry has managed to penetrate every sphere of post-war Afghanistan like a metastasizing cancer:[59] the national economy, the political system, state institutions and society. Profits from the drug industry are used to finance the legal import and illicit trafficking of a whole range of commodities (e.g., weapons, new and used vehicles, durable goods). In this way, the drug industry and drug trafficking form a powerful shadow economy that transforms Afghanistan into a *drug economy* in which political decisions made by the Karzai government are influenced by profit-seeking at the macroeconomic level and hierarchical power structures all the way down to the local level. But as the masterminds of the drug economy only exercise their political power covertly and the Karzai government does not participate directly in the drug trade or the shadow economy, Afghanistan has not yet crossed the threshold to becoming a narco-state.

Concrete figures revealing the close interlacing of the informal and formal sectors are admittedly hard to come by. It is in the nature of the shadow economy that its dimensions and transactions cannot be systematically documented but only estimated in approximate figures. In addition, statistical data collection in Afghanistan still tends to be very fragmentary and methodologically unsound, so that no reliable macroeconomic data stream is available and Afghanistan cannot be ranked in international statistical comparisons based on quantitative criteria. In fact, apart from annual UNODC reports, in-depth individual analyses on partial aspects of the expansive drug economy have only been available since the mid-2000s. Based on the limited information available, the economic entanglements are illustrated below using three examples: the macroeconomic role of the drug industry; the effects on the real economy; and the links between the drug industry, the informal financial transfer system *(hawala)*, and official bank transactions.

1. As a constituent part of the Afghan economy, the opium sector fulfills two important functions: it produces the largest export profits, which, however, are not recorded in the official balance of payments;

58 Shaw, "Drug Trafficking" [as in footnote 27], p. 205.

59 UNODC used this metaphor to describe the omnipresent drug industry: "Drug metastases have spread throughout Afghanistan, providing capital for investments, foreign exchange for expensive imports, revenue to underpaid officials as well as funding for weddings, burials and pilgrimages. Corruption has facilitated the general profiteering." Quoted from: UNODC, *Afghanistan Opium Survey 2007*, October 2007, p. v, www.unodc.org/pdf/research/Afghanistan_Opium_Survey_2007.pdf.

and it constitutes a major source of rural income. Its *macroeconomic role* can be seen in the fact that the share of the opium sector in the gross domestic product (GDP) is high, even if it is on the decline.[60] In fiscal year 2007/2008 this share amounted to 40% of licit GDP (i.e., excluding the opium sector) and made up 25% of all economic activity (including the opium sector).[61] The decline is attributable to the sustained growth of the formal economy, not to sinking drug production or drug exports, the volume of which has remained nearly unchanged.[62] A comparison with Colombia illustrates the macroeconomic significance of the large share occupied by the opium sector. At the apogee of cocaine production – from 1991 to 2001, when Colombia contributed 57% of global production – the contribution of the coca sector to overall economic activity (including the coca sector) was less than 2%.[63]

For the rural population of Afghanistan, the opium sector constitutes an important source of income. Just over 10% of Afghanistan's approximate 25 million inhabitants live on poppy cultivation: in 2008, this translated to 2.38 million farmers including family members.[64] Past drug control strategies have concentrated primarily on this segment of the drug economy, thereby neglecting the fact that only a small percentage of the income falls to poppy farmers, farm workers, family members, and harvest workers. Traders in all segments of the distribution system, in contrast, take in a much larger share, though they must also bear the risk of cross-border trafficking. The disproportionately large share in profits reaped by traders in comparison with that accruing to farmers can be worked out by means of a complex calculation used to determine the potential value of the opiates.[65] A comparison of income derived from licit activities and from the opium sector in fiscal year 2007/2008 serves to further illustrate the discrepancy: If one assigns the income from overall economic activity (licit GDP plus total opiate value) a value of 100%, then 75% of GDP is generated by the formal sector and 25% by the informal sector. Of this remaining 25%, traders pocket 20% but farmers are left with only 5% (see Figure 7, p. 28).[66]

2. The *impact on the real economy* is manifested in (1) the volume and form in which earned income flows into the real domestic economy, and (2) the manner in which this income influences (drug) exports and (commodities) imports. Because we are dealing with consumer behavior and financial flows that are not recorded in official statistics, one must rely on estimated figures taken from individual studies and local surveys.[67] Total income from the drug industry is somewhat less than the potential export value of the opiates, as losses due to seizures by narcotics control agencies and changes in warehousing must be included in the calculation. Poppy farmers and traders (including laboratory owners) spend their income in

60 The following estimates pointed to a negative trend: Between 2002/03 und 2005/06 the share of the opium sector in the GDP dropped from 62% to 38% of licit GDP (i.e., excluding the opium sector) and from 38% to 27% of overall economic activity (including the opium sector). Cf. Martin and Symansky, "Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts" [as in footnote 38], p. 27. The Afghan fiscal year begins on March 21 and ends on March 20 of the following year.

61 Regarding the *exclusive* share, cf. Economist Intelligence Unit (EIU), *Afghanistan Country Profile 2008*, London 2008, p. 18, www.eiu.com/report_dl.asp?issue_id=703614055&mode=pdf; regarding the *inclusive* share, cf. UNODC, *Afghanistan Opium Survey 2008* [as in footnote 1], p. 128.

62 Licit GDP grew in real terms in fiscal year 2003/04 by 15.7%, in 2004/05 by 8.0%, in 2005/06 by 16.1%, in 2006/07 by 8.2% and in 2007/08 by 11.5%. Cf. EIU, *Afghanistan Country Profile 2008* [as in footnote 61], p. 17.

63 Cf. Martin and Symansky, "Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts" [as in footnote 38], p. 27.

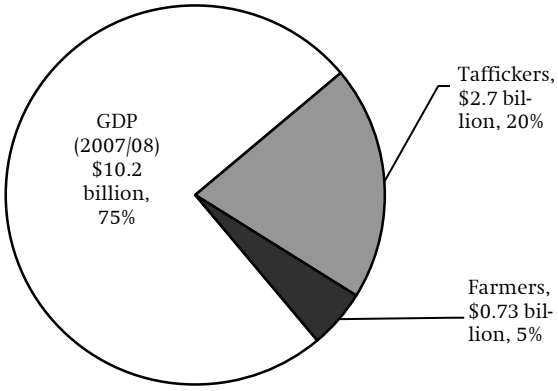
64 The trend is slightly negative, as a comparison with previous years shows: For 2007, the number was estimated at 3.31 million and for 2006 2.91 million farmers including family members. Cf. UNODC, *Afghanistan Opium Survey 2008* [as in footnote 1], p. 125.

65 When calculating the potential value of the opiates (2008: approx. 40% opium, 60% heroin and morphine), the following factors must be taken into account: The poppy farmers are paid a low base *farm-gate price*. From this point on the value increases through processing into heroin and morphine and along the distribution routes until successfully crossing the border. Deductions for protection fees along the distribution route are included in the calculation. As varying export prices are obtained at the borders to Iran, Pakistan, Central Asia and – to a lesser extent – at transshipment points in China and India, a computational average is taken as a basis. These various cost estimates are used to calculate the potential value of the opiates for the year in question.

66 For fiscal year 2007/08 licit GDP was estimated at US$10.2 billion. To this must be added an estimated total opiates value of US$3.4 billion, of which traders (including heroin laboratory owners) accounted for US$2.7 billion; poppy farmers accounted for only US$730 million. Cf. UNODC, *Afghanistan Opium Survey 2008* [as in footnote 1], p. 128.

67 The following information is based on research by Martin and Symansky, "Macroeconomic Impact of the Drug Economy and Counter-Narcotics Efforts" [as in footnote 38], pp. 30 et seq.

Figure 7
Legal economy and opium industry in Afghanistan 2007/08



Source: UNODC, *Afghanistan Opium Survey 2008*, November 2008, Figure 60, p. 128, http://www.unodc.org/documents/crop-monitoring/Afghanistan_Opium_Survey_2008.pdf.

different ways. Farmers spend nearly their entire income. An estimated 80% of farmers' consumption consists of "essential items" such as food, fuel, and health costs; these are purchased locally, thereby stimulating the local real economy. Wealthier farmers spend a small portion of their income on "non-essential" items such as cars, televisions, motorbikes, and generators; on productive assets (e.g., tractors); or on housing.[68]

In contrast, it is estimated that traffickers and processors consume only 40% of their income. They invest 15% in productive assets and construction; 45% is deposited in foreign bank accounts. To some extent, these assets are recycled into the domestic real economy in the form of new investments; part of traffickers' income also stimulates legal imports as well as illicit trafficking. But most drug profits never enter the domestic economy because the international drug rings transfer Afghan traders' share of the profits directly to their foreign bank accounts – mainly in Dubai. Two domestic sectors profit greatly from the invested – and thereby laundered – drug income: the construction sector in Kabul and other large cities; and trade in new and used cars – some imported legally, others smuggled into the country. Income deposited in foreign accounts is also used to finance the import/trafficking of an array of premium consumer and productive goods, the sale of which generates additional profits on the domestic market. Taking into account all capital flight, (unrecorded) trafficking into Afghanistan with its subsequent incentives for the domestic market, and the imports included in the official balance of payments, the bottom line is that drug profits have a net positive impact on the official balance of payments.

On the other side of the equation are the unquantifiable negative impacts on the real economy. For example, the investment climate has deteriorated, and the competitiveness of domestic commodities production, which is still in the development phase, is in decline. Consequently the Afghan economy suffers from an undesirable macroeconomic development known as *Dutch disease*.[69] High drug incomes, together with a rapid influx of large sums of international development aid, lead to a macroeconomic imbalance: On the one hand, investment capital is readily available; on the other hand, essential production factors, such as human capital and basic infrastructure, are lacking. The negative impacts manifest themselves in several ways. The demand for domestic goods, services and financial assets causes real estate and rental prices to rise, especially in the large cities. The increasing demand for production factors in various sectors and in the labor-intensive drug industry also drives up production costs and wages, making legally produced domestic goods less competitive. As additional costs and higher wages tie up capital and labor in the drug industry, there is little incentive to invest in other economic sectors. A further across-the-board hindrance to investment is the ubiquitous corruption in Afghanistan, which is especially pronounced at the provincial and district level. The inevitable *direct* corruption of employees in inefficient local administrative institutions and the *indirect* corruption of local warlords scare off both domestic and foreign investors.

3. *The informal sector, illicit financial transfers, and official international bank transactions* are closely inter-

68 According to estimates for the years 2002–2004, poppy farmers spent 80% of their total income, which derived from various sources, on direct consumption. 10% was spent on productive goods and housing, and 10% on investments in foreign currencies (mainly dollar reserves). These are averages encompassing both wealthy and poor poppy farmers, as incomes derived from poppy cultivation are often complemented by income from other agricultural production or other miscellaneous income.

69 In the 1960s, the Dutch economy suffered from the negative impacts of unexpectedly high earnings resulting from the exploitation of newly discovered natural gas reserves in the North Sea. This phenomenon was subsequently termed *Dutch disease*.

connected. The nexus is based on the traditional *hawala* system, by which funds are informally transferred into and out of the country and within Afghanistan. During the war years, the system prevented the complete collapse of the Afghan economy and ensured the survival of millions of Afghans by relaying remittances from clan members who had fled the country to relatives deep in the provinces. The joint introduction by the World Bank and the Central Bank of Afghanistan between 2002 and 2003 of a new Afghan currency was possible only with the support of the *hawala* system.[70]

Hawala, literally "transfer", denotes the cashless transfer of money and assets and was historically considered an "exchange of commitments". The *hawala* system is based on three components: a specific network of personal trust-based relationships; complex multi-step transactions; and interconnectedness with the international banking sector on the one hand and the Afghan real economy on the other.[71]

Personal networks[72] facilitate the multi-step financial transactions, with *hawala* dealers acting as "financial entrepreneurs". A transaction consists of three basic constituent parts: money exchange, the sending and receiving of remittances, and finally the settlement of the transaction – primarily in Dubai, which serves as a central clearing house. These constituent parts involve several levels, diverse dealers and various localities.[73]

The *hawala* system makes use of formal banking channels, since *hawala* dealers and large-scale Afghan drug traders – as well as the politicians of the "upperworld" – all maintain accounts in foreign banks. Foreign financial transactions are processed through these banks; the major part of finance flows circulates outside of Afghan territory. Linkage with the domestic real economy primarily takes the form of bank transfers, but cash transactions are not uncommon. The *hawala* system provides liquidity for important domestic trading centers such as Herat, the final destination of the transit route from Iran by which most imported goods enter Afghanistan. The high volume of goods handled by traders based in these centers not only guarantees them a share of the laundered profits generated by the shadow economy; it also provides them with capital from legal transit trade, which is required for investments in the domestic real economy.

Finally, *cash transfers* must also be taken into account, even if they are relatively limited in volume compared with bank transfers.[74] The physical transfer of cash results from a further important function of the *hawala* dealers: money exchange. Through their

70 In 2002 UN organizations, international governmental organizations (IGOs) and international NGOs also received their funding through the *hawala* system until the first international banks were opened in Kabul and other cities in the mid-2000s. Many employees of rural Afghan administrative institutions as well as family members of police officers, soldiers and international development workers continue to receive wages and project funds through *hawala* dealers as the network of microfinance banks in rural areas has yet to be established and developed.

71 The following explanation is based on Edwina A. Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan", in: Buddenberg and Byrd (Eds.), *Afghanistan's Drug Industry* [as in footnote 27], pp. 155 et seq.

72 In 2005 the number of these influential *hawala* dealers in Afghanistan was estimated at around 900. Large-scale dealers rely on their extensive family networks, some of which have opened offices in international financial centers such as Dubai; the Pakistani cities of Peshawar, Quetta and Karachi; London and New York; but also in Mumbai (formerly Bombay) or even Shanghai. Cf. Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan" [as in footnote 71], p. 164.

73 For example, this can transpire as follows: First, the profit share garnered by a drug trader based in Helmand from a drug transport to Western Europe is transferred by electronic transfer from London to Peshawar. Second, in Peshawar the money transfer is divided up into several amounts, out of which a partial payment is credited to a *hawala* dealer in Helmand, who has been authorized by the drug trader. Third, the drug trader in Helmand instructs his *hawala* dealer to buy goods through his branch office in Dubai and to import them legally or smuggle them illegally into the country via Herat in western Afghanistan. Fourth, the drug trader arranges the sale of the imported/smuggled goods on the domestic market at a profit. Fifth and finally, several weeks later accounts are settled among all the participants in Dubai, thus concluding the transaction.

74 As concrete figures are difficult to come by, two examples from 2005 should help to illustrate the dimensions. One of the largest *hawala* dealers in Faizabad, the provincial capital of Badakhshan, reported that on a "good day" he received financial transfers totaling US$5 million from Peshawar and between US$200,000 and US$300,000 from Jalalabad. On an average day, he transferred US$500,000. At any time during the year he could supply US$450,000 within two hours. – Increased liquidity due to drug production occurred during two phases: before planting, due to advances/loans to farmers, and after the harvest as a result of kickbacks to drug traders. These liquidity swings were reflected clearly in the turnover on the unified drug market in Helmand and Kandahar. In both peak phases, a large-scale hawala dealer turned over US$10 million per month for transactions stemming from both drug trafficking and licit trading; outside the peak drug season, however, the figure was only US$840. Cf. Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan" [as in footnote 71], p. 172 und pp. 178 et seq.

branch offices in border cities (mainly in Peshawar and Quetta), the *hawalars* procure large amounts of dollar bills and transport them to the provinces by land or air. There the dollars are converted into Afghan currency and, through a chain of middlemen, paid out – for example as wages – to family members deep in the province. The role the *hawala* system plays in the financial sector is further evidence of what is generally true for the interconnectedness of the drug industry, the shadow economy and the formal sector at the macroeconomic level: The formal and informal banking systems are just as closely intertwined with each other as are the formal and informal sectors of the economy. The *hawala* system serves both of them.[75]

75 Cf. Thompson, "The Nexus of Drug Trafficking and Hawala in Afghanistan" [as in footnote 71], p. 183.

Conclusion and recommendations

The increasing concentration of poppy production and opium processing in the southern provinces seems to confirm that there is a direct correlation between drug production, the strengthening of the insurgency movement, and growing insecurity. This situation provides the international community and the Karzai government with a reason to place primary blame on the neo-Taleban for the flourishing drug production and thus, in effect, for Afghanistan's becoming the world's largest supplier of opiates and cannabis. Indeed, they are absolutely justified in accusing the neo-Taleban of capitalizing on the lack of security. After all, the Taleban protect poppy farmers from eradication and traders from interdiction. Both of these strategies are applied by US, UN and Afghan forces in their narcotics control efforts.

However, as a result of its tendency to place the blame on one single entity, the international community continues to ignore the underlying causal connection. For drug production is merely the symptom, not the cause, of the lack of security in the south.[76] In addition, though the neo-Taleban profit from and exacerbate the insecurity which has arisen from the drug industry, they did not actually initiate it. Instead, the transformation from a war economy to a drug economy is actually the driving force. Both the Karzai government and the "warlord elite" profit from this "new type of political economy" (David Keen) in post-war Afghanistan. The neo-Taleban and OMF groups form the subversive flip side of the new order.

The post-war system that has consolidated since the mid-2000s is characterized by the following traits:

- Power, political posts and profits are not monopolized by a closed political class but rather divided up among an increasingly small circle of political leaders in a decentralized power system. These leaders rely on their regional patronage systems and enter into power arrangements among themselves and with the government in Kabul, which is subsidized by the international community.
- President Karzai is trying to compensate for his fading domestic legitimacy, which was additionally weakened after the massive election fraud of August 2009: He looks after the various players and their interests by awarding political appointments and concluding business contracts with international donors, to the benefit of all parties involved.
- The interaction between Karzai and politicians, including those in the opposition, fosters a basic interest on the part of all parties involved to ensure that political institutions and a formal economy are built up and a modicum of regulatory structures established. All the players involved have a common goal: they want to prevent a relapse into the chaos of civil war.
- At the same time, the political "upperworld" has *no* interest in allowing the political system to become *too* strong, the formal sector *too* large, and the legal regulatory system truly more efficient. On the contrary, they profit from the existence of a regulatory gray area in which non-state players compensate for the lack of state sovereign authority and where the formal sector is governed by illicit activities. The members of the "political upperworld" act as regional "security providers" and launder their profits from the drug trade and the shadow economy in the formal sector.

The consolidated post-war order is ruled by a peace deformed by crime ("criminalized peace") in which the drug economy guarantees power and profit and fuels corruption in the political system. In order to avoid lapsing into a new civil war, and to constrain subversive activities, both the Karzai government and the "political upperworld" try to come to arrangements with insurgent groups. Informal agreements are regularly sought at all levels – from the highest level surrounding Mullah Omar down to the local level of decentrally operating commanders or leaders of other OMF groups. Depending on the political level, the objective can be either to negotiate localized standstill agreements or to politically explore ways of coopting insurgency leaders into the profitable power system.

In the context of a "criminalized peace", identifying effective approaches in the fight against the drug industry is a difficult task. Two fundamental prerequisites are lacking under the given circumstances: The

76 Cf. Goodhand, "Corrupting or Consolidating the Peace?" [as in footnote 20], p. 419.

Afghan government and the influential politicians do not have the political will to take action against the drug industry because they profit from it – directly or indirectly; but the United States, the United Nations and the international community also lack the political will to press the Afghan government and political partners in the provinces to take decisive action. The West wants to prevent a weakening of the Karzai government at the national level and justifiably fears retaliatory attacks against international soldiers and civil development experts.

In view of this current set of interests and in order to increase the political room for maneuver, three conceptual revisions are recommended:

- Only a long-term strategy can bring about a sustainable reduction in drug production; twenty to thirty years is a realistic time frame. Such a time frame would relieve international donors from the political pressure in their respective countries to produce unrealistic "quick impact" successes on an annual basis. At the same time, the *political leeway* necessary for developing a long-term approach would be created.
- Such a long-term outlook also makes it possible to develop a holistic approach aimed at gradually breaking up the regulatory interdependence between the drug economy and the political power system. This approach is guided by the principle that the *structural roots* of the drug economy must be eradicated in order to achieve the long-term goal of building a *stable* peace.
- The instruments that have been applied thus far have been focused on fighting symptoms. The first step towards developing a holistic approach is to adjust these instruments in ways that will maximize their long-term effectiveness:
  (1) *Eradication* should always be conducted in such a way that *all* the poppy fields in a given district are destroyed; at the same time, drug traders must be prevented from protecting the fields of their suppliers through bribery.
  (2) *Interdiction and prosecution* should primarily target mid-level and large-scale traders. Political "patrons" should at least be removed from office if prosecution is not possible for political reasons.
  (3) Projects aimed at *developing alternative livelihoods* should be planned as comprehensively as possible so as to encompass the rural development of entire regions instead of merely focusing on product substitution. Projects should be integrated into effective poverty reduction programs, as poverty contributes significantly to "criminalized peace" and the insurgency movement.

Abbreviations

AAN	Afghanistan Analysts Network
AREU	Afghan Research and Evaluation Unit
ATTA	Afghanistan Transit Trade Agreement
BCCI	Bank of Credit & Commerce International
CIA	Central Intelligence Agency
GDP	Gross domestic product
ISAF	International Security Assistance Force
ISI	Inter-Services Intelligence
OEF	Operation Enduring Freedom
OMF	Opposing military forces
UN	United Nations
UNAMA	United Nations Assistance Mission in Afghanistan
UNODC	United Nations Office on Drugs and Crime