

STATEMENT OF VANDA FELBAB-BROWN
FELLOW IN FOREIGN POLICY AT THE BROOKINGS INSTITUTION
To
U.S. SENATE CAUCUS ON INTERNATIONAL NARCOTICS CONTROL
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Madam Chairman and Members of the Committee:

I am honored to have this opportunity to address the Caucus on the important issue of how narcotics production influences the security, political, and economic developments in Afghanistan and on the effectiveness of policies to mitigate these effects. The drug-violence nexus in Afghanistan and elsewhere in the world is the domain of my work, the subject of my forthcoming book, *Shooting Up: Counterinsurgency and the War on Drugs*. I have conducted fieldwork on these issues in Afghanistan, as well as elsewhere in Asia, Latin America, and Africa.

Since 2001, Afghanistan has become synonymous with narcostate and the spread of crime and illegality. During 2007 and 2008, the Afghan drug economy reached levels unprecedented in the history of the modern drug trade at least since World War II, and so far has escaped efforts of the international community and the Afghan government to contain and reduce it.

Narcotics production and counternarcotics policies in Afghanistan are of critical importance not only for the control of drugs there, but also for the security, reconstruction, and rule of law efforts in Afghanistan. However, premature and inappropriate counternarcotics efforts greatly complicate counterterrorism and counterinsurgency objectives, and hence also jeopardize economic reconstruction and state-building efforts. They are also unsustainable in the long term and indeed counterproductive even for the narrow goal of narcotics suppression. At least until the new counternarcotics policy that the Obama administration indicated this summer it would undertake – defunding and deemphasizing eradication and focusing on interdiction and rural development – counternarcotics efforts in Afghanistan unfortunately had these undesirable effects. The new policy, if implemented well, promises to redress many of the deficiencies of previous efforts and synergistically enhance counterinsurgency and counterterrorism objectives.

Basic Overview of the Drug Economy and Its Broad Impacts

In a country where somewhere between a third and a half of a country's GDP comes from poppy cultivation and processing and much of the rest from foreign aid, the illicit poppy economy inevitably determines the economic survival of a large segment of the population. This is not only true of the farmers who cultivate opium poppy frequently in the absence of viable legal and illegal economic alternatives. As a result of micro- and macro-economic spillovers and the acute paucity of legal economic activity, much of the economic life even in large cities, such as the construction and sales of both consumer goods and durables, is underpinned by the poppy economy. After a quarter century of intense poppy cultivation, the opium poppy economy is deeply entrenched in the socio-economic fabric of the society, Islamic prohibitions against opiates notwithstanding, and inevitably underlies its political arrangements and power relations.

Profits from taxing poppy cultivation and protecting smuggling rings bring substantial income to the Taliban – on the order of tens of millions dollars a year, accounting for perhaps as much as half of its income. But many other actors in Afghanistan profit from the opium poppy economy in a similar way: former warlords cum government officials, members of the Afghanistan’s police, tribal chiefs, and independent traffickers.

Moreover, actors, such as the Taliban, who protect the opium poppy economy from efforts to suppress it, derive much more than simply financial profits. Crucially, they also obtain political capital from populations dependent on poppy cultivation. Such political capital is a critical determinant of the success and sustainability of the insurgency. Indeed, along with the provision of rule of order that the Afghan government is systematically unable to provide and capitalization on Ghilzai Pashtun sentiments of being marginalized, protection of the poppy fields is at the core of the Taliban support.

By not targeting the farmers, a counternarcotics strategy can thus be synchronized with the counterinsurgency efforts because it can deprive the Taliban of a critical source of support. A strong emphasis on rural development also promises to lay the necessary groundwork for substantial reductions in the size and impacts of the illicit economy in Afghanistan. A well-designed interdiction program will further complement the counternarcotics, counterinsurgency, stabilization, and state-building efforts by helping to establish a rule of law.

However, how interdiction and rural development are operationalized will to a great extent determine the effectiveness of the strategy not only with respect to the narrow goal of narcotics suppression, but also with respect to counterinsurgency and state-building.

Effects of Previous Eradication-Centered Policy and of Interdiction Measures and Alternative Livelihoods Efforts Undertaken Until 2009

During the 2008-09 cultivation season, the area of cultivation in Afghanistan fell by 22% to 123,000 hectares and opium production fell by 10 percent to 6,900 metric tons (mt). Much of this decline in cultivation was driven by market forces largely unrelated to policy: After several years of massive overproduction in Afghanistan that surpassed the estimated global market for opiates by almost three times, opium prices were bound to decline. Even at 6,900 mt, production still remains twice as high the world demand, leading to speculations that someone somewhere is stockpiling opiates.

More significantly, the persistence of high production betrays the ineffectiveness of simplistic policies, such as forced premature eradication, which since 2004 (until the new Obama strategy) was the core of the counternarcotics policy in Afghanistan. Policies that fail to address the complex and multiple structural drivers of cultivation and ignore the security and economic needs of the populations dependent on poppy cultivation generate vastly counterproductive effects with respect to not only counternarcotics efforts, but also counterinsurgency, stabilization, and state building.

The eastern Afghan province of Nangarhar provides a telling example. For decades, Nangarhar has been one of the dominant producers of opium poppy. But over the past two years,

as a result of governor Gul Agha Shirzai's suppression efforts – including bans on cultivation, forced eradication, imprisonment of violators, and claims that NATO would bomb the houses of those who cultivate poppy or keep opium, cultivation went down to almost zero. This has been hailed as a major success to be emulated throughout Afghanistan.

In fact, the ban greatly impoverished many, causing household incomes to fall 90% for many and driving many into debt. As legal economic activities failed to materialize, many coped by resorting to crime, such as kidnapping and robberies, others by seeking employment in the poppy fields of Helmand, yet others by migrating to Pakistan where they frequently end up recruited by the Taliban. The population became deeply alienated from the government, resorting to strikes and attacks on government forces, and districts that were especially severely economically hit, such as Khogiani, Achin, and Shinwar, have become no-go zones for the Afghan government and NGOs. Although those tribal areas have historically been opposed to the Taliban, the Taliban mobilization there has taken off to an unprecedented degree. The populations began allowing the Taliban to cross over from Pakistan, and intelligence provision to Afghan forces and NATO has almost dried up. Tribal elders who supported the ban became discredited, and the collapse of their legitimacy is providing an opportunity for the Taliban to insert itself into the decision-making structures of those areas. And all such previous bans in the province, including in 2005, turned out to be unsustainable in the absence of legal economic alternatives, and poppy cultivation inevitably swung back.

Indeed, premature eradication in areas where resources for licit economic activity are not in place has had the following effects:

First, it has not bankrupted the Taliban. Nor have counternarcotics policies, such as eradication or interdiction, yet succeeded in bankrupting or severely weakening any belligerent groups profiting from drugs anywhere in the world – not in China, Thailand, Burma, Peru, Lebanon, or even Colombia. Belligerents, as well as producers and traffickers can adopt to eradication efforts in many ways. Thus, while the effects of eradication to suppress the belligerents' income is highly elusive and uncertain, such efforts cement the bonds between the marginalized populations dependent on illicit crops and the belligerents and severely reduce human intelligence flows to the counterinsurgent forces.

Moreover, the Taliban reconstituted itself in Pakistan between 2002 and 2004 without access to large profits from drugs, rebuilding its material base largely from donations from Pakistan and the Middle East and from profits from another illicit economy, the illegal traffic with licit goods between Pakistan and Afghanistan. These other economic resources continue to be an important part of its income portfolio.

Second, eradication strengthens the Taliban physically by driving economic refugees into its hands.

Third, eradication alienates the local population from the national government as well as from local tribal elites that agree to eradication. The latter effect might seem quite innocuous, but in fact is extremely dangerous and destabilizing -- a process analogous to what has been going on with the tribal elites in the Waziristans and increasingly the larger FATA. As the state fails to

replace the weakening and discredited traditional forms of control and traditional *khan* and other tribal elites, it creates a key opening for the Taliban.

Fourth, eradication motivates the population to provide intelligence to the Taliban.

Fifth, and crucially, eradication critically undermines the motivation of the local population to provide intelligence on the Taliban to Afghan National Army and NATO and otherwise cooperate with efforts to strengthen the state in local areas.

Six, the eradicators themselves are in the position to best profit from eradication, being able to eliminate competition – business and political alike – and at least in the short term and within their immediate region alter market concentration and prices. Consequently, jobs, such as police chiefs, are highly coveted and people are willing to pay hundreds of thousands of dollars to obtain such jobs or place friendly individuals in such jobs.

Interdiction efforts undertaken between 2003 and 2009 also failed to generate the desired effects of reducing trafficking and the power of crime groups. These efforts have been manipulated to eliminate drug competition and ethnic and tribal rivals. Instead of targeting top echelons of the drug economy, many of whom had considerable political clout, interdiction operations were largely conducted against small vulnerable traders who could neither sufficiently bribe nor adequately intimidate the interdiction teams and their supervisors within the Afghan government. Paradoxically, as small and vulnerable traders, operating largely at the village or district level, were removed by interdiction operations, large traffickers with substantial political control only consolidated their control over the drug industry, thus giving rise to a significant vertical integration of the trade.

The other -- again undesirable -- effect of how interdiction was carried out was that it allowed the Taliban to integrate itself back into the Afghan drug trade. When the Taliban was pushed out of Afghanistan, it was also pushed out of the drug trade. But as a result of the way interdiction measures in Afghanistan were adopted, the Taliban after 2004 was once again needed provide protection to traffickers targeted by interdiction and was once again able to penetrate the drug trade and obtain significant financial resources from protection rents.

Alternative livelihoods programs, although key for any sustainable reduction in opium poppy cultivation, have been slow to reach the vast majority of Afghanistan's population throughout the country, and frequently have failed to address the structural drivers of opium poppy cultivation. A legal microcredit system, for example, is still lacking in most of Afghanistan. Although the Micro-finance Support Facility of Afghanistan (MISFA) has been highly successful, it has covered only 8% of projected credit needs and covers mainly urban areas. Many projects were either too narrowly conceived and frequently misaligned with local circumstances. While several National Priority Programs, such as the National Solidarity Program (NSP), MISFA, and National Rural Access Program (NRAP), have nonetheless been highly successful by focusing on getting money directly to the people by working at village level through community development councils, they have not been scaled up to provincial or country-wide level. Moreover, the lack of security and increasing insurgency in much of the country, including increasingly in the north, have halted or jeopardized many of the alternative

livelihoods projects. The lack of security jeopardizes not only the projects themselves, but prevents the acquisition of the necessary understanding local conditions and drivers of the illicit economy. The wheat distribution program, for example, undertaken as the core rural development effort in the last growing season was based solely on opium-to-wheat ratio and was not informed by any systematic studies of the drivers of opium poppy nor was it subject to any systematic evaluation since the lack of security did not permit development advisors to conduct any fieldwork.

The Ingredients of Success

Security

The number-one prerequisite for success in Afghanistan with respect to narcotics is security. Without it, the Afghan government cannot be stabilized; nor can counternarcotics policies be effective. Whether one adopts iron-fisted eradication or sustainable rural development as the core of a counternarcotics policy, security is essential. Without security first, counternarcotics efforts have not yet succeeded anywhere: Suppression without alternative livelihoods in place requires firm control of the entire territory to prevent illicit crop displacement and harsh suppression of the population dependent on illicit crops, which apart from being problematic with respect to human rights, is also very costly politically. Rural development requires security, otherwise investment will not come in, the population will not make risky long-term investments in legal crops, and structural drivers of cultivation will not be effectively addressed. Development under a hail of bullets simply does not work, and in the context of insecurity, illicit economies persist and dominate.

But counterinsurgent forces can prevail against insurgents and terrorists without stopping or reducing the terrorists' drug-based financial inflows – either by increasing their own forces and resources vis-à-vis the belligerents or by adopting a smarter strategy. This was the case in China, Thailand, Burma, and Peru where counterinsurgents succeeded without eradication. Evidence that counterinsurgent forces can prevail despite bankrupting the belligerents through eradication also holds in the case of Colombia where the FARC has been weakened militarily not because of the aerial spraying of coca fields, but in spite of it. Today, there is more coca there than at the beginning of Plan Colombia; but as a result of US resources and training, the Colombian forces were capable of greatly weakening the FARC even though forced eradication without legal livelihoods in place virtually eliminated human intelligence from the population to the government.

Interdiction with the Right Focus

Focusing on interdiction is appropriate and necessary to weaken the political power of crime groups and help establish the rule of law, but how effective interdiction will be depends on what its objectives are and how it will be carried out. Just like eradication, interdiction will not succeed in bankrupting the Taliban. Overall, drug interdiction has a very poor record in substantially curtailing belligerents' income, with only a few successes registered, for example, in highly localized settings in Colombia and Peru that have rarely translated to country-wide level effects.

Instead, the objective of the policy should be to reduce the coercive and corrupting power of organized crime groups. But achieving that requires a well-designed policy and a great deal of intelligence. Previous interdiction efforts in Afghanistan have in fact had the opposite effect: they eliminated small traders and consolidated the power of big traffickers, giving rise to the vertical integration of the industry. They also strengthened the bonds between some traffickers and the Taliban (although many traffickers continue to operate independently or are linked to the government).

Large-scale interdiction that targets entire networks and seeks to eliminate local demand for opium from local traders, which some are arguing for, is extraordinarily resource-intensive – all the more so, given the structure of the Afghan opium industry -- and prioritization will need to be given to devoting scarce resources to drug interdiction or directly to counterinsurgency. Moreover, if despite the resource-requirements such a policy can be carried out effectively, the outcomes can approximate in local settings the effects of eradication, thus once again alienating the population. Such large-scale operationalization of interdiction is thus not currently appropriate for Afghanistan.

But even the NATO-led selective interdiction of going after designated Taliban-linked traffickers – the US identified fifty such traffickers – is not free from pitfalls. First of all, it can actually provide opportunities for the Taliban to directly take over the trafficking role or cement the bonds between the remaining traffickers and the Taliban, thus achieving the opposite of what it aims for. In fact, the tightening of the belligerents-traffickers nexus and belligerents' takeover of trafficking were frequently the outcome of interdiction measures in Peru and Colombia.

Second, uncalibrated interdiction can provoke intense turf wars among the remaining traffickers – Mexico provides a vivid example of such undesirable outcome - thus intensifying violence in the country and muddling the picture of the battlefield by introducing a new form of conflict. In the Afghan tribal context, such turf wars can easily become tribal or ethnic warfare. Third, such selective interdiction can also send the message that the best way to be a trafficker is to be a member of the Afghan government, thus perpetuating a sense of impunity and corruption and undermining long-term state building and legitimacy. Finally, the effectiveness of interdiction is to a great extent dependent on the quality of rule of law in Afghanistan, and the capacity and quality of the justice and corrections systems, all of which are woefully lacking in Afghanistan and are deeply corrupt.

Comprehensive Rural Development

Rural development appropriately needs to lie at the core of the counternarcotics strategy because, despite the enormous challenges, it has the best chance to effectively and sustainably strengthen the Afghan state and reduce the narcotics economy. But for rural development to do that, it needs to be conceived as broad-based social and economic development that focuses on improvements in human capital, including health care and education, and addresses all of the structural drivers of opium poppy cultivation. In Afghanistan, these drivers include insecurity; lack of physical infrastructure (such as roads), electrification, and irrigations systems; lack of microcredit; lack of processing facilities; and the absence of value-added chains and assured markets. They also include lack of land titles and, increasingly, the fact that land rent by sharecroppers has become dependent on opium poppy cultivation as land concentration has

increased over the past eight years. Poppy cultivation and harvesting are also very labor-intensive, thus offering employment opportunities unparalleled in the context of Afghanistan's economy.

The price profitability of poppy in comparison to other crops is only one of the drivers and frequently not the most important one. Without other structural drivers being addressed, farmers will not switch to licit crops even if they fetch more money than the illicit ones. By the same token, however, farmers are frequently willing to sacrifice some profit and forgo illicit crop cultivation as long as the licit alternatives bring them sufficient income and address all of the structural drivers, since legal livelihoods reduce various forms of insecurity to which farmers are exposed in illicit economies.

Unfortunately, the wheat distribution program that was the core of rural development in Afghanistan last year and is again slated to be its key component this year, is likely to be woefully ineffective for several reasons. First, last year, the program was based solely on an unusually high price ratio of wheat to poppy, driven by poppy overproduction and a global shortage of wheat. However, this price ratio will not hold, and Afghanistan's wheat prices are dictated anyway by surrounding markets, such as Pakistan and Kazakhstan. Second, the program did nothing to address the structural drivers: in fact, it had counterproductive effects because the free distribution of wheat undermined local markets in seeds. Afghan farmers can obtain seeds; their challenge lies in how to obtain profit afterwards. Thus, some sold the wheat seed instead of cultivating it. Fourth, those who actually cultivated wheat frequently did so not for profit, but for subsistence to minimize costs of buying cereals on the market. In fact, because of land distribution issues, many Afghan farmers do not have access to enough land to cover even their subsistence needs with wheat monocropping. A key lesson from alternative development over the past thirty years is that monocropping substitution strategies are particularly ineffective. Fifth, if all of current poppy farmers switched to wheat cultivation, Afghanistan would experience a great increase in massive unemployment since wheat cultivation has only 12% the labor requirements and hence employment opportunities that poppy cultivation and harvesting do.

Instead of wheat, rural development in Afghanistan needs to emphasize diversified high-value, high-labor-intensive crops, such as fruits, vegetables, and specialty items like saffron. Generating lasting off-farm income opportunities will also be important, but even more challenging than jump-starting legal agromarkets.

Moreover, while after eight years of agriculture development underresourcing and neglect the new policy's focus on farm is appropriate, the new strategy needs to take care not to throw away the baby with the bath water. The effort still needs to include developing value-added chains and assured internal and external markets and enabling sustained access to them. Once again, thirty years of history of alternative livelihoods show that without value-added chains and accessible markets even productive legal farms become unsustainable and farmers revert back to illicit crops.

Finally, rural development requires time. Perhaps in no country in the world since Mao wiped out poppy cultivation in China in the 1950s, did counternarcotics efforts face such

enormous challenges as they do in Afghanistan – in terms of the scale of the illicit economy, its centrality to the overall economy of the country and hence its vast macro- and micro-economic and political effects, the underdevelopment of the country and its human capital, and the paucity of viable economic alternatives. Even under much more auspicious circumstances along all the above dimensions, counternarcotics rural development in Thailand took thirty years.

Clearly, there is a need to quickly bring some economic, social, and rule of law improvements to the lives of the Afghan people. Without such quick, visible, and sustainable improvements, it will become impossible to rebuild their confidence in the future, harness their remaining aspirations, and to persuade them that the central state with support of the international community is preferable to the Taliban or local warlord-based or tribal fiefdoms.

But there is an equal need to urge strategic patience back at home – both for counterinsurgency and for counternarcotics. Meaningful and sustainable progress on narcotics that also advances counterinsurgency and counterterrorism objectives, mitigates conflict, and enhances state building and human security of the Afghan people will take many years and easily decades. Without realistic timelines, there is a real danger that even a well-designed counternarcotics policy will be prematurely and unfortunately discarded as ineffective and that a desire for short-term self-satisfying outcomes will once again drive policy toward ineffective and counterproductive results.

Recommendations

- *Eradication can be a part of the mix of counternarcotics policies, but should only be adopted in areas that are free of violent conflict and where sufficient legal economic alternatives are available to the population.*
- *Interdiction needs to focus on reducing the coercive and corrupting power of crime groups.* Before interdiction measures are undertaken, an analysis of second and third-order effects needs to be conducted. It needs to be carefully calibrated with the strength of law enforcement in Afghanistan to avoid provoking dangerous turf wars, ethnic violence, and cementing the relationship between the Taliban and the traffickers. It also needs to target top traffickers linked to the Afghan government. Interdiction needs to encompass building the justice and corrections system in Afghanistan and broad rule of law efforts.
- *Rural development needs to address all structural drivers of poppy cultivation.* It needs to focus not only on the farm, but also on value-added chains and assured markets. It needs to emphasize diversified high-value, high-labor intensive crops, and not center on wheat.
- *Evaluations of counternarcotics policies need to back away from simplistic measures, such as the numbers of hectares eradicated, numbers of traffickers caught, and numbers of hectares cultivated with illicit crops.* Instead, the measures need to encompass the complexity of the issue and include (in addition to areas cultivated with illicit and licit crops): human development indexes, trends in education, the number of resource-poor farmers dependent on illicit crops for basic subsistence or vulnerable to poverty-driven participation in illicit economies, food security, availability of legal microcredit,

prevalence of land titles and accessibility of land, infrastructure density and cost of infrastructure use (including unofficial road tolls), availability of dispute resolution and arbitrage mechanisms provided by the government, quality of property rights, prevalence of value-added chains, and accessibility of markets.

- *Priority needs to be given to efforts to improve governance at both the national and local levels.* But the international community cannot define governance simply as reducing the numbers of hectares of poppy eradicated. Good governance must be understood as the ability of local governing authorities to improve the lives of the people, as well as doing so within the context of law. Thus prematurely banning or eradicating poppy only puts the governing authorities in the position of emiserating the population to whom they are supposed to be helping, and hence creates profound doubts about their accountability to and usefulness for the people.
- *Measures needs to be adopted to prevent the displacement of the narcotics economy to Pakistan.* Without dedicated worldwide efforts to reduce demand for opiates (and drugs in general), any success in Afghanistan will displace production – both cultivation and processing -- to other areas. There is a real possibility that production (both cultivation and processing) will shift back to Pakistan's tribal belt where it was in the 1980s and 1990s. In that case, the security situation in Pakistan's borderlands will be further compromised and anti-American militant groups, including al Qaeda and its various offshoots, will not only have ready access to the profits from drugs but will also be able to increase their political capital with the local population by providing them with an economically good livelihood. The capacity and legitimacy of the Pakistani state will be further undermined. At the same time, the United States will have a far smaller capacity to take actions against the drug-terrorist nexus in Pakistan. Hence it is essential that the United States make a concerted and rapid effort to bring rural economic and social development to this region of Pakistan. Such an undertaking is inevitably predicated on significant improvements in the security situation in FATA, NWFP, and Kashmir.