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# Shooting Up: The Impact of Illicit Economies on Military Conflict

by

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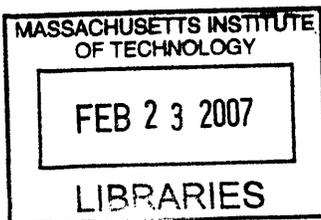
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## ABSTRACT

The study explores the nexus between illicit economies and military conflicts. It investigates when and how access by belligerents to the production and trafficking of illicit substances affects the strength of belligerents and governments. Although narcotics trafficking is often treated as *sui generis*, the study situates the drug trade within the larger class of markets for illicit products and services. The study presents a general theory of the relationship between illicit markets and military conflict – the political capital of illicit economies -- and contrasts it with conventional wisdom on connections between drug trafficking and military conflict.

The political capital of illicit economies argues that belligerents derive much more than simply large financial profits from their sponsorship of illicit economies. They also obtain freedom of action and, crucially, legitimacy and support from the local population, called political capital. If belligerents choose to become negatively involved in the illicit economy (attempt to destroy it), they not only fail to increase their military capabilities, but also suffer costs in terms of political capital. The extent and scope of belligerents' gains/ losses from their involvement in the illicit economy depend on four factors: the state of the overall economy; the character of the illicit economy; the presence of traffickers; and the government response to the illicit economy. These factors reflect both structural conditions outside of the immediate control of the belligerents and the government and strategic policy choices available to either the belligerents or the government.

Contrary to the conventional wisdom about narcotics and military conflict, eradication of narcotics cultivation has dubious effects on the capabilities of the belligerents and is extremely unlikely to severely weaken them. However, it alienates the local population from the government and results in the population's unwillingness to provide intelligence on the belligerents – a crucial requirement for success against the belligerents. Thus, eradication of illicit crops increases the political capital of the belligerents without significantly weakening their military capabilities.

The primary cases explored in the study are Peru, Colombia, and Afghanistan. Additional evidence is drawn from the cases of Burma, Northern Ireland, Turkey, and India.



## ACKNOWLEDGEMENTS

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In addition, Professor Roger Petersen greatly stimulated my thoughts on the importance of processes and mechanisms as central elements of the analysis; and Professor Thomas Christensen provided indispensable intellectual support in the formative stages of the project.

The project benefited immeasurably from the availability of my husband and colleague, Professor Seyom Brown, as a crucial sounding board and ballast throughout.

I am also grateful to fellow students and colleagues at MIT, the Belfer Center for Science and International Affairs, and the Brookings Institution for their sharp inputs at various stages.

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## CHAPTER ONE - Introduction

### I. Introduction: Situating the Study

In the spring of 2006, resurgent and increasing lethal Taliban insurgents hammered posters around Afghanistan's rural south, offering villagers to protect their opium fields against government eradication sponsored by the United States and the United Kingdom. The Taliban left a cell phone number to be called if the villagers faced the destruction of their opium crop. In one village near Kandahar,<sup>1</sup> the villagers caught on to a counternarcotics sting operation in which an agent posed as an opium trader. After his visits to the village to buy opium were followed with raids on the villagers' opium crops, the villagers phoned the Taliban. The Taliban instructed them to invite the suspected informant back, captured him, and forced him to call in police. When the police arrived in the village, the Taliban ambushed them, killing several policemen, including the police chief. The villagers were grateful, and the Taliban obtained important information and scored a success against the government, limiting state presence in the area. Most importantly, the relationship between the local population and the Taliban was fortified, even though until then, the village residents had no pro-Taliban feelings.

Meanwhile as the year's opium harvest reached a staggering 6,100 metric tons, the head of the United Nations Office on Drugs and Crime Antonio Maria Costa called for robust military action by NATO to destroy the opium industry in southern

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<sup>1</sup> I am grateful to Sarah Chayes, an aid worker in Kandahar, for the information on the sting operation in the Kandahar village. Because of the possible threats to local Afghans, both the names of the village and its inhabitants are not used. For further information on the relationship between the population and the Taliban near Kandahar, see, Sarah Chayes, *The Punishment of Virtue: Inside Afghanistan After Taliban* (New York: Penguin Press, 2006).

Afghanistan: “In the turbulent southern region, counter-insurgency and counter-narcotics efforts must reinforce each other so as to stop the vicious circle of drugs funding terrorists and the terrorists protecting the drug traffickers.”<sup>2</sup>

The Taliban is just one example of many belligerent groups – be they terrorists, insurgents, paramilitaries, or local warlords – that have penetrated the international drug trade and other illicit economies. With a growing realization that belligerent groups derive large financial resources from such illicit economies, governments have increasingly turned to suppressing illicit economies not only as a way to curtail criminal activity, but also as a strategy to defeat the belligerents. Yet government efforts at suppressing the illicit economy often not only fail to eliminate or significantly weaken the belligerent group, but are frequently counterproductive to the counterinsurgency/counterterrorism effort.

This study explores the relationship between illicit economies and military conflict, offering a different analysis of both the scope and nature of the phenomenon and of appropriate ways of dealing with it than the conventional view does. The production and trafficking of narcotics is the most prominent illicit economy in terms of profits as well as public and government attention. Although it is the dominant focus of the study, the drug trade is not treated as *sui generis*; rather, it is situated here within the larger class of markets for illicit products and services.

The study specifically focuses on *illicit* markets, not markets and resources in general. As distinct from licit markets, illicit markets have several crucial characteristics: they raise profits to very high levels; governments and legitimate businesses cannot

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<sup>2</sup> United Nations Office on Drugs and Crime, “UN Drugs Chief Calls for Extra Resources to Help NATO Target Afghan Opium,” Press Release, [http://www.unodc.org/en/press\\_release\\_2006\\_09\\_12.html](http://www.unodc.org/en/press_release_2006_09_12.html), downloaded September 09, 2006.

openly participate in them; and hence outside-the-law actors, such as belligerent groups, can capture a large market share of the illicit economy. Crucially, governments frequently consider it imperative to destroy the illicit economy. But such a policy allows the belligerents to offer themselves as protectors of the illicit economy and obtain support from the local population that depends on the illicit economy for basic livelihood. The forms of military conflict examined in the study range from civil war, insurgency, terrorism, and occupation to warlordism.

The study investigates when and how access by belligerents to the production and trafficking of illicit commodities affects the strength of belligerents and governments.

The principal questions are:

- *Through what processes* does access to illicit economies affect the strength of belligerent groups?
- *What conditions* influence the size and scope of the benefits (and costs) belligerent groups derive (and incur) from their interaction with illicit economies?
- How do *government policies toward the illicit economy* affect the strength of belligerents and, ultimately, limit, contain, or exacerbate military conflicts?

The rest of the introduction proceeds as follows. First, I explain both the academic and the policy significance of the study. I then discuss the parameters of the nexus between illicit economies and military conflict and its framing in the study. Third, I outline the two different views that are examined and tested in the rest of the study: the dominant conventional view and my theory of political capital of illicit economies. Fourth, I sketch the various impacts of illicit economies outside of military conflict, a

subject matter not covered by the study. Finally, I briefly describe the cases analyzed in the study and provide a roadmap to the rest of the study.

## **II. The Significance of the Study**

The conventional view of the nexus between illicit economies and military conflict, adopted by both the U.S. government and much of the academic literature and reflected in the “narcoguerrilla and nacroterrorism theory, ignores important aspects of the dynamic interaction between armed groups and illicit economies. The mechanisms by which armed groups gain strength by exploiting illicit economies and the conditions that influence the size and scope of the belligerents’ gains from such economies are frequently ignored and mispecified, thus leading to ineffective policy prescriptions.

### ***Scholarly Contribution***

The academic and think tank literature (reviewed in detail in the following chapter) is still in an initial phase of developing an understanding of the relationships between illicit economies and violent conflict. Most of the literature emphasizes that drugs, and other illicit economies, help finance terrorism, insurgencies, and civil wars.<sup>3</sup> Little distinction is made between licit or illicit exploitable resources. Exploitable resources – whether licit or illicit – are seen as *financial* resources for the belligerents. Either the desire for these financial resources is seen as the cause of the military conflict

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<sup>3</sup> Prominent examples of the economics and/or narcoguerrilla arguments include Gabriela Tarazona-Sevillano, with John B. Reuter, *Sendero Luminoso and the Threat of Narcoterrorism* (Washington, DC: Center for Strategic and International Studies, 1990); Douglas J. Davids, *Narco-terrorism* (Ardsey: Transnational Publishers, 2002); James Adams, *The Financing of Terror* (London: New English Library, 1986); Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil Wars,” October 21, 2001, [http://econ.worldbank.org/files/12205\\_greedgrievance\\_23oct.pdf](http://econ.worldbank.org/files/12205_greedgrievance_23oct.pdf), downloaded April 16, 2003; and Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003).

or such financial resources are viewed as a means to prolonging the military conflict. The dominant policy recommendation derived from such analysis is to suppress the illicit economies, e.g. by eradicating the illicit crops, in order to deprive the belligerents of resources. To the extent that the belligerents' political gains are mentioned at all, they appear in country-specific critiques of the war on drugs,<sup>4</sup> with little or no effort at offering a systematic general theory of the scope, size, and character of political gains belligerent groups derive from their participation in illicit economies.

The study fills this analytical void by showing how such access by belligerents earns them not only financial gains that enhance their physical capabilities, as most of the literature stresses, but also freedom of action -- an important component of military capabilities -- and, crucially, political gains. The belligerents obtain these political gains -- or what I call *political capital* (legitimacy and support from the local population) -- through the provision of several functions. They protect a reliable and lucrative source of livelihood for the local population participating in the illicit economy against government efforts to repress the illicit economy. They protect the producers/peasants from brutal and unreliable traffickers. And with the financial profits from the illicit economy, they

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<sup>4</sup> Cynthia McClintock, "The War on Drugs: The Peruvian Case," *Journal of Interamerican Studies and World Affairs*, 30 (2 and 3), Summer/ Fall 1988: 127-142; Richard Clutterbuck, *Drugs, Crime, and Corruption* (New York: New York University Press, 1995); Adam Isacson, "Was Failure Avoidable? Learning From Colombia's 1998-2002 Peace Process," *The Dante B. Fascell North-South Center Working Paper Series*, Paper No. 14, March 2003, <http://www.miami.edu/nsc/publications/NSCPublicationsIndex.html#WP>; [http://www.fpif.org/briefs/vol3/v3n29coca\\_body.html](http://www.fpif.org/briefs/vol3/v3n29coca_body.html); Nazih Richani, *Systems of Violence* (Albany: State University of New York Press, 2002); Gustavo Gorriti, *The Shining Path: A History of the Millenarian War in Peru*, Robin Kirk, trans., (Chapel Hill: University of North Carolina Press, 1999); Jose E. Gonzales, "Guerrillas and Coca in the Upper Huallaga Valley," in Palmer, David Scott, ed. *Shining Path of Peru*, (New York: St. Martin's Press, 1994): 123-144; Román D. Ortiz, "Insurgent Strategies in the Post-Cold War: The Case of the Revolutionary Armed Forces of Colombia," *Studies in Conflict and Terrorism*, 25, 2002: 127-143; Francisco Gutiérrez Sanín, "Criminal Rebels? A Discussion of Civil War and Criminality from the Colombian Experience," *Politics and Society*, 32 (2), June 2004: 257-285; and Rensselaer Lee III., *The White Labyrinth* (New Brunswick: Transaction Publishers, 1989) and his subsequent work with Patrick L. Clawson, *The Andean Cocaine Industry* (New York: St. Martin's Griffin, 1996).

provide otherwise absent social services to the local population. Moreover, the study specifies a set of structural and policy variables that influence the size and scope of the belligerents' gains – both military and political – from their involvement in illicit economies. The study reveals the unique properties of the *illicitness* of the discussed economies in generating both political capital and high profits for the belligerent groups that exploit them. It thus contributes a new dimension to the analysis of the role of markets in violence and the costs and benefits of specific regulations, thus providing new questions for analysis in the field of international political economy.<sup>5</sup>

The study also highlights the role of illicit economies and criminal actors for the field of security studies. Although the United States has waged a war on drugs for thirty years, and although this war has numerous times intersected with civil wars, counterinsurgency, and even intrastate conflict, there is a glaring paucity of attention to this nexus by security studies scholars. The study advances theory-building about counterinsurgency and counterterrorism, freshly elucidating the importance and ways of depriving the belligerents of popular support. It shows how governments can increase the population's support for the state – including, in terms of intelligence provision. In doing so, the study joins the continuing debate about the appropriate means of defeating insurgencies and terrorist groups: whether to attempt to limit the belligerents' physical resources or to give importance to winning the hearts and minds of the population.<sup>6</sup> The

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<sup>5</sup> For a seminal debate on the costs and benefits of international regimes and the political effects of market regulation in the international arena, see Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1994), and Kenneth A. Oye, *Economic Discrimination and Political Exchange* (Princeton: Princeton University Press, 1993).

<sup>6</sup> Georges Bonnet, *Les guerres insurrectionnelles et revolutionnaires* (Paris: Payot, 1958); Roger Trinquier, *Modern Warfare* (London: Pall Mall Press, 1964); Walter Laquer, *The Age of Terrorism* (Boston: Little, Brown, 1987); Nathan Leites and Charles Wolf Jr., *Rebellion and Authority: An Analytical Essay on Insurgent Conflicts* (Chicago: Markham Publishing Company, 1970); John J. McCuen, *The Art of Counter-revolutionary Warfare* (London: Farber and Farber, 1966); Sir Robert Thompson, *Defeating Communist*

study shows the extraordinary difficulties and low rates of success in depriving belligerents of resources through efforts to suppress illicit economies and reveals the host of adaptations available to the belligerents, the producers of the illicit commodity, and the traffickers. Instead of succeeding in bankrupting the belligerents, suppression efforts most often fail to make a significant difference in the belligerents' physical capabilities, while they definitely antagonize the population dependent on the existence of illicit economy. The study thus provides a test of competing schools of counterinsurgency: the French view of counterinsurgency (on occasion combined with applying conventional warfare methods to counterinsurgency operations) versus the British or hearts and minds school of counterinsurgency, showing the greater effectiveness of the latter. The study distinguishes between the effects of various suppression methods and specifies under what set of structural factors the tradeoff is starkest between the desire to limit the resources of the belligerents and the desire to win support of the population for the government.

The study also enlarges the understanding of the role of non-state (subnational and transnational) actors in domestic conflict as well as world politics.<sup>7</sup> It highlights the processes by which non-state terrorists, criminal syndicates, and a varied array of local belligerent groups have enhanced their power through the exploitation of illicit economies. Crucially, it analyzes the relationship between criminal organizations (traffickers) and belligerent groups in their exploitation of illicit economies and shows

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*Insurgency* (London: Chatto and Windus, 1966); David Galula, *Counterinsurgency Warfare: Theory and Practice* (New York: Praeger, 1964); Bard E. O'Neill, *Insurgency and Terrorism: From Revolution to Apocalypse* (Washington, DC: Potomac Books, 2005); and Martha Crenshaw, "Introduction," in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983).

<sup>7</sup> See, Seyom Brown, *New Forces, Old Forces, and the Future of World Politics* (Longman, 1995); and Margaret Keck and Kathryn Sikkink, *Activists Beyond Borders* (Cornell University Press, 1998).

that the increasingly popular assumption of a unity of purpose, if not a unity of identity,<sup>8</sup> between the traffickers and the belligerents is frequently misguided.

The study also connects with the literature on failed states,<sup>9</sup> revealing how the misallocation of resources by weak states in their counterdrug/ counterinsurgency efforts leads to a further deterioration of their governance capacity. Moreover, as state presence in the periphery regions where military conflict and illicit economies frequently interact is usually confined to state efforts to destroy the illicit economy, governments not only undermine their governing capacity, but also devalue – in the view of the local population -- the very desirability of state presence. A richer understanding of the effects of government responses to illicit economies, including in the context of military conflict, can help in assessing strategies for stabilizing local governments, averting state failure, and reducing the occurrence of violent conflicts.

### ***Policy Significance***

Much of U.S. anti-narcotics policy abroad, based on the assumption of symbiotic relationships between drug producers, traffickers, insurgents, and terrorists, has been organized around the premise that the suppression of drug production will service both anti-drug and counterterrorist goals. The study challenges this “narcoguerrilla” premise of U.S. policy. The analysis shows that, far from being complementary, U.S. anti-narcotics and counterinsurgency policies are frequently at odds with one another. Given

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<sup>8</sup> Louise Shelley, “The Nexus of Organized International Criminals and Terrorism,” *International Annals of Criminology*, 1 (2), 2002: 85-93; Rollie Lal, “South Asian Organized Crime and Terrorist Networks,” *Orbis*, 49 (2), Spring 2005: 293-304; H. Richard Friman and Peter Andreas, “Introduction,” in H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham: Rowman and Littlefield, 1999).

<sup>9</sup> Robert I. Rotberg, ed., *State Failure and State Weakness in a Time of Terror* (Brookings Institution Press, 2003); I. William Zartman, ed. *Collapsed States: The Disintegration and Restoration of Legitimate Authority* (Boulder: Lynne Rienner Publishers, 1995); and Stephen D. Krasner and Carlos Pascual, “Addressing State Failure,” *Foreign Affairs*, 84 (4), July/August 2005: 153-163.

that warlords, terrorists, and insurgents gain vast financial resources from the illicit drug economy, U.S. policymakers are tempted to rely heavily on crop eradication as a way to end the military conflict in a particular country. Eradication, however, often fails to significantly diminish the physical capabilities of the belligerents and – counterproductively-- enhances their legitimacy and increases the population’s support for the belligerents. The study identifies the factors that influence the magnitude of the trade-off between the governments’ (U.S. and local) desire to limit the belligerents’ physical resources and winning the hearts and minds of the population. It also provides policy recommendations for a nuanced reformulation of this dimension of U.S. national security policy. These recommendations should also be useful to foreign governments dealing with the nexus between military conflict and illicit economies.

### **III. Framing the Issue: Definitions and Parameters**

#### ***Parameters of the Issue***

Illegal drugs, the predominant focus of the study, are one example of a larger class of illicit substances, contraband, and economic activities. Depending on the time period and locale, other illegal or semi-legal commodities include, for example: conflict diamonds, special minerals, weapons, humans, alcohol, wildlife, human organs, toxic and industrial waste, and components of nuclear, chemical, or biological weapons.<sup>10</sup> Other illicit economies include gambling, prostitution, illicit smuggling with legal goods, illicit

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<sup>10</sup> Even prior to the surfacing of the A.Q. Khan smuggling network that distributed nuclear technology, a number of scholars warned off organized crime and established smuggling networks as potential facilitators and venues for the theft and smuggling of strategic weapons and their components and their possible links to belligerent groups. See, for example, Rensselaer Lee III, *Smuggling Armageddon* (New York: St. Martin’s Griffin, 1998): 47-72; and Phil Williams and Paul Woessner, “Nuclear Material Trafficking: An Interim Assessment,” *Transnational Organized Crime*, 1 (2), Summer 1995: 206-238.

manufacture of passports, and even maritime fraud.<sup>11</sup> Such illicit or semi-illicit commodities also tend to be highly lucrative (at least partially due to their illicitness), and their marketing is associated with high financial profits.

Illicit economies exist in some form virtually everywhere, both within and outside the locale of militarized conflict. Even when focusing on the narrow scope of illegal drugs, one finds that at least a part of the illegal drug economy is present in every country – be it production, trafficking, or distribution for use. The principal drug-growing and refining countries and regions are the Andean countries of Peru, Bolivia, and Colombia; Mexico; Afghanistan, Pakistan, and Central Asia in the Golden Crescent; Burma/Myanmar and Laos in the Golden Triangle; and Morocco. At various times in history, other major producers of illicit crops and drugs included China and Thailand, Jamaica, and Lebanon. This list does not include a host of crucial refining and transshipment locales, such as Turkey and Hong Kong. In short, illicit economies, including the illicit drug economy, are pervasive.

Military conflict is much less common than the existence of illicit economies.

Even when the existence of an illicit economy coincides geographically and in time with military conflict, the two phenomena do not necessarily interact. The fact that prostitution

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<sup>11</sup> A maritime fraud scheme in Lebanon during its civil war in the 1980s was one of the most complex and sophisticated illicit economies penetrated by various belligerent groups, including the Lebanese forces. The guerrillas arranged with Greek or Cypriot shipowners that ships heading through the Suez Canal further into the Middle East or the Orient would be secretly unloaded in ports by the guerrillas and their cargo sold in local markets. The ship, if old, would be destroyed; if new, would be reported lost at sea. The shipowners would collect a portion of the guerrillas' profits from the sales of the cargo as well as insurance money for lost or destroyed ships. Meanwhile, they would continue operating the unsunk new ships under a different name. The guerrillas would make handsome financial profits and would have goods to distribute among the population, an important source of the group's legitimacy as the legal economy was in shambles and economic activity halted. See, for example, Barbara Conway, *The Piracy Business* (Feltham: Hamlyn, 1981) and *Maritime Fraud* (London: Lloyds of London Press, 1990). Overall, the Lebanese illicit economy exploited by belligerent groups was among the most advanced: the belligerents charged a fee for the ports, a visa fee at checkpoints, a user fee for public beaches, real estate taxes, private services, such as restaurants, gasoline, and basic goods, such as food items, tobacco, and cooking oil. They also provided a toxic waste disposal service.

and terrorism might both occur in Germany does not mean that the two activities are necessarily linked. Only under some circumstances, illicit economies and military conflict interact. The table below captures the possible situations, with a few (by no means exhaustive) illustrations.

**Table I: Possible Interactions of Illicit Economies with Military Conflict**

		Military Conflict			No Military Conflict
		<i>Insurgency/ Civil War</i>	<i>Terrorism</i>	<i>International Warfare</i>	
<b>Illicit Substances, Activities, and Contraband</b>	<i>Drugs</i>	Indochina	Uzbekistan	Opium Wars	Czech Republic
	<i>Conflict Diamonds</i>	Angola	Sierra Leone		
	<i>Alcohol</i>				(USA during prohibition)*
	<i>Humans (illegal immigrants, prostitution)</i>	Mexico	Indonesia		Ukraine
	<i>Weapons</i>	Colombia	Kashmir		Russia
	<i>Special Minerals</i>	Colombia	Afghanistan	Afghanistan	
	<i>Timber</i>	Afghanistan	Peru		
	<i>Salt</i>	India (1930s)			
	<i>Wildlife</i>	Angola	Philippines		Brazil
	<i>Toxic Waste</i>	Lebanon			
	<i>None</i>				

\* High levels of violent criminal activity, but not organized violence with political goals.

Although the study focuses mainly on the interaction between the production and trafficking of illicit drugs and military conflict, it also explores other forms of illicit economy, such as illegal logging (Peru, Afghanistan, and Burma); extortion activities (Colombia), and the illegal traffic with legal goods (Afghanistan). Drugs are the main focus of the study because they best epitomize the crime-insurgency nexus, because drugs are by far the most lucrative of all illicit economies, and because narcoterrorism, rather than “wildlifeterrorism” dominates the attention of policymakers, with millions of dollars spent every year on efforts to combat the phenomenon. Many organizations and countries cite drug trafficking as the most significant illicit economy in their locale in terms of annual profits. The Organization for Economic Cooperation and Development calculates that as much as \$122 billion is spent every year in Europe and the United States on heroin, cocaine, and marijuana.<sup>12</sup> Estimates of the value of global retail of illicit narcotics reach around \$300-500 billion annually.<sup>13</sup> The drug trade is where the money is – both for belligerent groups who successfully exploit the illicit trade and for

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<sup>12</sup> Organization for Economic Cooperation and Development, Financial Action Task Force on Money Laundering, *Report*, Paris, February 7, 1990. Americans alone are estimated to spend \$64 billion on illegal narcotics annually (Steven W. Casteel, Assistant Administrator for Intelligence, Drug Enforcement Administration, “*Narco-Terrorism: International Drug Trafficking and Terrorism – a Dangerous Mix*,” Statement of Before the Senate Committee on the Judiciary, May 20, 2003, <http://www.usdoj.gov/dea/pubs/cngrtest/ct052003p.html>, downloaded August 22, 2005.

<sup>13</sup> United Nations International Drug Control Program, *The Social and Economic Impact of Drug Abuse and Control* (Vienna: UNDCP, 1994): 29. When one of the analysts involved with producing the figure was asked about its sources and validity, he replied that whatever its failings, it was a useful number of to capture the attention of the public (author’s interviews with former UNDCP and UNODC officials, November 2005). Some current estimates put the size of the drug trade at \$1 trillion. However, as will be explained in the Research Design section of Chapter III, all such numbers are only broad guestimates. To err on the conservative side, I prefer to use the lower estimates. Either way, however, the profits are very large, and the actual size of the revenues from illicit economies does not make any practical difference for the analysis.

governments who devote many billions of dollars annually to fight the trade, to reduce consumption of drugs at home, and to deprive the belligerents off the profits.

Yet other illicit economies can also be highly lucrative and, like the drug trade, can finance belligerent groups. Official estimates of illicit trafficking with humans put the number of victims between 700,000 to 800,000, and unofficial estimates go as high as four million. (Trafficking in persons encompasses two activities: the smuggling of illegal migrants and trafficking of persons for the purposes of exploitation, such as slavery and prostitution). The estimated revenues reach \$7 billion per year.<sup>14</sup> Although \$7 billion is only a small fraction of the \$300-\$500 billion spent on illicit drugs annually and although belligerent groups do not capture the entire revenue from trafficking, illicit trafficking with human beings can nonetheless solve financing problems for many belligerent groups. Operational budgets of even major terrorist organizations and insurgencies are frequently only in the tens of millions of dollars annually.

The existence of an illicit economy does not by itself cause the emergence of a belligerent group and military conflict. Such an illicit economy will likely generate the emergence of a criminal organization (unless the criminal syndicate organized the illicit economy in the first place); but will not in itself give rise to terrorists, warlords, or insurgents. Yet when belligerent groups penetrate existing illicit economies (or successfully set up new illicit economies), the interaction of the two phenomena will have a profound effect on the means and strategies of the belligerents and under some circumstances also on the goals and identities of the belligerents. Examples of belligerent groups profiting from the drug trade include: the Taliban and the Northern Alliance in

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<sup>14</sup> David Kyle and Rey Koslowski, "Introduction," in David Kyle and Rey Koslowski, eds., *Global Human Smuggling* (Baltimore: John Hopkins University Press, 2001): 4.

Afghanistan; the FARC (Revolutionary Armed Forces Colombia), AUC (United Self-Defense Forces of Colombia), and ELN (National Liberation Army) in Colombia, the Shining Path and the MRTA (Tupac Amaru Revolutionary Movement) in Peru; the Real IRA (Real Irish Republican Army) in Great Britain, the KLA (Kosovo Liberation Army) in Yugoslavia, the Hezbollah in Lebanon, the PKK (Kurdistan's Workers Party) in Turkey, and the ETA (Basque Homeland and Freedom) in Spain. Appendix I provides a more complete universe of cases.

It is important to recognize that even actors that the international community may consider legitimate, or at least not fully illegitimate, also profit from the illicit economic activities, including drug trade, and that the drug trade is not simply a domain of illegitimate groups and rogue actors. Of course, an obvious interaction with the illicit narcotics trade may undermine the legitimacy of the group over time. The Northern Alliance in Afghanistan provides an example of a group that did not become a pariah, although the Northern Alliance and the original mujahideen from which it emerged were deeply involved in the narcotics trade in Afghanistan since the 1980s. The mujahideen connection to the drug trade did not stop the United States from supporting them and engaging with them as allies in the 1980s and after 9-11.<sup>15</sup> Moreover, many governments – not only rogue actors, such as North Korea -- have also historically been connected to the drug trade. In the 19<sup>th</sup> century, for example, the British government backed British traders who, against the explicit legal prohibitions of the central Chinese government,

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<sup>15</sup> See, for example, Alfred McCoy's *The Politics of Heroin: CIA Complicity in the Global Drug Trade* (New York: Lawrence Hill Books, 1991) and Steve Coll, *Ghost Wars* (New York: The Penguin Press, 2004).

bought opium in India and smuggled it to China's addicts.<sup>16</sup> Similarly, the French colonial government in Indochina licensed opium cultivation as well as dens throughout the country. The profits from opium covered fifty percent of the cost of the French colonial government in Indochina. And after World War II, the French tolerated the cultivation of opium by the hill tribes in order to obtain their allegiance and used the profits to fight against the Communist insurgents.<sup>17</sup>

The difference in the character of the belligerent groups does have practical implications for their ability to penetrate various illicit economies such as the drug trade. Territory-based organizations such as the Taliban can control and tax the cultivation and processing of illicit crops. But for a loose network without a substantial territorial base, such as al Qaeda today, it is extraordinarily hard to profit from cultivation and processing. It is much more likely that such groups will attempt to control some part of the international smuggling routes or some aspect of money laundering.

### ***Definition of Terms***

***Illicit commodities*** are defined in this study as materials and commodities fully or partially outlawed by governments and/or international organizations. The illicitness can apply to the production, trafficking, or use of such materials and commodities. In other words, illicit commodities encompass commodities the production and marketing of

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<sup>16</sup> John M. Martin and Anne T. Romano, *Multinational Crime: Terrorism, Espionage, Drugs and Arms Trafficking* (Newbury Park: Sage, 1992); Jack Beeching, *The Chinese Opium Wars* (New York: Harcourt Brace Jovanovich, 1975); Jean Chesneaux, Marianne Bastid and Marie-Claire Bergere, *China: From the Opium Wars to the 1911 Revolution*. Translated by Anne Destenay (New York: Pantheon, 1976); and Peter Ward Fay, *The Opium War, 1840-1842* (Chapel Hill: University of North Carolina Press, 1998).

<sup>17</sup> William J. Chamblis, "State-organized Crime," *Criminology*, 27 (2): 183-208. Many colonial governments set up legal licensed cultivation and processing of various drugs: The British encouraged and regulated cultivation of opium in India as did the French in Indochina; the rulers of Morocco and Tunisia taxed the cultivation of cannabis until the 1950s, and the king of Siam collected taxes on the cultivation and distribution of opium until the early 20<sup>th</sup> century.

which are either completely prohibited by governments and/or international organizations, or partially proscribed unless the production and marketing comply with special licenses, certification, taxation, and other economic and political regulations. Varying with locale, such illicit items typically include illegal drugs; diamonds and other gems produced without proper certification; alcohol; weapons sold or transferred in violation of national or international law; ivory produced without proper certification; particular commodities produced, sold or transferred in violation of tariffs and other taxes; human organs; and illegal immigrants and prostitutes.

*Illegal drugs* are consumable chemicals banned in the jurisdiction in question.

Depending on the way they are produced, illegal drugs can be divided into two categories: cultigen-based drugs and synthetic drugs. Cultigen-based drugs are narcotics derived from natural alkaloids found in plants, such as heroin, opium, cocaine, marijuana, hashish, and mescaline, or from acids found in mushrooms, such as LSD and psilocibin. Synthetic drugs are manufactured from existing chemicals without a plant or fungus extract as a base. Examples of synthetic drugs include amphetamines, methamphetamines (crystal and ice), MDMA/ecstasy, and other club drugs (ketamine, GHB, rohypnol). Some narcotics derived from plants and mushrooms can also be produced purely synthetically, such as LSD, psilocibin, and mescaline. In fact, synthetic production of many of these drugs is now the predominant form of their production. Production of synthetic drugs is considerably less labor-intensive than the cultivation and processing of drugs based on natural alkaloids and acids, a characteristic that has important implications for the interaction of drugs and military conflict. Based on their effect, drugs of abuse fall into three categories: depressants (e.g. heroin, barbiturates), stimulants (e.g.

cocaine, crack, amphetamines), and hallucinogens (e.g. Ecstasy, LSD, marijuana). *Illicit crops* are the outlawed plants necessary for the production of outlawed cultigen-based narcotics. Such plants include coca, poppy, marijuana, and hemp.

*Drug economy* is a term used in this study to describe the production (cultivation and processing) and trafficking of illegal narcotics. Other illicit economies include the trafficking in human beings and contraband (gems, timber, ivory, archeological artifacts, illegal arms, and body organs), the appropriation of customs revenues, illegal taxation, forced labor, slavery, and forced land seizures.<sup>18</sup> Some of the illicit economic activities listed above -- trade with timber or gems, for example -- can be described also as *irregular economy* since their production and transactions would be legal if laws, licensing, and certifications were followed.<sup>19</sup> What is more important for the purposes of the study than whether a certain economic activity is classified as irregular, extralegal, informal, or illicit, is the extent to which belligerent groups can exploit this economy for their purposes, and also the scope of strategies the government has available for dealing with the economy. Although a terrorist group may derive as much money from extralegal unregistered construction activities as from drugs, the options available to a particular government to deal with each illicit-economy-terrorism nexus may be radically different. While a government may choose not to prosecute extralegal economic activities, such as

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<sup>18</sup> As H. Richard Friman and Peter Andreas argue, criminal economies arise in the space that exists between state prohibitions and the state's inability or unwillingness to fully enforce its laws. See, H. Richard Friman and Peter Andreas, "Introduction: International Relations and the Illicit Global Economy," in H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham: Rowman and Littlefield, 1999): 1-23. See also, Ethan A. Nadelmann, "Global Prohibition Regimes: The Evolution of Norms in International Society," *International Organization*, 44 (4) Autumn 1990: 479-526.

<sup>19</sup> Together with *extra-legal* (economies that would be legal if registered, i.e. small shops, construction, etc.) and *in-kind* (economies with no market transaction, such as subsistence agriculture) economies, the *irregular economy* comprises the informal economy in a country. For details on the distinctions, see, Manuel Castells and Alejandro Portes, "World Underneath: The Origins, Dynamics, and Effects of the Informal Economy," in Alejandro Portes, Manuel Castells, and Lauren Benton, eds., *The Informal Economy: Studies in Advances and Less Developed Countries* (Baltimore: Johns Hopkins Press, 1989): 14-15.

unregistered construction companies, it will be considerably more constrained by international norms and pressure against tolerating trafficking with women or legalizing the cultivation of coca.

*Military conflict* is herein defined as organized violence with political goals – that is, directed, intentional violence by belligerent groups with political goals. The political goal can be merely holding onto a territory. Military conflict thus includes internal organized violence such as low-intensity warfare, insurgency, terrorism, warlordism, and civil war, as well as international military conflict, such as interstate war and international terrorism. The term does not encompass apolitical criminal violent activity, such as an exchange of fire between New York drug traffickers and the police.

The study purposefully uses the term *military conflict*, so as not to limit the exploration to insurgency (as defined below). Although the impact of illicit substances on military conflict has been seen most frequently in cases of insurgencies and terrorism, the dynamics described here apply equally to non-insurgency situations, such as international terrorism or even interstate warfare.

There is no generally accepted definition of the term *insurgency* in political science. James Fearon and David Laitin define insurgency as “a technology of military conflict characterized by small, lightly-armed bands practicing guerrilla warfare from rural based areas,” thus reducing insurgency to a method of conflict, regardless of the identities and goals of the belligerents.<sup>20</sup> Ian Beckett defines insurgency as modern, revolutionary guerrilla warfare using irregular military tactics, such as hit-and-run

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<sup>20</sup> James D. Fearon and David D. Laitin, “Ethnicity, Insurgency, and Civil War,” *American Political Science Review*, 97 (1), February 2003: 75-90.

tactics.<sup>21</sup> In “Small Wars: Definitions and Dimensions,” Roger Beaumont contends that there are no exact established academic or military distinctions between guerrilla warfare, insurgency, and low-intensity warfare.<sup>22</sup> In the absence of a generally accepted definition, I define insurgency as organized violent opposition to the institutions or policies of the established government, usually with the goal of displacing the government from at least a part of the country. Insurgency is thus a subset of civil war or civil strife. Because insurgency frequently uses irregular military tactics, the term is used interchangeably with guerrilla warfare in this study. Any such definitional distinctions between insurgency, low-intensity warfare, and guerrilla warfare, however, bear no impact on the analysis of the dynamics explored in this study.

**Terrorism**, another highly-contested term without any clear accepted definition in political science, is used to refer both to the goals and the means of its perpetrators. For the purposes of this study, I define terrorism as the deliberate targeting of noncombatant civilians. Terrorist acts can be thus perpetrated by insurgents, other nongovernmental belligerents, and the governments themselves. Again, the definition of the term has no impact on the analysis of the dynamics studied in the study.

**Drug traffickers** are defined as individuals, cartels, or syndicates involved in the marketing of drugs primarily for personal pecuniary profit and without larger political goals, other than preserving their criminal activity and avoiding state prosecution. Cartels and syndicates represent particular forms of **organized criminal groups**,<sup>23</sup> defined by the

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<sup>21</sup> Ian F. W. Beckett, “Guerrilla Warfare: Insurgency and Counterinsurgency Since 1945,” in Colin McInnes and G.D. Sheffield, eds., *Warfare in the Twentieth Century: Theory and Practice* (London: Unwin Hyman, 1988): 194-212.

<sup>22</sup> Roger Beaumont, “Small Wars and Insurgencies,” *Annals of the American Academy of Political and Social Sciences*, 541 (8-178), September 1995: 20-35.

<sup>23</sup> There is no one single accepted definition of organized crime. For example, the Task Force on Organized Crime of the 1967 President’s Commission provided the following definition: “The core of

December 2000 United Nations *Convention against Transnational Organized Crime*

(CTOC) as “a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or offenses established in accordance with this Convention, in order to obtain, directly or indirectly, a financial or other material benefit.”<sup>24</sup>

I refrain from using the terms, *narcoterrorism*, *narcoinsurgency*, *narcoterrorists*, and *narcoinsurgents* even though they have become popular in the lexicon of U.S. government officials, together with narcofarmers, narcostate, narcodemocracy, narcomonarchy, and narcofundamentalism.<sup>25</sup> Adopted by scholars as well, such terms are

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organized crime activity is the supplying of illegal goods and services.” Quoted in Gianluca Fiorentini and Sam Peltzman, “Introduction,” in Gianluca Fiorentini and Sam Peltzman, eds., *The Economics of Organized Crime* (Cambridge: Cambridge University Press, 1995): 3. Schelling rejected the above definition for ignoring the desire of organized crime to govern and control the whole economic structure of the underworld. According to Schelling, the core goal of organized crime is to acquire a rule-making role in a given area, necessarily through the use of violence. Schelling’s idea of organized crime is thus very close to the notion of a government. Thomas C. Schelling, “What is the Business of Organized Crime?” *Journal of Public Law*, (20): 71-84, reprinted in Thomas C. Schelling, ed., *Choice and Consequences* (Cambridge: Harvard University Press, 1984). In his seminal *Disorganized Crime*, Peter Reuter offers a third definition, explicitly rejecting the above two: “[O]rganized crime consists of organizations that have durability, hierarchy, and involvement in a multiplicity of criminal activities.” Peter Reuter, *Disorganized Crime: The Economics of the Visible Hand* (Cambridge: MIT Press, 1983): 175. Reuter rejects the 1967 President’s Task Force definition because it restricts the activity of organized crime to only illegal activities and that of Schelling because it assumes a central control of the illegal market due to a monopoly of violence and corruption. In fact, Reuter’s central claim is that organized crime groups behave much more like ordinary economic firms. R.T. Naylor rejects such comparisons between organized crime and legal businesses, arguing that they are “at best, a serious oversimplification, [and] at worst simply wrong,” since unlike legal businesses, criminal organizations are above all risk minimizers, not profit maximizers.” R.T. Naylor, *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy* (Ithaca: Cornell University Press, 2002): 19-22.

<sup>24</sup> United Nations, General Assembly, *Resolution Adopted by the General Assembly: United Nations Convention against Transnational Organized Crime*, 2001, (A/Res/55/25): 4.

<sup>25</sup> U.S. Ambassador to Colombia, Lewis Tambs, was among the first to use and popularize the terms narcoinsurgency and narcoterrorism. The term narcostate is often used to denote a state whose government and/or political elite is actively involved in the drug trade or the economy of which includes a significant illicit drug component. Scott B. MacDonald, for example, defines as a narcomilitary state a state dominated by a military that is actively involved in and promotes the drug trade (Scott B. MacDonald, *Mountain High, White Avalanche* (New York: Praeger, 1989): 11. Although such terms sound seductively descriptive, the actual definitions are rather porous. The term narcostate has been applied to Bolivia, Colombia, Peru, Mexico, Panama, Afghanistan, and Burma, yet the actual characteristics of the interaction of the illicit economy and the drug trade varied substantially among these countries, and drugs played a role in the economy and politics of each country in quite different ways. The narco-definitions invariably fail to specify what “an active involvement of the government or political elite with the drug trade means.” Does

used to implicitly or explicitly imply any of the following: a) that the drug dealers and guerrillas have similar, if not identical goals; b) that they have morphed into one conglomerate actor,<sup>26</sup> or c) that drugs have caused the military conflict -- thus begging the questions this study seeks to analyze.

Douglas Davids pushes the use and definition of the terms farthest by arguing that as long as drug dealers use violence they can be called narcoterrorists; and as long as belligerents derive some benefits from drugs, they can be called narcoterrorists.<sup>27</sup> Such slippery use is not helpful for analysis and policy prescriptions since a twelve-year-old marijuana pusher in Anacostia, Washington, DC could also qualify as a narcoterrorist. Davids builds upon, but goes beyond, the definitions used by the U.S. Drug Enforcement Administration (DEA), which defines a narcoterrorist organization as an organized group that is complicit in the activities of drug trafficking to further, or fund, premeditated, politically-motivated violence perpetrated against non-combatant targets with the intent to influence (that is, influence a government or group of people.)<sup>28</sup> The DEA brief asks whether narcoterrorists are drug traffickers who use terrorism against civilians to advance their agenda or whether they are first and foremost terrorists who use drug money to further their cause, and concludes that perhaps the term can be applied to both types of

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this imply that the presence of one government official implicated in the drug trade signifies the existence of a narcostate? Or the presence of five high officials or more than fifty percent of the government officials? Or if the definition of a narcostate is that drugs constitute a substantial component of the country's GDP, what are the benchmarks? More than 3 percent of the GDP, more than 10% of the GDP, more than 50%? At what point does a country become a narcostate?

<sup>26</sup> For other analysts who equate drug dealers and guerrillas see, for example, Colombian Ambassador to the United States, Luis Alberto Moreno, "Aiding Colombia's War on Terrorism," *New York Times*, May 3, 2002.

<sup>27</sup> Davids.

<sup>28</sup> U.S. Department of Justice, Drug Enforcement Administration, "Drugs and Terrorism: A New Perspective," *Drug Intelligence Brief*, September 2002, <http://www.usdoj.gov/dea/pubs/intel/02039/02039.html>, downloaded August 18, 2004. See also, U.S. Department of Justice, Drug Enforcement Administration, *Target America: Traffickers, Terrorists and Your Kids*, A National Symposium on Narcoterrorism, DEA Headquarters, December 4, 2001, transcript, (Washington, DC: Miller Reporting Co., Inc., 2001).

actors. As an example of a prototypical narcoterrorist, the DEA identifies Pablo Escobar, the leader of the Colombian Medellín cartel in the 1980s and early 1990s, given that he was an infamous brutal drug dealer and also had political aspirations. I prefer the term *drug-conflict nexus*, by which I mean any and multiple connections and interactions between the illicit drug economy and various forms of military conflict.<sup>29</sup>

I also prefer to use the phrase *gains from illicit economies* rather than the term “profits” since the latter implies purely financial benefits. But, as will be elaborated below, the gains belligerent groups derive from the control of drug production and trafficking are much more multifaceted than simply financial profits. To conceptualize the political “profits” of belligerents, I use the term *political capital* to denote their relationship with the local population -- mainly the extent of support and/or tolerance by the local population to the belligerent group. Political capital thus encompasses: a) the **legitimacy** of the belligerent group, defined as perception in the population that the actions of the belligerents are beneficial to the population and thus justified; and b) **support** from the population, including denial of intelligence on belligerents to the government and the provision of intelligence, safe-houses, and supplies to belligerent groups that is voluntary and not extracted by brute force.<sup>30</sup>

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<sup>29</sup> In a study of the Latin American drug trade, Scott B. MacDonald also uses the drug-insurgency nexus, which he defines as the formation of political-military enclaves controlled by traffickers allied with leftist, revolutionary groups MacDonald (1989): 12. Unlike MacDonald, I do not restrict the term to the formation of political-military enclaves or alliances between drugs and insurgents.

<sup>30</sup> My concept of *political capital* is thus similar to, but slightly broader than, Elisabeth Wood’s concept of *support for insurgency*, which she defines as the provision to the insurgents of information and supplies beyond the contribution necessary to remain in contested areas, and the refusal to give information and supplies to the government forces beyond the necessary contribution. Elisabeth Jean Wood, *Insurgent Collective Action and Civil War in El Salvador* (Cambridge: Cambridge University Press, 2003). My concept of political capital does encompass what Bard E. O’Neill calls both *passive support* for belligerents (individuals who quietly sympathize with the insurgents but are unwilling to provide material

## IV. The Debate

### *The Conventional Narcoterrorism/Narcoinsurgency View*

Widely accepted by both government officials and academic scholars alike, the standard understanding of the relationship between illicit economies and military conflict is based on the premise that belligerent groups derive large financial profits from illicit economies. With these large financial profits, terrorists, warlords, and insurgents buy weapons and hence expand conflict, while the government's relative capabilities vis-à-vis the belligerents shrink.<sup>31</sup> A prototypical example of such an illicit economy is the drug trade. As Attorney General John Ashcroft put it, "Terrorism and drugs go together like rats and the bubonic plague. They thrive in the same conditions, support each other, and feed off each other."<sup>32</sup>

Hence the belligerents are best defeated by eradicating the illicit economy. Suppression of the illicit economy is necessary to defeat the belligerents and will result in critical reduction of the belligerents' capabilities. In the case of cultigen-based narcotics, eradication of the illicit crops is argued to be the optimal way to bankrupt the belligerents

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assistance) and *active support* (those who are willing to make sacrifices and risk personal harm by either joining the movement or providing the belligerents with concealment, shelter, food, medical assistance, arms and equipment, and intelligence). See, Bard E. O'Neill, *Insurgency and Terrorism: From Revolution to Apocalypse* (Washington, DC: Potomac Books, 2005): 94-95. Similarly, Roger Petersen distinguishes between three levels of support for insurgent forces: a first level of unarmed, unorganized opposition to the regime, a second level of direct support of or participation in a local armed organization, and third level of membership in a mobile armed group. See, Roger Petersen, *Resistance and Rebellion: Lessons from Eastern Europe* (Cambridge: Cambridge University Press, 2001): 8-15. When discussing the political capital of belligerents, I focus mainly at the second level of support. Thus, my term *political capital* means level of popular support, rather than political and civic engagement, social ties, and social trust termed "social capital" by Robert Putnam. See, Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000).

<sup>31</sup> Adams; Ehrenfeld (2005); Davids; Rand Beers, Assistant Secretary for International Narcotics and Law Enforcement Affairs, "Narco-Terror: The Worldwide Connection Between Drugs and Terrorism," a hearing before the U.S. Senate Judiciary Committee, Subcommittee on Technology, Terrorism, and Government Information," March 13, 2002; <http://judiciary.senate.gov/hearing.cfm?id=196>.

<sup>32</sup> John Ashcroft, Attorney General, "Prepared Remarks," Drug Enforcement Agency/ Drug Enforcement Rollout, Washington, DC, March 19, 2002, <http://www.ciponline.org/colombia/02031903.htm>, downloaded May 23, 2004.

and also to reduce consumption,<sup>33</sup> thus accomplishing two goals with the same strategy.

The 2003 International Narcotics Control Strategy Report, issued by the Department of State, for example, states:

The closer we can attack to the source, the greater the likelihood of halting the flow of drugs altogether. Crop control is by far the most cost-effective means of cutting supply. If we destroy crops or force them to remain unharvested, no drug will enter the system. .... Theoretically, with no drug crops to harvest, no cocaine or heroin could enter the distribution chain; nor would there be any need for costly enforcement and interdiction operations.<sup>34</sup>

President Álvaro Uribe of Colombia, a staunch supporter of eradication, seconded the notion: "If Colombia would not have drugs, it would not have terrorists."<sup>35</sup> A corollary proposition of the conventional view is that belligerents and criminals can no longer be distinguished from each other and need to be fought as a joint enemy.

In sum, the conventional view makes three key arguments: 1) Belligerents make money from illicit economies. 2) The destruction of the illicit economy is both necessary

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<sup>33</sup> In addition to eradication reducing consumption by eliminating supply of drugs, the consumption of drugs is also expected to fall as a result of falling demand since the exposure of the narcoterrorism phenomenon will motivate parents to more likely talk to their children about the evils of using drugs. In turn, children will forgo using drugs more willingly since they will not want to be complicit in the narcoterrorism specter threatening the country. See, Asa Hutchinson, "Remarks at *Target America: Traffickers, Terrorists, and Your Kids*," A National Symposium on Narcoterrorism, Drug Enforcement Administration, U.S. Department of Justice, December 4, 2001 (Washington, DC: Miller Reporting, Co., Inc: 2001). This new specter of drugs as a weapon of terrorism is fortified by reports that jihadist groups participate in the drug trade in order "to poison the West." The conventional narcoterrorism view, for example, frequently quotes the following statement from Hezbollah: "We are making these drugs for Satan – America and the Jews. If we cannot kill them with guns, so we will kill them with drugs." See, for example, Joseph Bodansky, *Bin Laden: The Man Who Declared War on America* (Roseville: Prima Publishing/ Random House, 2001): 322. Such view of drugs as a "weapon of mass destruction" by jihadist groups revives analogous arguments about the connection between leftist Marxist guerrillas and terrorists, drug traffickers, and the Soviet Union in the 1980s. The spread of drugs then was seen by some as a ploy by Communists to destroy the West. See, for example, Joseph D. Douglas, Jr., *Red Cocaine - The Drugging of America* (Atlanta: Clarion House, 1990). Eradicating drugs today thus becomes not only an efficient means of combating terrorists and other belligerents abroad, but also a necessary component of defense against such groups at home.

<sup>34</sup> U.S. Department of State, *The 2003 International Narcotics Control Strategy Report*, <http://www.state.gov/p/inl/rls/nrcrpt/2003/vol1/html/29828.htm>, downloaded March 2, 2004.

<sup>35</sup> From a speech to the Organization of American States Permanent Council, Washington, DC, March 25, 2004, cited in International Crisis Group, *War and Drugs in Colombia*, Latin America Report No. 11, January 27, 2005: 9, [http://www.crisisgroup.org/library/documents/latin\\_america/11\\_war\\_and\\_drugs\\_in\\_colombia.pdf](http://www.crisisgroup.org/library/documents/latin_america/11_war_and_drugs_in_colombia.pdf), downloaded February 10, 2005.

and optimal for defeating the belligerents because it will critically eliminate their resources. 3) The belligerents who participate in the illicit economy can no longer be treated as different from the criminals who also participate in the illicit economy.

### ***The Political Capital of Illicit Economies***

My theory, *the political capital of illicit economies*, argues that belligerents derive much more than simply large financial profits from their sponsorship of illicit economies. They also obtain freedom of action and, crucially, legitimacy and support from the local population -- what I call *political capital*. Belligerents who are *positively involved in* (sponsor) the illicit economy thus obtain two sets of gains: military capabilities (physical resources and freedom of action) and political capital (legitimacy and support). If belligerents choose to become negatively involved in the illicit economy (attempt to destroy it), they not only fail to increase their military capability, but also suffer costs in terms of political capital.

The extent and scope of belligerents' gains/ losses from the type of their involvement in the illicit economy depend on four factors: *the state of the overall economy; the character of the illicit economy; the presence of thuggish traffickers; and the government response to the illicit economy*. These factors reflect both structural conditions outside of the immediate control of the belligerents and the government and strategic policy choices available to either the belligerents or the government. The state of the overall economy -- poor or rich -- determines the availability of alternative sources of income and the number of people in a particular locale dependent on the illicit economy for basic livelihood. The character of the illicit economy -- labor-intensive or not -- determines how the illicit economy satisfies the demand of the population for

employment. The presence of thuggish traffickers and the government response to the illicit economy (which can range from suppression to laissez-faire to legalization) determine to what extent the population is dependent on the belligerents for the preservation of illicit economy and for better working conditions. Positive involvement in the illicit economy thus allows belligerents to provide a host of protection and regulation services to the population.

The state of the overall economy in the country/region and the character of the illicit economy are the two most important factors in determining the extent of the belligerents' political capital obtained from their participation in the illicit economy. Within the subset of poor countries with large labor-intensive illicit crop cultivation -- i.e. the most significant and prominent cases of the drug-conflict nexus -- government policy toward the illicit economy has a very large effect on the extent of the belligerents' political capital.

Contrary to the conventional wisdom about narcotics and military conflict, my theory predicts that eradication of narcotics cultivation will have dubious effects on the capabilities of the belligerents and is extremely unlikely to severely weaken them. Belligerents (and traffickers and the population) have a large menu of adaptations at their disposal that will very likely allow the belligerents to escape critical shortages of resources as a result of eradication. However, eradication will alienate the local population from the government and result in the population's unwillingness to provide intelligence on the belligerents -- a crucial requirement for success against the belligerents. Thus, eradication of illicit crops increases the political capital of the belligerents without accomplishing its promised goal of significantly weakening their

military capabilities. Tacit acquiescence, on the other hand, i.e., tolerating the cultivation of illicit crops during conflict, will leave the belligerents' resources unaffected, but will decrease their political capital. Interdiction – interception of illicit shipments, destruction of labs, and capture of traffickers – will not only decrease the belligerents' political capital since the population's livelihood is not threatened directly, but may also somewhat decrease their financial resources. But, as in the case of eradication, interdiction is extremely unlikely to bankrupt the belligerents to the point of defeating them. When licensing of the illicit economy is an option (such as the licensing of opium poppy cultivation for the production of medical opiates), the political capital of the belligerents will decrease as will their resources, while the political capital and the physical resources of the government will increase. In the case of illicit economies where licensing is not an option, governments thus face a basic trade-off between hoping to curtail the belligerents' resources and winning the hearts and minds of the population.

A corollary proposition of my theory is that far from having morphed into an identical actor with identical goals, the belligerents and the traffickers have many competing interests and often physically fight each other.

In sum, my theory makes four key arguments: 1) Belligerents derive not only physical resources from their positive involvement in the illicit economy, they also derive political capital. 2) The extent and scope of the benefits they derive from the illicit economy is determined by a set of four structural and policy factors: state of the overall economy; character of the illicit economy; presence of traffickers; and government policy toward the illicit economy. 3) In the case of labor-intensive illicit economies in poor countries, such as in the case of illicit crop cultivation, eradication will very likely not

significantly diminish the physical resources of the belligerents, but will definitely alienate the population and limit its cooperation with the government in the effort to defeat the belligerents, hence hampering the overall effort against the belligerents.

4) Instead of having merged into an identical actor, belligerents and traffickers have highly competing interests and frequently fight each other.

## **V. The Cases**

My study investigates the posited processes and tests the two theories in detail in three cases: Peru, Colombia, and Afghanistan. Several additional cases, Northern Ireland, Burma, India, and Turkey, are brought in as extensions of the analysis in the concluding chapter. Containing poor regions torn by conflict, the three main countries have been for over two decades some of the most significant locales of global efforts to combat narcotics production. In these three countries where military conflict and an extensive illicit narcotics economy interact, the government faces a particularly stark trade-off between its desire to limit the belligerents' resources and its need to win the hearts and minds of the population to successfully eliminate the belligerents. In rich countries where belligerents are also involved in the narcotics trade, such as various republican and loyalist belligerent groups in Northern Ireland and the ETA in Spain, the trade-off is considerably smaller, and hence less interesting for analysis. Nonetheless, my principal cases also contain an example of a rich region where belligerents interact with an illicit economy -- namely, the participation of the Colombian M-19 in the drug trade in Bogotá and other major Colombian cities. Bringing in the case of the M-19 allows me to evaluate the effect of the factor "the state of the overall economy" on the political capital of the

belligerents.<sup>36</sup> A detailed discussion of case selection is offered in the Research Design and Methodology section of Chapter III.

In the empirical part of the study, I will show how all three principal cases clearly support the validity of my theory of political capital of illicit economies and critically undermine the validity of the conventional view. In Peru, until the mid-1990s the largest producer of coca leaf in the world, the two leftist guerrilla groups, the Shining Path and the MRTA, became involved in the illicit narcotics economy. In addition to obtaining large financial profits from the illicit narcotics trade on the order of tens to hundreds of millions of dollars a year, both groups derived considerable freedom of action and large-scale political capital from their positive involvement in the illicit economy. In fact, when at first the Shining Path sought to suppress the illicit economy, it encountered such large resistance from the peasants that the military was able to push it out from the drug regions. When the Shining Path switched its policy toward protecting the illicit economy, it not only won the territory back and posed a significant threat to the military forces and the state, but also motivated the other leftist group, the MRTA to emulate its successful policies. Contrary to the conventional view, the defeat of the Shining Path took place without eliminating the group's income source through eradication. Rather, the Shining Path was defeated in the countryside because the military adopted a policy of tacit acquiescence to the farmers' cultivation of coca. The population provided the military with vital intelligence on the Shining Path and organized in self-defense groups to fight against the Shining Path.

Although Colombia, the world's largest producer of cocaine, is the poster case for the conventional view, detailed examination of the case once again undermines the

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<sup>36</sup> The effect of this factor is further explored in the case of Northern Ireland in the final chapter.

validity of the conventional view while supporting my theory. Even though the leftist FARC and the rightist paramilitaries have profited from the drug trade, both groups have also derived large political capital from protecting the illicit economy from government eradication efforts. Until the mid/late 1990s, the paramilitaries' political capital obtained from the illicit economy had been smaller than that of the FARC because the paramilitaries were frequently indistinguishable from the traffickers, and the paramilitaries did not provide the same level of protection and regulation services to the population as did the FARC. However, when in the mid/late 1990s the FARC eliminated the small and medium traffickers from the territories under its control, its political capital declined. The leftist ELN was for a long time involved only in the labor-non-intensive extortion of oil companies. Consequently, it obtained smaller political capital from its participation in the illicit economy than the FARC and subsequently failed to compete with the FARC. The case of the M-19 shows the importance of factor "the state of the overall economy": the M-19, operating in Bogotá and involved in a labor-non-intensive aspect of the drug trade, not only failed to obtain political capital with the local population, but in fact antagonized it. Despite being the most intense and prolonged aerial spraying in history, eradication adopted in the late 1990s in Colombia has failed to bankrupt and significantly weaken the FARC, but has once again strengthened the weakening bond between the population in the drug regions and the guerrillas. Intelligence provision to the government in these areas remains notoriously poor.

The analysis of the Afghanistan case also supports my theory and undermines the validity of the convention view. In Afghanistan, a variety of belligerent groups have been involved in several illicit economies, including the drug trade, since the late 19<sup>th</sup> century.

Participation in the illicit narcotics economy greatly intensified during the 1980s and early 1990s, and generated not only financial resources for the mujahideen, but also political capital, greatly facilitating their intelligence-gathering. The Taliban's original negative involvement in the opium economy, i.e., its eradication policy, generated large losses of political capital, and the Taliban was unable to consolidate its power even over the Pashtun south. Only when the Taliban reversed its negative involvement and came to sponsor the opium economy in late 1995, was it able to enhance its staying power and ultimately extend control throughout much of Afghanistan. Its prior positive involvement in smuggling with licit goods generated financial resources on par with the drug trade, but, because of the labor-non-intensive character of the illicit economy failed to compensate for the losses of political capital due to opium eradication. Tacit acquiescence toward the narcotics economy by the United States during the U.S. intervention against the Taliban facilitated provision of information by the population against the Taliban. The Taliban was on the run and largely displaced from the drug trade. When eradication was undertaken by the Karzai government and the international community (mainly the U.S. and the U.K.) from 2003 on, it antagonized the population and allowed the Taliban to reinsert itself into the drug economy by providing protection to both the traffickers and the peasants. Far from weakening the Taliban, eradication has strengthened it politically while not hurting its financial resources.

In sum, all three principal cases (as well as the cases in the extended analysis in the final chapter) clearly support the validity of my theory of political capital of illicit economies and critically undermine the validity of the conventional view.

## **VI. Effects of Illicit Economies Outside of Military Conflict**

Although this study is concerned primarily with the effect of illicit economies on military conflict, it is important to recognize that burgeoning and unconstrained drug production and other illicit economies also have other profound consequences for states, apart from the military conflict context. A large-scale illicit economy threatens the state politically by providing an avenue for criminal organizations and corrupt politicians to enter the political space, undermining the democratic process. These actors, who enjoy the financial resources and political capital generated by sponsoring the illicit economy, frequently experience great success in the political process. They are able to secure official positions of power as well as wield influence from behind the scenes. Consequently, the legitimacy of the political process is subverted. The problem perpetuates itself as successful politicians bankrolled with illicit money make it more difficult for other actors to resist participating in the illicit economy, leading to endemic corruption at both the local and national levels.

Large illicit economies with powerful traffickers also have a pernicious effect on the judicial system of the country. First, as the extent of the illicit economy rises, the investigative capacity of the law enforcement and judicial systems diminishes. Impunity for criminal activity also increases, undermining the credibility and deterrence of the judicial system and the authority of the government. Second, powerful traffickers frequently turn to violent means to deter and avoid prosecution, killing off or bribing

prosecutors, judges, and witnesses.<sup>37</sup> Of course, efforts to suppress the production of illicit drugs sometimes also lead to an increase in government human rights abuses.<sup>38</sup>

Illicit economies also have large economic effects. Drug cultivation and processing, for example, on the one hand generate employment for the poor rural population, numbering frequently in the hundreds of thousands. Moreover, not only does the drug economy allow the impoverished poor to make ends meet, it also facilitates upward mobility for many participants.

But a burgeoning drug economy also contributes to inflation and can hence harm legitimate, export-oriented, import-substituting industries. It encourages real estate speculation and a rapid rise in real estate prices, and undermines currency stability. It also displaces legitimate production. Since the drug economy is economically superior to legitimate production not only in price profitability, but also requiring less developed infrastructure and not imposing large sunk and transaction costs, the local population is frequently uninterested in, or unable to, participate in a different form of economic activity. The existence of a large illicit economy thus complicates efforts at local development and crowds out legitimate economic activity. The illicit economy can thus lead to the so-called Dutch disease where a boom in an isolated sector of the economy causes or is accompanied by stagnation in other core sectors since it gives rise to appreciation of land and labor costs. Finally, it appears that the small share of the final profits that is captured by the country producing the illicit commodity is used mainly for

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<sup>37</sup> Mónica Serrano and María Celia Toro, "From Drug Trafficking to Transnational Organized Crime in Latin America," in *Transnational Organized Crime and International Security: Business as Usual?* Mats Berdal and Monica Serrano, eds. (Boulder: Lynne Rienner, 2002): 141-154; and Mauricio Rubio, "Violence, Organized Crime, and the Criminal Justice System in Colombia," *Journal of Economic Issues*, 32 (2): 605-610.

<sup>38</sup> See, for example, Coletta A. Youngers and Eileen Rosin, eds., *Drugs and Democracy in Latin America* (Boulder: Lynne Rienner, 2005).

unproductive consumption by the traffickers, rather than productive economic investment.<sup>39</sup> This economic effect, however, is not a hard universal rule. During my research in Peru, for example, I encountered a village where the population was able to invest the coca profits into a local school, medical facilities, electricity generator, and an ecotourist lodge.<sup>40</sup> Nonetheless, such instances may be a rare exception to the otherwise unproductive use of illicit profits.

## VII. What Follows

This chapter introduced the major questions explored in this study regarding the nexus between illicit economies, such as drugs, and military conflict and set the parameters of the issue. It located narcotics within the larger class of illicit economies. It established the significance of the inquiry for policy and its academic contribution to several fields of study, including international political economy and the role of regimes and regulation; civil war and the role resources; security studies and counterinsurgency policy; and failed states. It argued that the conventional view regarding the role of narcotics in military conflict ignores important dynamics and recommends ineffective and counterproductive policies. The chapter offered an alternative theory of the impact of illicit markets on military conflict -- the political capital of illicit economies -- that provides a richer analysis of the phenomenon and a different set of prescriptions. The

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<sup>39</sup> For details on the economic effects of illicit economies, see, for example, Francisco E. Thoumi, *Illegal Drugs, Economy, and Society in the Andes* (Baltimore: John Hopkins University Press, 2004); Pranab Bardhan, "Corruption and Development: A Review of the Issues," *Journal of Economic Literature* 35 (3), 1997: 1320-65; Peter Reuter, "The Mismeasurement of Illegal Drug Markets: The Implications of Its Irrelevance," in Susan Pozo, ed. *Exploring the Underground Economy* (Kalamazoo: W.E. Upjohn Institute, 1996): 63-80; and Mauricio Reina, "Drug Trafficking and the National Economy," in Charles Berquist, Ricardo Peñaranda, and Gonzalo Sánchez G., eds., *Violence in Colombia 1990-2000: Waging War and Negotiating Peace* (Wilmington: A Scholarly Resources Inc. Imprint, 2001).

<sup>40</sup> In order not to generate negative repercussions for the village, I do not give its name.

chapter also previewed the empirical evidence. Finally, it briefly sketched the impact of the production of narcotics on political and economic processes outside of military conflict – a topic beyond the scope of the study.

The rest of the study proceeds as follows: The next chapter provides a detailed literature review of the various intellectual sources of both the conventional view and my theory, covering studies on resource wars, peasant rebellions, insurgency and counterinsurgency, organized crime, narcotics, and state failure. The third chapter lays out the theoretical apparatus of the study, detailing the two competing theories, as well as describing the methodology and case selection. The following three chapters delve into the empirical evidence for two competing theories. Chapter Four analyzes illicit economies (drugs and illicit logging) and conflict in Peru since the 1970s. Chapter Five explores the illicit-economies-conflict nexus in Colombia since the 1960s. And Chapter Six does that for Afghanistan at the turn of the 20<sup>th</sup> century and again since 1979. Chapter Seven provides a summary conclusion, showing how the cumulative evidence supports the validity of my theory and undermines the validity of the conventional view. Finally, Chapter Eight extends the analysis to several other cases, including Northern Ireland and Burma, and explains the limits of on the ability of belligerents to exploit illicit economies. It also teases out policy implications and provides a set of recommendations.



## CHAPTER TWO: Literature Review – Theories, Assumptions, and Worldviews Underlying the Controversy

### I. Introduction

This chapter provides a review of the standard works that offer the conventional narcoterrorism view and other relevant literature on drugs and counterdrug policies. In order to comparatively contextualize the intellectual background and assumptions of the standard view of narcoterrorism and my theory, “the political capital of illicit economies,” the chapter also reviews relevant works on the sources of insurgencies and doctrines of counterinsurgency, sources of terrorism and counterterrorism policies, peasant rebellions, the emerging literature on the criminal enterprises and illicit economies in international politics, and the literature on failing and failed states.<sup>1</sup>

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<sup>1</sup> A large and rich body of literature on drug production and the drug trade does not take directly address the central issues that with by this study. Such works focus either on the histories of the drug trade and counterdrug efforts or explore various forms of international police cooperation, and international anti-narcotics regimes. I mine these works for data on specific cases. Among the key works in this category are Scott B. MacDonald and Bruce Zagaris, *International Handbook on Drug Control* (Westport: Greenwood Press, 1992); William McAllister, *Drug Diplomacy in the Twentieth Century: An international history* (New York: Routledge, 2000); Paul Gootenberg, ed., *Cocaine: Global Histories* (New York: Rutledge, 1999); Martin Booth, *Opium: A History* (New York: St. Martin’s Griffin, 1996); Michael K. Steinberg, Joseph J. Hobbs, and Kent Mathewson, eds., *Dangerous Harvest: Drug Plants and the Transformation of Indigenous Landscapes* (Oxford: Oxford University Press, 2004); Carl Trocki, *Opium, Empire, and the Global Political Economy* (New York: Routledge, 1999); Bruce M. Bagley and William O. Walker, III, eds., *Drug Trafficking in the Americas* (New Brunswick: Transaction Publishers, 1994); Curtis Marez, *Drug Wars: The Political Economy of Narcotics* (Minneapolis: University of Minnesota Press, 2004); and David R. Mares, *Drug Wars and Coffeehouses: The Political Economy of the International Drug Trade* (Washington, DC: CQ Press, 2006).

A second category of the drug literature tangentially related to this study focuses on the bureaucratic setting and making of U.S. drug policies and its implications for U.S. overall foreign policy or policy toward specific countries. General significant works in the category of the making and implications of U.S. international anti-narcotics policy include: Russell Crandall, *Driven by Drugs: US Policy Toward Colombia* (Boulder: Lynne Rienner, 2002); H. Richard Friman, *NarcoDiplomacy: Exporting the U.S. War on Drugs* (Ithaca: Cornell University Press, 1996); and Ron Chepesiuk, *Hard Target: The United States War Against International Drug Trafficking, 1982-1997* (Jefferson: McFarland, 1999). This category also includes Jaime Malamud-Goti, *Smoke and Mirrors: The Paradox of the Drug Wars* (Boulder: Westview, 1992) and Michael Levine, *Deep Cover* (New York: Delacorte Press, 1990), both of which charge that the war on drugs is being lost due to bureaucratic incompetence, half-hearted efforts, and turf controls among

## II. The Conventional View of Narcoterrorism

### *Narcoterrorism Literature*

The majority of the theoretical and empirical studies about the relationship between drugs and military conflict focus mainly on the financial gains belligerent groups derive from illicit substances. Among the early works on the topic, James Adams, for example, identifies drugs as one source of terrorist financing.<sup>2</sup> Similarly, Grant Wardlaw in "Linkages between the Illegal Drugs Traffic and Terrorism" argues strongly against the linkages between the drug dealers and the guerrillas being understood in political or ideological terms, maintaining that they are simply financial.<sup>3</sup> Although Wardlaw is correct in dismissing the ideological bonds between terrorism organizations and drug trafficking, he too ignores the non-pecuniary gains terrorists derive from participation in the illicit economy with respect their broader audience, the population. These early authors have been joined by other prominent proponents of this narrow view of the relationship between illicit economies and military conflict emphasizing simply the financial benefits of belligerents and ignoring the political gains of belligerents from

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the various agencies. In a similar vein, two key works on drugs, Alfred McCoy's *The Politics of Heroin: CIA Complicity in the Global Drug Trade* (New York: Lawrence Hill Books, 1991) and Jonathan Marshall's *Drug Wars: Corruption, Counterinsurgency and Covert Operations in the Third World* (Forestville: Eclipse Books, 1991) explore the inconsistent role of the CIA and other agencies in dealing with drugs, sometimes cooperating with and aiding global criminal syndicates and drug traffickers and at other times attempting to suppress the drug business. Both authors conclude that the war on drugs was lost in the 1980s, by being subordinated to the global struggle against communism.

The view that US foreign policy priorities regarding the war on drugs and other objectives of US foreign policy are ordered incorrectly is also shared by Rachel Ehrenfeld, *Narcoterrorism* (New York: Basic Books, 1990) and Joseph Douglass, Jr. *Red Cocaine - The Drugging of America* (Atlanta: Clarion House, 1990), both of whom believe that the international drug trade was a Communist conspiracy designed to undermine the free world, sponsored by the Soviets and Castro. In their view, the war on drugs was thus sacrificed to détente. Authors in this school of thought also frequently argue that since the end of the Cold War the drug trade was captured by the jihadist terrorist groups.

<sup>2</sup> James Adams, *The Financing of Terror* (London: New English Library, 1986). See also, Robert Cribb, "Opium and the Indonesian Revolution," *Modern Asian Studies*, 22 (4), December 1988: 701-22.

<sup>3</sup> Grant Wardlaw in "Linkages between the Illegal Drugs Traffic and Terrorism," *Conflict Quarterly*, Summer 1988: 5-26. See also, Merrill Collett, "The Myth of the Narco-Guerrilla," *The Nation*, August 13, 1988 and *The Cocaine Connection* (Ephrate: Science Press, 1989).

illicit economies, such as Rachel Ehrenfeld (2005), Douglas Davids (2002), and Stephan Leader and David Wiencek (2000).<sup>4</sup>

Among the recent works on terrorist financing, Shelley and Picarelli review the various criminal sources of terrorist funding, including narcotics, smuggling of human beings, and smuggling of gems, again focusing on the pecuniary benefit to the terrorist groups.<sup>5</sup> Although they note that terrorists also derive logistical support from participating in criminal activity, such as the acquisition of passports, the authors do not consider the political capital that terrorists derive from certain criminal activity. In fact, they argue that the participation of terrorist groups in drug smuggling compromises their legitimacy with the local population since it leads to addiction and drug-related violence.<sup>6</sup>

Tarazona-Sevillano (1990) provides a highly detailed and nuanced view of the relationship between the drug economy and insurgency.<sup>7</sup> But although Tarazona-Sevillano describes some of the political benefits that belligerent groups derive from the drug trade, she fails to underscore the importance of this political capital for the prosecution of the counterinsurgency effort. Instead, she focuses on the pecuniary benefits, and seeing the traffickers and the belligerents as having synergistic tactics and goals and morphing into a unified conglomerate actor, she advocates the need to treat the two phenomena as one. According to her analysis, eradication becomes a crucial means in the defeat of the belligerent groups.

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<sup>4</sup> Rachel Ehrenfeld, *How Terrorism Is Financed and How to Stop It* (Chicago: Bonus Books, 2005); Douglas J. Davids, *Narco-terrorism* (Ardsey: Transnational Publishers, 2002); and Stefan Leader and David Wiencek, "Drug Money: The Fuel for Global Terrorism," *Jane's Intelligence Review*, February 2000: 49-54.

<sup>5</sup> John T. Picarelli and Louise I. Shelley, "Organized Crime and Terrorism," Paper Presented at the Annual APSA Conference 2005, September 2005.

<sup>6</sup> *Ibid.*, p. 14.

<sup>7</sup> Gabriela Tarazona-Sevillano with John B. Reuter, *Sendero Luminoso and the Threat of Narcoterrorism* (Washington, DC: Center for Strategic and International Studies, 1990).

The dominant message of this literature, and the conventional wisdom among government officials described in the following chapter, is thus one of focusing on the financial profits belligerent groups derive from the illicit trade, ignoring the political capital that also accrues to belligerents from sponsoring illicit economies, and recommending that the illicit economy be eradicated in order to defeat the belligerent groups.

### ***Greed Versus Grievance and Resources Wars***

The message of the narcoterrorism literature is consistent with the message of the “greed versus grievance” literature. Although the scholars of the “greed versus grievance” literature approach the problem through a different prism, they see the same dynamics at work and arrive at same conclusions. The “greed versus grievance” scholars pay particular attention to economic dimensions of wars, especially civil wars. In the context of the end of the Cold War -- the drying up of physical resources for rebels from the two superpowers and the rise of economic globalization -- the self-financing character of many civil wars has been one of the main points of academic and policy focus.<sup>8</sup> One of the key contributions of the economic-analysis approach to civil wars is the reconceptualization of civil war from a notion of a complete economic breakdown to an understanding of civil war as a new system of profit and power.<sup>9</sup> The “greed literature”

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<sup>8</sup> Mary Kaldor, *New and Old Wars: Organized Violence in a Global Era* (Stanford: Stanford University Press, 1999) and Mark Duffield, *Global Governance and New Wars: The Merging of Security and Development* (London: Zed Books, 2001).

<sup>9</sup> Among the seminal works of the economic-analysis approach are Mats Berdal and David Keen, “Violence and Economic Agendas in Civil Wars: Some Policy Implications,” *Millennium: Journal of International Studies*, Vol. 26, No. 3, 1997, pp. 795-818; Mats Berdal and David Malone eds., *Greed and Grievance: Economic Agendas in Civil War* (Boulder: Lynne Rienner, 2000); David Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper No. 320 (Oxford: IISS/Oxford University Press, 1998); Paul Collier and Anke Hoeffler, “On the Economic Causes of War,” *Oxford Economic Papers*, 50 (4), October 1998: 563-573; Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil Wars,” October 21, 2001,

thus characterizes current civil wars as “parasitic” because they are dominated by rent-seeking; “illicit” because they rely on gray or black markets; and “predatory” because the belligerents use deliberate violence to acquire assets and extract rents.<sup>10</sup>

Moreover, this economic-approach to civil war claims not only that civil wars have a new character, but crucially, that they are driven by different causes than previously assumed. In an influential statistical study of civil wars since 1965, Paul Collier and his team argued that political grievances traditionally believed to be important causes of civil wars, such as ethnic heterogeneity, regime type, economic mismanagement, and the level of political rights had no statistical significance. Instead, economic factors, mainly the presence of accessible natural resources and a mass of ill-educated youth, accounted for the onset of civil wars.<sup>11</sup> Collier et al posited that economic motives – greed or loot-seeking – are the driver of civil wars. Following an intense academic controversy, Collier and his team offered a weaker version of the greed thesis, emphasizing the role of lucrative economic resources as a crucial opportunity for organized violence.<sup>12</sup> Lutable resources, such as illicit narcotics and gems, are

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[http://econ.worldbank.org/files/12205\\_greedgrievance\\_23oct.pdf](http://econ.worldbank.org/files/12205_greedgrievance_23oct.pdf); Michael Klare, *Resource Wars: The New Landscape of Global Conflict* (New York: Metropolitan Books, 2001).

<sup>10</sup> Kaldor (1999): 11. This literature builds on Charles Tilly’s work on state-making as organized crime and on social movements. See, for example, Charles Tilly, *From Mobilization to Revolution* (Addison-Wesley: 1978) and *Coercion, Capitalism, and European States, AD990 – 1990* (Blackwell Publishers, 1990).

<sup>11</sup> Paul Collier, “Doing Well Out of Civil War,” in Mats Berdal and David Malone eds., *Greed and Grievance: Economic Agendas in Civil War* (Boulder: Lynne Rienner, 2000): 90-111.

<sup>12</sup> Paul Collier and Anke Hoeffler (2001). For arguments on the other side of the debate, see, for example, Cynthia J. Arnson and I. William Zartman, eds. *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed* (Washington, DC: Woodrow Wilson Center Press, 2005). Arnson, Zartman, et al argued that viewing war through the prism of rent-seeking is insufficient and that political grievances still play a crucial role. They maintain, however, that as civil wars become a prolonged struggle and resources become strained, the search for resources become increasingly important, if not dominant. As the original goals of meeting the population’s need and advancing one’s creed show little chance of being attained, tactics become orientated to the attainment of means, namely resources. In time, the tactical search for means may even become transmuted into being an end in of itself. In essence, prolonged civil wars evolve through three stages – need, creed, and finally greed, at which point such conflicts cannot be controlled without the use of military force. Ross (2004) also maintains that although gemstones and narcotics are linked to the duration of conflict, they are not linked to the initiation of the conflict, thus providing further

understood as strengthening the rebels by increasing their funding. The focus is almost solely on pecuniary gains. To the extent that non-pecuniary effects of lootable resources are considered at all, lootable resources are seen as undermining the social capital of belligerent groups since they facilitate recruitment without indoctrination and attract those who seek simply financial profits without commitment to the cause, thus undermining cohesion.<sup>13</sup>

However, whether lootable natural resources are seen as the goal or the means or both, the strong implication of the greed thesis is that efforts to end civil wars should focus on reducing the economic opportunity for violence and targeting the finances of rebel groups. Karen Ballentine summarizes the main findings of the greed-thesis literature: “peace can be best achieved not by long and arduous efforts to negotiate a political compromise, nor by the even more risky approach of direct intervention, but by implementing technical measures that, in the short term, will reduce both the accessibility and the profitability of lucrative economic resources to combatant groups.”<sup>14</sup> Thus, bans, commodity embargoes, targeted sanctions, freezing of financial assets, and the eradication and interdiction of illicit lootable goods are advocated as the appropriate and

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evidence of Arnsen’s and Zartman’s findings. See, Michael L. Ross, “What Do We Know About Natural Resources and Civil War?” *Journal of Peace Research*, 31 (3) 2004: 337-356.

<sup>13</sup> Michael L. Ross, “Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil Wars,” in Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 47-72. Ross identifies the “lootability” of resources, i.e. the ease with which they can be appropriated by unskilled individuals, as the determinant of the character of civil war – protracted war over control of territory or separatism. However, his entire focus is on the financial benefits such resources bring to the warring parties. For examples of work that argues that lootable resources undermine the social capital of belligerent groups, see Alexandra Guáqueta, “The Colombian Conflict: Political and Economic Dimensions,” in Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 73-106; and Jake Sherman, eds., “Burma: Lessons from Cease-fire,” in Karen Ballentine and Jake Sherman, eds., (2003): 225-258.

<sup>14</sup> Karen Ballentine, “Beyond Greed and Grievance: Reconsidering the Economic Dynamics of Armed Conflict,” in Karen Ballentine and Jake Sherman, eds., (2003): 274. See also, Ian Bannon and Paul Collier, eds., *Natural Resources and Violent Conflict: Options and Actions* (Washington DC: The World Bank, 2003).

most effective means of ending civil wars. As one of the World Bank officials involved in the study told me with reference to Colombia, “If we destroy the coca, there won’t be any more war in Colombia.”<sup>15</sup>

In their statistical study of the causes of civil war, Fearon and Laitin (2003) reaffirm Collier’s finding that grievances, such as ethnic or religious differences, are not statistically significant predictors of civil war.<sup>16</sup> However, Fearon and Laitin downplay the importance of lootable resources, either as motivations or enablers of the onset of civil war. Instead, the authors argue that the two crucial predictors of civil war are the weakness and capriciousness of the state (which they feel are different from grievances) and conditions that favor insurgency, namely rough terrain, rebels with local knowledge of the population superior to such knowledge of the government, and a large population. Fearon and Laitin define insurgency as “a technology of military conflict characterized by small, lightly armed bands practicing guerrilla warfare from rural base areas.”<sup>17</sup> The authors posit that superior knowledge of the local population allows the rebels to credibly threaten retribution for informing on the rebels. Thus, although the authors stress the importance of intelligence, they focus on the use of intelligence for the elimination of informants as opposed to the winning of the hearts and minds of the population. Moreover, their conclusion begs the question: How do rebels and governments acquire such a good knowledge of the population? Like the greed-thesis proponents, they do not explore the political benefits accruing to belligerents from an effective protection and regulation of an illicit economy.

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<sup>15</sup> Interviews with officials of the World Bank, Summer 2003.

<sup>16</sup> James D. Fearon and David D. Laitin, “Ethnicity, Insurgency, and Civil War,” *American Political Science Review*, 97 (1), February 2003: 75-90.

<sup>17</sup> *Ibid.*: 79.

### *“New” Transnational Crime*

Another body of literature that directly informs the conventional wisdom about the relationship between illicit economies and terrorism is the growing literature on the connections between transnational crime and terrorism, or what I refer to as the “new transnational crime” literature.<sup>18</sup> Although much of this literature is relatively recent, it fits directly into the “narcoterrorism” framework since it predominantly focuses on the material aspects of the intersection of organized crime and terrorism, especially, and frequently exclusively, on terrorist financing. Like the “greed literature,” the “new transnational crime” literature emphasizes that as the end of the Cold War resulted in shrinking financial resources of terrorist groups, their need for finances drove them to seek alternative funding from crime organizations. This move is facilitated by globalization, simplifying communications and transportation.<sup>19</sup> In analyzing the

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<sup>18</sup> This literature specifically focuses on terrorist exploitation of organized crime. It is tangent to the vast literature on organized crime, including organized multinational crime. Unlike the literature on multinational crime, which has struggled to parcel out various types and forms of organized crime, the “new crime” literature focuses at its core on the symbiotic nature of terrorism and criminal activity. Key typologies in the literature on organized crime include typologies based on varying degrees of formalization and *rationality*, marked by the extent of the division of labor – see, Donald R. Cressey, *Criminal Organization: Its Elementary Forms* (London: Harper Torchbooks, 1972); extent and intensity of relations among members of the criminal organization – see, Joel Best and David F. Luckenbill, *Organizing Deviance* (Englewood Cliffs: Prentice-Hall, 1982); the character of the relationship between organized crime groups and society – predatory-symbiotic and legitimate-illegitimate continuum – see, Margaret Beare, *Criminal Conspiracies: Organized Crime in Canada* (Toronto: Nelson Canada, 1996). Frank Hagan adds a third dimension to the structural and sociopolitical dimension, extent of violence – see, Frank Hagan, *Introduction to Criminology: Theories, Methods, and Criminal Behavior* (Chicago: Nelson-Hall, 1990). Finally, Klaus von Lampe stresses the criminal organization’s capacity to harm as the key organizing principle – see, Klaus Von Lampe, “Criminally Exploitable Ties: A Network Approach to Organized Crime,” in Emilio C. Viano, Jose Magallanes, and Laurent Bridel, *Transnational Organized Crime: Myth, Power, and Profit* (Durham: Carolina Academic Press, 2003).

<sup>19</sup> See, for example, Alain Labrousse, *Geopolitique des Drogues* (Paris: Presses Universitaires de France, 2004); Barbara Harris-White, “Globalization, Insecurities, and Responses: An Introductory Essay,” in Barbara Harris-White, ed., *Globalization and Insecurity: Political, Economic, and Physical Challenges* (New York: Palgrave 2002): 1-43; Tamara Makarenko “A Model of Terrorist-Criminal Relationships,” *Jane’s Intelligence Review*, August 1, 2003, <http://www.janes.com/jir>, downloaded December 18, 2004;

relationship between organized crime and terrorism, Louise Shelley emphasizes the following links between the two phenomena: 1) terrorists engage in criminal activity to support themselves financially; 2) both terrorist and crime groups use network structures that sometimes intersect; 3) they both engage in moneylaundering and corruption; and 4) they both operate in areas of weak state presence.<sup>20</sup> This body of literature frequently argues that since terrorists and criminals no longer fall into separate categories, the war against terrorism can no longer be separated from the fight against transnational crime.<sup>21</sup> As Shelley maintains, “the points of convergence of the two forms of transnational crime make it impossible to address one without the other.”<sup>22</sup> Similarly, Rollie Lal insists that “organized crime must be eradicated in order to deprive the terrorist groups of a source of logistical support”—weaponry, financing, and personnel.<sup>23</sup>

In their exploration of the global illicit economy, H. Richard Friman and Peter Andreas again focus predominantly on its impact on the physical capabilities of criminal organizations. Successful exploitation of the illicit economy, the authors posit, allows criminal organizations to threaten the state’s authority over the use of violence and can increase the level of violence within societies due to turf wars with rival organizations and attacks on law enforcement agencies: “The linkage between the illicit global economy and expanding violence lies in the potential for increased access by criminal

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and Svante Cornell, “Crime Without Borders,” *Axess Magazine* No. 6, 2004: 18-21, [http://www.silkroadstudies.org/pub/0408Axess\\_EN.htm](http://www.silkroadstudies.org/pub/0408Axess_EN.htm), downloaded January 8, 2005.

<sup>20</sup> Louise Shelley “The Nexus of Organized International Criminals and Terrorism,” *International Annals of Criminology*, 1 (2), 2002: 85-93.

<sup>21</sup> See, for example, Chris Dishman, “Terrorism, Crime, and Transformation,” *Studies in Conflict and Terrorism* 42 (1), 2001: 43-58; and Tamara Makarenko, “The Crime-Terror Continuum: Tracing the Interplay Between Transnational Crime and Terrorism,” *Global Crime* 1 (1), 2004: 129-145.

<sup>22</sup> Shelley (2002): 91. Shelley does recognize that criminal organizations may provide a variety of social services to the wider population, and that consequently the state’s actions against the criminal organizations may alienate the population. Quoted in James Dao, “The War on Terrorism Takes Aim at Crime,” *New York Times*, April 07, 2002,

<sup>23</sup> Rollie Lal, “South Asian Organized Crime and Terrorist Networks,” *Orbis*, 49 (2), Spring 2005: 293.

groups to money, and, in turn, firepower.”<sup>24</sup> In short, the key concern of many of the studies on transnational crime is its symbiotic relationship with terrorism, specifically the ability of terrorist organizations to improve their physical resources through cooperation with transnational crime organizations.

### ***Insurgency and Counterinsurgency Theory: “Guerre Revolutionnaire” and Cost-Benefit Analysis***

Although the existing body of literature on insurgency, counterinsurgency, and terrorism frequently does not directly address the question of the nexus between military conflict and illicit economies, it nonetheless provides a rich and important intellectual background for the study of the phenomenon. Key insurgency leaders and authors of insurgency doctrines, such as Mao and Marighella, comment directly on issues of key concern in my study, such as the importance of local support and ways to obtain it. Similarly, key works in the counterinsurgency and counterterrorism literature grapple with the government’s need to balance the objective of depriving the belligerents of their physical resources with the objective of obtaining intelligence and winning the hearts and minds of the population. Their understandings and recommendations of how to balance

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<sup>24</sup> H. Richard Friman and Peter Andreas, “Introduction,” in H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham: Rowman and Littlefield, 1999): 13. For other works on the interplay between globalization and the global illicit economy, see, Moises Naim, *Illicit: How Smugglers, Traffickers, and Copycats Are Hijacking the Global Economy* (New York: Doubleday, 2005); Phil Williams, “Transnational Criminal Organizations and International Security,” in Michael T. Klare and Yogesh Chandrani, eds., *World Security: Challenges for a New Century* (New York: St. Martin’s, 1998): 249-72; and Peter Andreas, “Transnational Crime and Economic Globalization,” in Mats Berdal and Monica Serrano, eds., *Transnational Organized Crime and International Security: Business as Usual?* (Boulder: Lynne Rienner, 2002): 37-52. For a critique of the way that globalization supposedly enables transnational crime and transforms it into a major threat to the nation state with powerful criminals capturing states and influencing politics, see, R.T. Naylor, *Wages of Crime: Black Markets, Illegal Finance, and the Underworld Economy* (Ithaca: Cornell University Press, 2002).

these often-competing objectives directly feed the academic and government understanding of how to deal with the illicit economy.

Before analyzing the counterinsurgency (COIN) theories that underlie both sides of the debate, I will briefly describe the leading theories of guerrilla warfare.<sup>25</sup>

Counterinsurgency theory developed in reaction to the advent of modern revolutionary guerrilla warfare, which in the twentieth century increasingly came to challenge the colonial powers and the state.<sup>26</sup> Many of the COIN theorists closely studied the guerrilla warfare manuals and treaties put out by prominent revolutionaries and were writing not only from personal experience in fighting insurgencies in the colonies, but also in reaction to the insurgency disquisitions.

Among the early writings on insurgency were T. E. Lawrence's ("Lawrence of Arabia") expositions of guerrilla warfare and its implications for Arab nationalism.<sup>27</sup>

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<sup>25</sup> I am mainly concerned here with theories about how to conduct and prosecute guerrilla warfare and terrorism and not really with theories about the causes of insurgency. The theories of causes and formation of insurgent movements have stressed several variables as causes and enabling factors: a) existing social networks that engage in top-down mobilization – see, Sidney Tarrow, *Power in Movement* (Cambridge: Cambridge University Press, 1998); Doug MacAdam, John D. McCarthy, and Mayer M. Zald, eds., *Comparative Perspectives on Social Movements: Political Opportunities, Mobilizing Structures, and Cultural Framings* (Cambridge: Cambridge University Press, 1996); William Gamson, *The Strategy of Social Protest* (Belmont: Wadsworth Publishers, 1990); and Roger Petersen, *Resistance and Rebellion: Lessons from Eastern Europe* (Cambridge: Cambridge University Press, 2001); and b) the political entrepreneurs that provide supporters with ideological coherence, overcome the freerider problem, and provide an organization in order to effectively challenge existing authority – see, Youssef Cohen, Brian Brown, and A.F.K. Organski, "The Paradoxical Nature of State Making: The Violence Creation of Order," *American Political Science Review*, 75 (4), Fall 1981: 901-910; and William Reno, "The Politics of Insurgency in Collapsing States," *Development and Change*, 33 (5), July 2002: 837-58; c) fear, security dilemma, and uncertainty – see, Barry Posen, "The Security Dilemma and Ethnic Conflict," *Survival*, 35 (1), Winter 1993: 27-47; Nelson Kasfir, "Domestic Anarchy, Security Dilemmas, and Violent Predation: Causes of Failure," in Robert I. Rotberg, ed., *When States Fail: Causes and Consequences* (Princeton: Princeton University Press, 2004): 53-76; James Fearon and David Laitin, "Violence and the Social Construction of Ethnic Identity," *International Organization*, 54 (4), Fall 2000: 845-877; and Mark Lichbach, *The Rebel's Dilemma* (Ann Arbor: University of Michigan Press, 1995); and d) greed motives already described above.

<sup>26</sup> For an excellent synopsis of guerrilla warfare and its main theorists, see Ian F.W. Beckett, "Guerrilla Warfare: Insurgency and Counterinsurgency Since 1945," in Colin McInnes and G.D. Sheffield, eds., *Warfare in the Twentieth Century: Theory and Practice* (London: Unwin Hyman, 1988): 194-212.

<sup>27</sup> T.E. Lawrence, *Revolt in the Desert* (London: Cape, 1927) and T.E. Lawrence, *Seven Pillars of Wisdom* (London: Cape, 1935).

Lawrence prominently stressed the importance of secure base areas, the exploitation of space by small, highly mobile forces, and good intelligence. But above all, Lawrence highlighted the importance of popular support, claiming that victory can be achieved with only two percent of active support among the population as long as the remaining 98 percent of the population sympathized or at least acquiesced to guerrilla activity.

Mao Zedong's "People's War," however, marked the real transition to modern revolutionary warfare and served as reference for all counterinsurgency theorists.<sup>28</sup> Mao envisioned insurgency as a protracted social and political revolution where guerrilla warfare was the means to survive in the initial phases of the struggle before a regular conventional army could be fielded and used to defeat the government.<sup>29</sup>

The process would take place in three phases. The goal of the first phase, "strategic defensive," was to expand party organization and establish the infrastructure necessary for further development of the revolution. Party workers were to generate public support and infiltrate the state's political apparatus. The first period was understood to be a long one, with only a limited resort to force to intimidate the population and create a climate of dissent, civil disobedience, and economic unrest. Once sufficient support or, at minimum, acquiescence among the population was achieved, the second phase, "strategic stalemate" or "strategic equilibrium," was to be launched. In this phase, the expansion of terrorism into guerrilla warfare would take place and revolutionary administration – more capable than that of the government -- would be established. Finally, in the third phase, "strategic offensive," the balance would have

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<sup>28</sup> The Irish Revolution (1916-1921) antedates Mao's success, but its impact on theorists of revolutionary warfare and COIN was far less pronounced than Mao's writings and victory.

<sup>29</sup> Mao Zedong, *Selected Military Writings* (Beijing: Foreign Language Press, 1967) and Samuel Griffith, ed., *Mao Tse-tung on Guerrilla War* (New York: Anchor Press, 1978).

clearly swung in the direction of the revolutionary movement, regular units would be introduced and engage in near conventional warfare. The marked feature of Mao's concept was the emphasis on political and psychological elements as the key to victory, not simply military factors.<sup>30</sup>

The "*foco*" theory of insurgency and revolutionary warfare developed as an alternative rural guerrilla approach, inspired by the success of a relatively small number of revolutionaries toppling the Batista regime in Cuba in 1959. It hoped to compress protracted struggle envisioned by Mao into a swift victory. Among its most prominent theorists were Ernesto "Che" Guevara and Regis Debray.<sup>31</sup> In contrast to Mao, who stressed the importance of political structures and in fact the dominance of the political, Guevara and Debray argued that the guerrillas themselves were a fusion of the military and political authority. Instead of a protracted struggle, they argued that a minimum level of discontent with the government could be translated into conditions favorable to revolution. By military action alone, a small armed group could provide the focal point, or "*foco*," for the revolution. Inspired by the actions of the revolutionary elite and alienated by the corruption and brutality of the state, progressively greater numbers of sympathizers would attach themselves to the revolutionaries and rebel. They would thus provoke an even more brutal reaction on the part of the government, which in turn would alienate even more people.<sup>32</sup>

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<sup>30</sup> Mao's principles were applied in many insurgency and guerrilla struggles, and not simply by Communist rebels, such as in Malaya (1948-60), the Philippines (1946-54), Algeria (1954-62), Angola (1962-74), Rhodesia (1972-80), Oman (1965-75), and Peru (1980-1994).

<sup>31</sup> Ernesto Guevara, *Guerrilla Warfare* (Harmondsworth: Penguin, 1969); Regis Debray, *Strategy for Revolution* (Harmondsworth: Penguin, 1973); and Regis Debray, *Che's Guerrilla War* (Harmondsworth: Penguin, 1975).

<sup>32</sup> Although *foco* was applied in Colombia, Bolivia, Peru, Guatemala, and Ecuador throughout the 1960s and also 1980s, it proved a manifest failure.

The dismal record of the *foco* theory contributed to the development of urban guerrilla warfare in Latin America. Carlos Marighela was among its most influential theorists.<sup>33</sup> Like Guevara and Debray, Marighela rejected the need for prolonged preparation for revolution. But instead of the countryside, Marighela situated the center of the revolution back to the cities. The urban guerrillas would be a small band of highly dedicated individuals, who through strategic attacks using parcel bombs and ambushes, would provoke the authorities into overreaction. Through this overreaction, the state would alienate the population and create the revolutionary situation. Actions were to be spectacular and aimed at not just the government, but also foreign multinationals in order to weaken the economy.<sup>34</sup> Marighella also explicitly embraced the involvement of guerrilla groups in illicit economies, arguing, for example, that bank robbery was the first stage of revolutionary action.

The French counterinsurgency doctrine, *guerre revolutionnaire*,<sup>35</sup> emerged as a direct reaction to both the new guerrilla warfare manuals coming out, especially those of Mao, and to the failure of the previous French doctrine, oil stain or *tache d'huile*, in Indochina.<sup>36</sup> Key theorists such as Georges Bonnet and Roger Trinquier created a

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<sup>33</sup> Carlos Marighella, *For the Liberation of Brazil* (Harmondsworth: Penguin, 1971). See also, Robert Moss, *Urban Guerrilla Warfare*, Adelphi Paper No. 79 (London: IISS, 1971) and George Grivas, *Guerrilla Warfare* (London: Longman, 1964).

<sup>34</sup> The urban guerrilla approach has been applied, for example, the latter phases of the Sendero Luminoso insurgency in Peru.

<sup>35</sup> Later on in the chapter, I will contrast the French approach to counterinsurgency with the British approach. These two approaches are the two dominant theories of how to find counterinsurgency. A third possible way is to treat insurgency as conventional, not asymmetrical warfare, and find the insurgents as regular armies.

<sup>36</sup> It is debatable whether the “oil stain” approach to counterinsurgency – a slow expansion of the government/ colonial-power administration hand in hand with the expansion of military control pacifying and engulfing the population like an oil stain – failed in Indochina because it was inherently flawed or because it was not applied correctly. While the French military leadership decided that the strategy itself was flawed, many authors of the British school of counterinsurgency embraced it and used the “oil stain” approach as a foundation for their own counterinsurgency policy, described in detail below in the section on British counterinsurgency.

counterinsurgency doctrine that sought to exploit the vulnerability of the initial phases of the insurgency and essentially resolved the contradiction between focusing on the physical resources of the belligerents and winning the hearts and minds in favor of destroying the belligerents' physical resources.<sup>37</sup> Through the use of physical barriers, such as fences, *cordon sanitaire*, and resettlement, the larger population was to be separated from the insurgents. An intense psychological campaign, carried out by the military in addition to the civilians, was to be directed at the population to dissuade it from supporting the insurgents. As Trinquier argued, "The support of the population is essential to the guerrilla. In particular, it prevents him from being taken by surprise, a vital factor for success in combat. As long as this support is not withdrawn from him, we cannot surprise him ..."<sup>38</sup> The provision of intelligence and material supplies by the population to the guerrillas and the denial of intelligence was seen as the key element of the success of the insurgency. Trinquier insisted that "anything that would facilitate the existence of the guerrillas in any way, or which could conceivably be used by them – depots, shelters, caches, food, crops, houses, etc. – must be systematically destroyed or brought in."<sup>39</sup> Breaking this connection between the populations and the rebels, thus became the crux of the counterinsurgency objective. The understanding was that once the insurgents were separated from the population and denied supplies, they would be critically weakened and defeated: "Deprived of supplies and information, they will no longer be able to defend themselves when we finally decide to attack them."<sup>40</sup>

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<sup>37</sup> Georges Bonnet, *Les guerres insurrectionnelles et revolutionnaires* (Paris: Payot, 1958), and Roger Trinquier, *Modern Warfare* (London: Pall Mall Press, 1964). The French approach essentially replicated British COIN strategies in the Boer Wars (1880-1881) and (1899-1902).

<sup>38</sup> Trinquier (1964): 55.

<sup>39</sup> *Ibid.*: 85.

<sup>40</sup> *Ibid.*: 72.

In essence, the French thus identified the same crux of the problem as the British – the connection between the population and the insurgents as the key sustaining mechanism of the insurgency. And they arrived at the same answer – to separate the population from the insurgents. However, there was a crucial difference in the means chosen to separate the population from the insurgents. Although the French theorists at least spoke of not alienating the population by excessive brutality and of mitigating the hardships of forced relocation by providing social services, in practice, the policy evolved into one of intimidation and unrestrained repression. Brutal interrogation techniques were employed, collective punishment was meted out, and the psychological campaign directed at the population became dominated by instilling fear of penalties for the cooperation with the insurgents. Unlike the British relocations camps in Malaya, the French ones in Algeria were poorly managed, lacking medical and social services, leading to the death of thousands of Muslims.<sup>41</sup> In balancing eliciting popular cooperation with the governing authority through “winning the hearts and minds” or obtaining cooperation through intimidation, the scale clearly tipped in the direction of the latter.

Although not explicitly endorsing repression en masse, some American theorists of counterinsurgency also rejected the “hearts and minds” approach described in detail below and focused on cutting off the provision of material supplies by the population to the insurgents. The resource flow was to be cut off with force if necessary. Charles Wolf, a leading author of what came to be known as the coercion theory or cost-benefit analysis

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<sup>41</sup> Leroy Thompson, *The Counterinsurgency Manual* (London: Greenhill Books, 2002). The Soviets practiced a rather draconian alternative to resettlement in Afghanistan, by destroying the agriculture, food crops, and infrastructure in the countryside with the hope that the population would leave and relocate into the cities. Although a large part of the population did in fact leave, many stayed, and ironically, turned toward growing poppy, thus paving the way for the development of the drug industry in Afghanistan. The ones that left – mainly for Pakistan – also became a refugee base for the insurgents.

of counterinsurgency, for example, argued that popular support was not essential for insurgents in developing countries. Rather what mattered was the acquisition of material supplies by the insurgents from the population: “From an operation point of view, what an insurgent movement requires for successful and expanding operations is not popular support, in the sense of attitudes of identification and allegiance, but rather a supply of certain inputs [...] at a reasonable cost, interpreting cost to include expenditure of coercion as well as money.”<sup>42</sup>

Wolf went on to argue that the desire to win the hearts and minds of the population by improving its standard of living missed the mark. In fact, instead of lessening the bond between the population and the insurgents, the government would be shooting itself in the foot and indirectly provide the insurgents with all the more supplies since the insurgents could easily extract it from the population by force or persuasion. The rural population was to be dissuaded from supporting the insurgents by careful calibration of punishments and rewards, and economic aid was to be directed to cities that were under government control.<sup>43</sup> The people in the countryside would be more motivated to cooperate with the government by seeing the rewards of cooperation, or move out to the cities. At a fundamental level, the coercion theorists argued that what mattered was not the feelings of the population, but its actions. And by coercion, its actions could be induced to support the government.

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<sup>42</sup> Charles Wolf Jr., *Insurgency and Counterinsurgency: New Myths and Old Realities*, RAND Document, No. P-3132-1 (Santa Monica: RAND, 1965): 5.

<sup>43</sup> See, for example, Nathan Leites and Charles Wolf Jr., *Rebellion and Authority: An Analytical Essay on Insurgent Conflicts* (Chicago: Markham Publishing Company, 1970).

### ***The “Eradication” School of Counterterrorism***

The school of thought that advocates the elimination of physical capabilities of nonstate belligerents as the effective solution to the anti-state violence also has its equivalent in the counterterrorism literature. Walter Laquer, for example, argues that terrorism can be destroyed through repressive measures. Since the potential pool of terrorists is not unlimited, the physical elimination of the majority of terrorists will reduce the incidence of terrorism.<sup>44</sup> Similarly, Neil Livingstone maintains that repression is the enemy of terrorism and that terrorists cannot operate in repressive states.<sup>45</sup> Laquer further argues that social conditions have little impact on terrorism and hence addressing them is immaterial. The more repressive a government becomes, the less terrorism it will suffer.<sup>46</sup> The dominant message is once again: smash the terrorists and do not worry about the attitude of the wider population toward the government.

### **III. The Political Capital of Illicit Economies**

The literature examined in this section contains critical ideas and analyses that support and inform my theory, the political capital of illicit economies. These works include critiques of existing drug policies, transnational crime literature that challenges the conventional view of narcoterrorism, the British approach to counterinsurgency and

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<sup>44</sup> Walter Laquer, *The Age of Terrorism* (Boston: Little, Brown, 1987).

<sup>45</sup> Neil C. Livingstone, “Death Squads,” *Journal of World Affairs*, 4 (3), Winter 1983/84: 239-248. In a classic empirical study of the effectiveness of repression, Christopher Hewitt demonstrated that although state repression did in fact deter terrorism in the short term, as repressive measures continued, they had less and less impact. Ultimately, repression did not provide a long-term solution. See, Christopher Hewitt, *The Effectiveness of Anti-Terrorist Policies* (Landham: University Press of America, 1984).

<sup>46</sup> Laquer (1987): 6. Yehezkel Dror also argues against the government focus on root causes: since they cannot be definitely ascertained, they cannot be effectively addressed. Instead, the government should focus on strengthening its capacity to govern. See, Yehezkel Dror, “Terrorism as a Challenge to the Democratic Capacity to Govern,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 65-90.

the related “hearts and minds” literature, the legitimacy school of counterterrorism, and the literature on peasant rebellions.

### *Critiques of Drug Policies*

My theoretical and empirical understanding of the drug insurgency nexus mines and builds upon rich analytical critiques of the war on drugs. These works can be divided into three categories, based on the type of criticism they make.

The first critique is that the war against drugs is failing, that drugs today are abundant as ever and cheaper than twenty years ago, and that supply-side efforts are failing and bound to fail.<sup>47</sup> These critiques make several arguments: A) The drug war paradoxically stimulates the drug traffic: Its success in artificially raising prices – the so called crime tax – also inflates profits. These high profits paradoxically provide a steady incentive for drug suppliers to remain in the trade and for new suppliers to enter the trade if there is a space in the market. This profit paradox also influences the actions of governments and local populations in source countries with both actors frequently being unable to resist the payments offered by traffickers.<sup>48</sup> B) Supply of drugs is little affected

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<sup>47</sup> Reuter (2002); Robert MacCoun and Peter Reuter, *Drug War Heresies* (Cambridge: Cambridge University Press, 2001); Riley (1996); Eva Bertram, Morris Blachman, Kenneth Sharpe, and Peter Andreas, *Drug War Politics: The Price of Denial* (Berkeley: University of California Press, 1996); Dirk C. Eldredge, *Ending the War on Drugs* (Bridgeton: Bridgeworks Publishing Company, 1998); *Illegal Drugs, Economy, and Society in the Andes* (Baltimore: John Hopkins University Press, 2003).; C. Peter Rydell and Susan S. Everingham, *Controlling Cocaine: Supply Versus Demand Programs* (Santa Monica: RAND, 1994); Patrick L. Clawson and Rensselaer Lee III, *The Andean Cocaine Industry* (New York: St. Martin's Griffin, 1996). Ted Galen Carpenter, *Bad Neighbor Policy* (New York: Palgrave Macmillan, 2003).

<sup>48</sup> Jonathan P. Caulkins, Mark A.R. Kleiman, and Peter Reuter, “Lessons of the ‘War’ on Drugs from the ‘War’ on Terrorism,” in Arnold M. Howitt and Robyn L. Pangi, eds., *Countering Terrorism: Dimensions of Preparedness* (Cambridge, MA, MIT Press, 2003): 73-93; Mark A.R. Kleiman, “The Problem of Replacement and the Logic of Drug Law Enforcement,” *Drug Policy Analysis Bulletin*, (3), September 1997; Peter Reuter, Robert MacCoun, and Patrick Murphy, *Money From Crime: A Study of the Economics of Drug Dealing in Washington, D.C.* (Santa Monica: RAND, 1990); and Reuter (2002); Mark A.R. Kleiman, *Against Excess: Drug Policy for Results* (New York: Basic Books, 1992); and Ethan Nadelmann, “Drug Prohibition in the United States: Costs, Consequences, and Alternatives,” *Science*, (245), September

by incapacitation of traffickers because incarcerated offenders are easily replaced. Even top drug dealers and entire cartels have proven to be replaceable, while their incapacitation at most briefly interrupted supply. As long as there are buyers, the financial rewards of supplying drugs will attract new traffickers and producers. The new organizations may not be as efficient as the destroyed ones, but the effect in terms of price and availability of drugs will be negligible. Moreover, success against some traffickers will only guarantee a greater market share for others. C) Similarly, production areas are hard to shut down and easy to replace, despite the hope of eradicating drugs at the source. Even successful interdiction or eradication are undermined by the so-called “balloon effect”: production and trafficking simply shift to new areas and routes.<sup>49</sup> D) Policies oriented toward demand reduction are cheaper and more effective. E) Temporary successes result in worse law enforcement problems. For example, the successes against marijuana smuggling into the United States from Mexico resulted in the emergence of much higher potency marijuana, and the 1980s crackdown on cocaine contributed to the spread of crack. F) The domestic collateral effects of the war on drugs – spiraling levels of crime and disease; the undermining of democratic values and processes; and the reinforcement of divisions and discrimination along lines of race and class.<sup>50</sup> Because of the basic failure of the war on drugs and its large negative externalities, the critics

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1989: 939-47 and Ethan Nadelmann, “Commonsense drug policy,” *Foreign Affairs*, 77 (1), January-February 1998: 111-26.

<sup>49</sup> Paul B. Stares, *Global Habit: the Drug Problem in a Borderless World* (Washington, DC: Brookings Institution Press, 1996).

<sup>50</sup> Bertram, Blachman, Sharpe, and Andreas (1996); Eldredge (1998); and Dan Baum, *Smoke and Mirrors: The War on Drugs and the Politics of Failure* (Boston: Little, Brown, and Company, 1996).

advocate a basic change in counterdrug policies toward various demand reduction schemes, decriminalization, or outright legalization.<sup>51</sup>

The second critique focuses on the impact of the war on drugs on the producing countries. The arguments include: A) Eradication impoverishes and radicalizes local populations.<sup>52</sup> And B) Source-country counterdrug approaches undermine democratic processes and human rights in producing countries, radicalize poor populations, and militarize domestic policies in these countries.<sup>53</sup> They frequently recommend abandoning source country policies or reorienting them toward alternative development.<sup>54</sup>

The third critique argues that the U.S. war on drugs warps other, more important, objectives of U.S. foreign policy, and is counterproductive to U.S. war against insurgencies and terrorism. Many of these works are studies of a specific case that mention that belligerents use the illicit economy to buy political support and argue that as eradication alienates the local populations, it undermines the ability of the government to

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<sup>51</sup> For demand reduction approaches, see, for example, Rydel and Everingham (1994); for HARM reduction approach, such as providing clean needles to addicts and safe injection sites and addressing environmental factors, see Bertram, Blachman, Sharpe, and Andreas (1996); for decriminalization, see, Ronald Bayer and Gerald M. Oppenheimer, eds, *Confronting Drug Policy: Illicit Drugs in a Free Society* (Cambridge: Cambridge University Press, 1993); MacCoun and Reuter (2001), and Ethan A. Nadelmann, "Thinking Seriously About Alternatives to Drug Prohibition," *Daedalus*, 121 (3), Summer 1992: 85-132; for legalization, see Eldredge (1998) and Ethan Nadelmann, "Legalization Is the Answer," *Issues in Science and Technology* (6), Summer 1990: 43-46. For a critique of decriminalization and legalization, see, for example, Jill Jones, *Hep-Cats, Nacs, and Pipe Dreams: A History of America's Romance with Illegal Drugs* (New York: Scribner, 1996).

<sup>52</sup> Edgardo Buscaglia and William Ratliff, *War and Lack of Governance in Colombia: Narcos, Guerrillas, and U.S. Policy* (Stanford: Hoover Institution on War, Revolution, and Peace, 2001).

<sup>53</sup> See, for example, Coletta A. Youngers and Eileen Rosin, eds., *Drugs and Democracy in Latin America* (Boulder: Lynne Rienner, 2005); Vanda Felbab-Brown, "Trouble Ahead: The Cocaceros of Peru," *Current History*, 105 (688), February 2006: 79-83; and Carpenter (2003).

<sup>54</sup> See, for example, Adam Isacson, "The Tragedy of Alternative Development in Colombia," December 3, 2001, <http://www.colombiareport.org/colombia92.htm>, downloaded May 05, 2003; and David Mansfield and Adam Pain, "Alternative Livelihood: Substance or Slogan?" *Afghanistan Research and Evaluation Unit Briefing Paper*, October 2005.

carry out the counterinsurgency campaign or peace negotiations.<sup>55</sup> These works, however, do not elaborate how belligerents obtain political support nor do they elaborate the conditions that influence the size and scope of the benefits.<sup>56</sup> My dissertation thus enlarges this body of work by detailing and specifying the processes and conditions that influence the level of political capital belligerents are able to derive from the illicit economies and the effects of various government policies toward the illicit economy on conflict dynamics and conflict limitation.<sup>57</sup>

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<sup>55</sup> Cynthia McClintock, "The War on Drugs: The Peruvian Case," *Journal of Interamerican Studies and World Affairs*, 30 (2 and 3), Summer/ Fall 1988: 127-142; Richard Clutterbuck, *Drugs, Crime, and Corruption* (New York: New York University Press, 1995); Adam Isacson, "Was Failure Avoidable? Learning From Colombia's 1998-2002 Peace Process," *The Dante B. Fascell North-South Center Working Paper Series*, Paper No. 14, March 2003, <http://www.miami.edu/nsc/publications/NSCPublicationsIndex.html#WP>; Philip Coffin, "Coca Eradication," *Foreign Policy in Focus*, 3 (29), October 1998, [http://www.fpif.org/briefs/vol3/v3n29coca\\_body.html](http://www.fpif.org/briefs/vol3/v3n29coca_body.html), downloaded May 05, 2003; Buscaglia and Ratliff (2001); Nazih Richani, *Systems of Violence* (Albany: State University of New York Press, 2002); Ethan A. Nadelmann, "International Drug Trafficking and U.S. Foreign Policy," *Washington Quarterly*, 8 (4) Fall 1985: 87-103; Naylor (2002); Gustavo Gorriti, *The Shining Path: A History of the Millenarian War in Peru*, Robin Kirk, trans., (Chapel Hill: University of North Carolina Press, 1999); Jose E. Gonzales, "Guerrillas and Coca in the Upper Huallaga Valley," in Palmer, David Scott, ed. *Shining Path of Peru*, (New York: St. Martin's Press, 1994): 123-144; Román D. Ortiz, "Insurgent Strategies in the Post-Cold War: The Case of the Revolutionary Armed Forces of Colombia," *Studies in Conflict and Terrorism*, 25, 2002: 127-143; Francisco Gutiérrez Sanín, "Criminal Rebels? A Discussion of Civil War and Criminality from the Colombian Experience," *Politics and Society*, 32 (2), June 2004: 257-285, and Vanda Felbab-Brown, "Afghanistan: When Counternarcotics Undermine Counterterrorism," *Washington Quarterly*, 28 (4), Fall 2005: 55-72. My theoretical work also draws richly from Rensselaer W. Lee III.'s seminal and lasting study of the relationship between peasants, traffickers, and government in the drug trade, *The White Labyrinth* (New Brunswick: Transaction Publishers, 1989) and his subsequent work with Patrick L. Clawson, *The Andean Cocaine Industry* (New York: St. Martin's Griffin, 1996). Although not directly criticizing the war on drugs, Jake Sherman nonetheless points out in his study of the 1990s ceasefires in Burma that the junta's granting of economic payoffs, including "licenses" for the trade with drugs, was crucially instrumental in the ability of the junta to conclude these ceasefires. Although granting that these ceasefires brought peace to the population after decades of conflict, Sherman criticizes the economically-driven elites for betraying the goals of the population and allowing themselves to be coopted. See, "Burma: Lessons from Cease-fires," in Karen Ballentine and Jake Sherman, *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 225-258.

<sup>56</sup> R.T. Naylor argues that the belligerent group's choice of fund-raising technique depends on its relationship to the broader society and its relative strength vis-à-vis the government. For belligerents confined to a small territory, their criminal activities are essentially *predatory*, such as kidnapping and bank-robbing. At a more advanced stage of the belligerency, criminal activity progresses to the *parasitical*, such counterfeiting, insurance scams, and racketeering. Finally, at the most sophisticated stage, belligerent groups and criminals transform their illicit economic activities into ones that are *symbiotic* with the state, such as the sale of drugs and provision of gambling and prostitution services (Naylor 2002).

<sup>57</sup> For a précis of the arguments of this study, which details the dynamics and specifies the conditions, see, Vanda Felbab-Brown, "The Intersection of Terrorism and the Drug Trade," in James J.F. Forest, ed., *The*

Exploring the drug-conflict nexus in the case of Colombia, the prominent and highly influential *Colombian Labyrinth* by Angel Rabasa and Peter Chalk (2001)<sup>58</sup> also noted the eradication increases the guerrillas' political support while it has failed to limit the belligerents' resources. But unlike other critiques of U.S. eradication policies, it called for rethinking the distinction between counternarcotics and counterinsurgency operations and advocated that the U.S. helps build up Colombia's counterinsurgency capabilities, instead of focusing solely on counternarcotics.

### *Transnational Crime II*

Not all of the transnational crime literature assumes a full-fledged symbiosis between criminal organizations and nonstate belligerent actors or among criminal organizations themselves. In his work on the strategic alliances of transitional criminal organizations, Phil Williams maintains that although increasing cooperation is taking place among various criminal organizations (and among criminal organizations and terrorist groups), such strategic alliances are frequently rather fragile.<sup>59</sup> He argues that criminal organizations join in a strategic alliance in order to: 1) to reduce risk, such as in circumventing law enforcement and national regulations and avoiding the seizure of their products, profits, and personnel); 2) to take advantage of their partners' specialized expertise; 3) to avoid mutual competition; and 4) to penetrate new markets. However, Williams is careful to note that such strategic alliances are brittle and frequently fail. He

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*Making of a Terrorist: Recruitment, Training, and Root Causes*, Vol. III: Root Causes (Westport: Praeger Publishers, 2005): 172-188.

<sup>58</sup> Angel Rabasa and Peter Chalk, *Colombian Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability* (Santa Monica: RAND, 2001).

<sup>59</sup> Phil Williams, "Transnational Criminal Organizations: Strategic Alliances," *The Washington Quarterly*, 18 (1), Winter 1994: 57-72. For an excellent discussion of the problems of cooperation in cartels, see Debora Spar, *The Cooperative Edge: The Internal Politics of International Cartels* (Ithaca: Cornell University Press, 1994).

lists the following causes for failure: 1) different criminal cultures and codes of behavior; 2) a lack of trust;<sup>60</sup> 4) rivalries and resentment over relative gains; 4) the inability to prevent independent actions by members of the criminal alliance. Williams thus maintains that because of their fragile nature, strategic criminal alliances offer many opportunities for law enforcement to exploit their weaknesses and turn the allied organizations against one another.<sup>61</sup>

### ***The British Approach to Counterinsurgency and “HAM”***

My theory of the political capital of illicit economies has been informed by and builds upon the intellectual foundation of the hearts and minds approach to counterinsurgency. The British developed their counterinsurgency policy as a direct response to Maoist conceptions of the revolutionary struggle. Seminal authors of the British approach, such as Sir Robert Thompson, Frank Kitson, John S. Pustay, David Galula, and John McCuen, spent a large part of their work analyzing Mao’s concept, before advancing their response.<sup>62</sup> McCuen, in particular, developed a theory of “counter-revolution” that mirrored Maoist concepts and singled out five principles applicable to

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<sup>60</sup> A common basis of trust is frequently believed to be the foundation for any kind of cooperation, including criminal. See, for example, Gambetta (1993); von Lampe (2003), James O. Finckenauer and Elin J. Waring, *Russian Mafia in America: Immigration, Culture, and Crime* (Boston: Northeastern University Press, 1998); Ko-Lin Chin, *Chinese Subculture and Criminality: Non-traditional Crime Groups in America* (Westport: Greenwood Press, 1990). Exploring whether reliance on trust among criminals could be replaced by some another means, such as the threat or resort to violence, Peter Reuters argued that this may be the case, but only at a high cost, far greater than would be incurred by trust or other “positive non-economic ties,” Peter Reuter, *Disorganized Crime: Economics of the Visible Hand* (Cambridge: MIT Press, 1983): 116.

<sup>61</sup> Williams (1994): 70-1.

<sup>62</sup> Robert Thompson, *Defeating Communist Insurgency* (London: Chatto and Windus, 1966) and Robert Thompson, *Revolutionary War in World Strategy, 1945-1969* (London: Secker & Warburg, 1970); Frank Kitson, *Low Intensity Operations* (London: Faber & Faber, 1971); John S. Pustay, *Counterinsurgency Warfare* (New York: Free Press, 1965); David Galula, *Counterinsurgency Warfare: Theory and Practice* (New York: Praeger, 1964); and John J. McCuen, *The Art of Revolutionary Warfare* (London: Faber and Faber, 1966).

both the revolutionary and counterrevolutionary struggle: preserving oneself and annihilating the enemy, establishing strategic bases, mobilizing the masses, seeking outside support, and unifying the effort.<sup>63</sup> Similarly, Thompson also identified five key principles: 1) the government should have a clear political goal of defeating the insurgency; 2) the government and its security forces must always act within the law; 3) there should be an overall plan defining the responsibilities of all agencies involved in the counterinsurgencies and intensive coordination among them; 4) priority should be given to the defeat of political subversion rather than to military defeat of the guerrillas; and 5) the government should ensure that its own bases are secure before mounting offensive military campaigns.<sup>64</sup> A law-enforcement approach frequently was favored over a military approach, especially in dealing with the local populations.

In operational terms, Thompson envisioned four stages of the counterinsurgency effort: clearing an area of insurgent activity; holding the area for the government; winning its inhabitants on the side of the government; and finally “moving” onto another area. What was common to the analysts of the British school of counterinsurgency was their emphasis on the political aspect of the insurgent struggle – gaining *legitimacy* in the eyes of the population and depriving the government of its legitimacy -- and the consequent need on the part of the government to make the political effort, the legitimacy game, a similarly key aspect of counterinsurgency. Kitson, for example, stressed that “the leaders of a subversive movement have two separate, but closely related jobs to do: they must gain the support of a portion of the population, and they must impose their will on

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<sup>63</sup> McCuen (1966).

<sup>64</sup> Thompson (1966) and Thompson (1970).

the government.”<sup>65</sup> The leader of the British counterinsurgency effort in Malaya, Sir Gerald Templer, was, in fact, the one who coined the term “winning the hearts and the minds” (HAM).<sup>66</sup>

The “hearts and minds” school of thought became also prominent in the United States. The American theorists of COIN became increasingly concerned with the inability of governments to meet the needs and demands of their populations and keep pace with the societal pressure that economic modernization and nationalism placed on them.<sup>67</sup> Unable to provide for the needs of the population, the government would become progressively weakened, isolated, and delegitimized. Meanwhile, the insurgents would step into the lacuna of state power, and deliver what the government was unable or unwilling to provide, such as social service, taxation, law, and administration. The answer the HAM theorists proposed was to prevent the insurgents from winning the legitimacy game by supplying the population with the needed goods, restoring the

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<sup>65</sup> Kitson (1971): 24-25.

<sup>66</sup> It must be stressed that the French theorists of *guerre revolutionaire* did not altogether ignore the importance of winning the hearts and the minds, nor were the British counterinsurgency activities free of brutality, forced population transfers, or repression designed to coerce the allegiance of the population. In practice, the desire to deprive the insurgents of resources and gain the allegiance of the population resulted in an inevitable tension between the two and undermined the guiding principles of the effort. Thus, in practice, the British troops frequently deviated from theory and applied collective punishment, capital punishment, curfews, and restrictions on movement. In Kenya, they alienated large segments of the population by systematizing torture, inflicting heavy civilian casualties, and detaining 1.5 million Africans believed to be sympathetic to the Mau Mau. See, for example, Caroline Elkins, “The Wrong Lesson,” *Atlantic Monthly*, 296 (1), July/August 2005: 35-38. The crucial difference was one of emphasis. The tendency of *guerre revolutionaire* and the cost-benefit approach to mutate and become primarily, if not exclusively, focused on altering the population’s allegiance through the application of repression became especially pronounced both in Algeria and in Vietnam.

Moreover, even the prominent authors of the British approach emphasized that simple persuasion is not likely to win the hearts and minds of the population in the context of rebel intimidation and violence. Persuasion needed to be coupled with the provision of security to those who cooperate with the government or at least abstain from helping the insurgents against the reprisals of the insurgents. Police and military presence thus became an important means of acquiring the allegiance of the population.

<sup>67</sup> See, for example, Lucian Pye, *Lessons from the Malayan Struggle Against Communism* (Cambridge, Center for International Studies, 1957), Riley Sutherland, *Winning the Hearts and Minds of the People: Malaya, 1948-1960*, RAND Document No. RM-4174-ISA (Santa Monica: RAND, 1964), and Guy Parker, *Notes on Non-Military Measures in Control of Insurgency*, RAND Document No. P-2642 (Santa Monica: RAND, 1962).

government's capacity to provide them with basic services, improving standards of living, and reducing government abuse, brutality, and corruption.

Force was thus to be applied selectively, with a strict adherence to minimizing civilian casualties as a way of avoiding the trap of provoking even a more reinvigorated insurgency reaction by repression en masse. As McCuen put it, "The military should be very careful to avoid the shotgun approach: this is, accepting a few neutral civilian casualties to get a few rebels. It does not work this way because the few neutral casualties create ten-fold new rebels among the casualties' friends and relatives. The military should also avoid indiscriminate bombing, shelling, or killing of any kind."<sup>68</sup> Whether or not McCuen got the numbers of alienated locals and potentially new rebels correct is less important than his concern with the need to minimize civilian casualties in order to avoid generating new rebels.

Thus the government had to demonstrate a concern for the social and economic grievances underlying the insurgency or at least impinging upon the larger population. And it had to deliver a tangible proof of being able to ameliorate these grievances. McCuen, for example, maintained that "actions such as land reform, reduction of interest, and removing of disliked officials ... should be accomplished to the extent necessary to win popular support." Importantly, however, McCuen understood that in addition to delivering a more just -- nationalist or democratic, for example -- concept of society, what mattered most was the provision of basic goods to the population: "Actually, the vast majority of the people are far more interested in these practical matters -- plus the security of their families and themselves -- than the sophisticated questions of state. The population will be lost or won depending on whether or not the governing power can

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<sup>68</sup> McCuen (1966): 61.

violent mobilization.<sup>76</sup> Moral economists saw economic security, known as the “safety-first principle,” as key to the understanding of peasant mobilization since the poor peasant was always close to the danger line and even a small drop in production could threaten the survival of the household. Much of this literature and its follow-ups were based on the assumption that the peasantry was initially not mobilized in any way.

Subsequent work by Samuel Popkin challenged the “moral economy” school, arguing that threats to subsistence were not a sufficient explanation of peasants’ violent mobilization and that the risk to individual participants, combined with the role of political entrepreneurs and their provision of “selective incentives,” could better account for their political mobilization.<sup>77</sup> Popkin was thus extending Mancur Olson’s collective action theory to peasant mobilization.<sup>78</sup> In contrast to Popkin, some scholars emphasize that insurgents often provide peasants with collective goods, thus taking on functions of the state, rather than selective benefits. Guerrillas offer land and other subsistence goods as an incentive for peasants to support the insurgency if not outright join the rebels.<sup>79</sup>

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<sup>76</sup> Among seminal works of the moral economy school and the studies of peasant rebellion are James C. Scott, *The Moral Economy Peasant* (New Haven: Yale University, 1976) and Eric Wolf, *Peasant Wars of the Twentieth Century* (New York, Harper & Row, 1969). These works built on Barrington Moore’s depiction of agrarian wars as two-level conflicts that inevitable contain both small motives (such as the peasant’s hatred for the landowner) and large opportunities. See, Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston: Beacon, 1966).

<sup>77</sup> Samuel L. Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley: University of California Press, 1979). See also, Mark Lichbach, “What Makes Rational Peasants Revolutionary? Dilemma, Paradox, and Irony in Peasant Collective Action,” *World Politics*, 46 (2), April 1994: 383-418; Jeffrey Berejikian, “Revolutionary Collective Action and the Agent-Structure Problem,” *American Political Science Review*, 86 (3), September 1992: 647-657.

<sup>78</sup> Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge: Harvard University Press, 1965). In the actual analysis, Popkin adopted an assurance game rather than a N-person prisoners’ dilemma as Olson. It is important to note, however, that Popkin also paid a close attention to non-Olsonian motivations, such as the likely total benefit that will be derived from a collective effort.

<sup>79</sup> Theda Skocpol, “What Makes Peasants Revolutionary?” *Comparative Politics*, 14 (3), April 1982: 351-75; Timothy Wickham-Crowley, *Exploring Revolution: Essays on Latin American Insurgency and Revolutionary Theory* (Armonk: M.E. Sharpe, 1991); and Jeff Goodwin and Theda Skocpol, “Explaining Revolutions in the Third World,” *Politics and Society*, 17 (4), 1989: 489-509. Others have emphasized the provision of protection from government forces as a benefit extended by the insurgents. See, for example, T. David Mason and Dale A. Krane, “The Political Economy of Death Squads: Toward a Theory of the

Consistent with the cost-benefit school of counterinsurgency, what these numerous works have in common is the depiction of peasant (nonelite) behavior as distinctly nonideological and determined more by a concern with short-term damage limitation or benefit maximization than by preferences for any institutional or ideological order that competing claimants to control over the state offer.<sup>80</sup> But crucially, and unlike the cost-benefit authors, they emphasize the government threat to peasant subsistence and security as an important source of alienation instead of an effective way to deprive insurgents of resources.

Prominent recent works on peasant mobilization and rebellion reaffirm the centrality of government repression for peasant mobilization.<sup>81</sup> In *Insurgent Collective Action and Civil War in El Salvador*, Elisabeth Wood shows how moral outrage at the injustice of landlessness and brutal measures by the government fueled and sustained the

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Impact of State-Sanctioned Terror,” *International Studies Quarterly*, 33 (2), 1989: 175-98. In his recent *Caught in the Crossfire*, T. David Mason argues that economic inequality by itself does not produce revolution, but the shift from subsistence to export agriculture (under pressure from globalization) does. The peasants then face the choice of nonviolent social mobilization or armed social strife. The key determinant of the character of peasant opposition is government response. An indiscriminate resort to violence on the part of the government winds up pushing peasants who would otherwise have been neutral to join the rebels in self-defense, T. David Mason, *Caught in the Crossfire: Revolutions, Repression, and the Rational Peasant* (Lanham: Rowman and Littlefield Publishers, 2004). For seminal studies on the elites’ decision to resort to violence, see James DeNardo, *Power in Numbers: The Political Strategy of Protest and Rebellion* (Princeton: Princeton University Press, 1984); Mark Irving Lichbach, “Deterrence or Escalation in Repression or Dissent,” *Journal of Conflict Resolution*, 31 (2), June 1987: 266-297.

<sup>80</sup> Scott (1976), Popkin (1979), Benedict John Kerkvliet, *The Huk Rebellion: A Study of Peasant Revolts in the Philippines* (Berkeley: University of California Press, 1970); Joel S. Migdal, *Peasants, Politics, and Revolution: Pressures toward Political and Social Change in the Third World* (Princeton: Princeton University Press, 1974); and Jeffrey M. Paige, *Agrarian Revolution: Social Movements and Export Agriculture in the Underdeveloped World* (New York: Free Press, 1975).

<sup>81</sup> For the role of resentment in non-elite mobilization, and emotions in general, see Roger D. Petersen’s *Understanding of Ethnic Conflict: Fear, Hatred, and Resentment in Twentieth-Century Eastern Europe* (Cambridge: Cambridge University Press, 2002). Although in his original work, Petersen applies to concept of resentment to a predominantly political, not economic, sense of subordination, in a subsequent work with Vanda Felbab-Brown, the authors extend the concept of resentment to situations of economic deprivation resulting from government actions. See, Roger Petersen and Vanda Felbab-Brown, “La ciencia social estadounidense y la política de contrainsurgencia en Colombia,” in Freddy Cante and Luisa Ortiz, eds., *Acción Política no-violenta, una opción para Colombia* (Bogotá: Centro Editorial Universidad del Rosario, 2005): 79-104.

insurgency in El Salvador. She also emphasizes that the participant motivations were not simply material self-regarding benefits, but that participants referred irreducibly to the well-being of others as well as to the “pleasure of agency,” i.e. the ability to shape their own destiny.<sup>82</sup> Still, peasant alienation due to government repression looms large in her account.

### ***“Legitimacy” School of Counterterrorism***

The issue of legitimacy as a crucial determinant of government’s success against terrorists is also prominently highlighted in the literature on counterterrorism. In their seminal work on the relationship between terrorism, legitimacy, and power, Martha Crenshaw and her co-authors argue that at the core of terrorists’ power is their legitimacy.<sup>83</sup> As Conor Cruise O’Brien puts it, “the power of terrorism is through political legitimacy, winning acceptance in the eyes of a significant population and discrediting the government’s legitimacy.”<sup>84</sup> Similarly, as Anthony Quinton maintains, “the essence of the government problem is to maintain and strengthen its authority while diminishing the legitimacy of the terrorists. Thus, the government faced with terrorism must be concerned with both the effectiveness and the legitimacy of its policies.”<sup>85</sup>

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<sup>82</sup> Wood (2003). See also, Roy Licklider, “Peasants, Choice, and Civil War,” *International Studies Review* 7 (2), June 2005: 311-313.

<sup>83</sup> Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983).

<sup>84</sup> Martha Crenshaw, “Introduction,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 25. See also Conor Cruise O’Brien, “Terrorism under Democratic Conditions,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 91-104.

<sup>85</sup> Martha Crenshaw, “Introduction,” (1983): 32. See also, Anthony C.E. Quinton, “Terrorism and Political Violence: A Permanent Challenge to Governments,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 52-64.

Consequently, the authors argue, the government cannot be oblivious to issues of discrimination or deprivation.<sup>86</sup> Crenshaw further maintains that intelligence is key for the success of counterterrorism objectives. “In confronting terrorism,” she argues, “the nature of the grievance does matter, as does the nature of the organization that puts forth the grievance. Intelligence is important not only to prevent terrorist attacks but also to understand how the organization works and how its decision making processes can be affected.”<sup>87</sup> My dissertation shows how the government response to the illicit economy influences the willingness of the population to provide the government with intelligence on the belligerent groups.

The debate about resources versus legitimacy also has its equivalent in the counterterrorism literature. Following Claire Sterling’s *The Terror Network*, which attributed the terrorism of the 1970s and 1980s to an international terrorist network financed by the Soviet Union, a school of thought emerged advocating that if the finances and weapons supply could be stopped, terrorism would greatly diminish.<sup>88</sup> Yet, Richard Rubenstein argues:

People who want to make war on the state generally find the means to do so. At the turn of the century, anarchists armed with little more than knives, pistols, and homemade bombs terrorized Europe and North America quite effectively. [...]

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<sup>86</sup> Christopher Hewitt (1984) also maintains that by responding to causes such as poverty, suppression of political expression, and lack of economic opportunity, governments may defuse potential sources of violence, which is a long term solution to terrorism. For recent key works on terrorism, see Ian O. Lesser, Bruce Hoffman, John Arquilla, David Ronfeldt, and Michele Zanini, *Countering the New Terrorism* (Santa Monica: RAND, 1999). See also Adrian Gulke, *The Age of Terrorism and the International Political System* (New York: I.B. Tauris/St. Martin’s 1995); Charles W. Kegley, Jr., ed., *International Terrorism: Characteristics, Causes, and Controls* (New York: St. Martin’s 1990); Walter Reich, ed. *Origins of Terrorism: Psychologies, Ideologies, Theologies, States of Mind* (New York: Cambridge University Press, 1990); Walter Laquer, *A History of Terrorism* (Piscataway: Transaction, 2001); Paul R. Pillar, *Terrorism and U.S. Foreign Policy* (Washington, DC: Brookings Institution Press, 2001); Jessica Stern, *The Ultimate Terrorist* (Cambridge: Harvard University Press, 2000).

<sup>87</sup> Martha Crenshaw and Maryann Cusimano Love, “Networked Terror,” in Maryann Cusimano Love, ed. *Beyond Sovereignty: Issues for A Global Agenda* (Toronto, Canada: Wadsworth, 2003): 138.

<sup>88</sup> Claire Sterling, *The Terror Network: The Secret War of International Terrorism* (New York: Holt, Rinehart, and Winson, 1981).

[T]he basic components of terrorist infrastructure – terrorists’ sources of forged papers, safehouses, transportation and communication links, personnel, and money, as well as weapons – are in plentiful supply locally. It is a myth that terrorist groups can be ‘crushed in the egg’ by cutting off their external sources of supply. It is the local political base that makes the terrorist organization or breaks it. Politically isolated groups turn to banditry or disappear because of political weakness, not from a shortage of materiel.<sup>89</sup>

In short, the central claim of this strand of the counterterrorism literature is that focusing on the terrorists’ physical means is highly unreliable. The key to success is drying up their political base.

#### **IV. Beyond the Narcoterrorism Debate**

##### ***Weak and Failed States***

Beyond the debate about the impact of illicit economies on military conflict, the dissertation also furthers the literature on failed states.<sup>90</sup> This body of work has concentrated mainly on identifying the causes and indicators of failure and measuring the weakness of states.<sup>91</sup> The ability to provide public goods, such as security, free participation in the political process, and a variety of social services, is the key measure of state strength. The works also stress that the inability to provide these essential public

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<sup>89</sup> Richard E. Rubenstein, “The Noncauses of Modern Terrorism,” in Charles W. Kegley, Jr., ed. *International Terrorism: Characteristics, Causes, and Controls* (New York: St. Martin’s 1990): 130.

<sup>90</sup> In “Failed States, Collapsed States, Weak States: Causes and Indicators,” Robert I. Rotberg uses the ability of states to provide public goods to people living with their borders as the measure of strength and failure. According to Rotberg, failed states are states that are characterized by enduring violence since they fail to provide the most important public good – physical security. Robert I. Rotberg, “Failed States, Collapsed States, Weak States: Causes and Indicators,” in Robert I. Rotberg, ed., *State Failure and State Weakness in a Time of Terror* (Washington, DC: Brookings Institution Press, 2003): 1-25. I. William Zartman uses a similar definition of state failure: “Collapse means that the basic functions of the state are no longer performed.” I. William Zartman, “Introduction: Posing the Problem of State Collapse,” in I. William Zartman, ed. *Collapsed States: The Disintegration and Restoration of Legitimate Authority* (Boulder: Lynne Rienner Publishers, 1995): 3. Rotberg distinguishes between failed and collapse states, collapse being “a rare and extreme version of a failed state” where “political goods are obtained through private or ad hoc means” (Rotberg, 2003): 9.

<sup>91</sup> In addition to the above, see also Gerald B. Helman and Steven R. Ratner, “Saving Failed States,” *Foreign Policy*, (89), Winter 1992-93: 3-20.

goods to citizens creates an opportunity for belligerent actors to take on such a role.

Moreover, this literature contends that state failure strengthens lawlessness, manifested among others in arms and drug trafficking.

Similarly, in his landmark study, Robert Putnam explores the relationship between organized crime and society, noting that civil society failed to develop in southern Italy where four organized crime groups are present.<sup>92</sup> Louise Shelley contends that weak states have poorly formed civil society, which leads to a lack of trust in the state and dependence on surrogate actors, such as organized crime groups, to provide protection to resolve the lack of trust in society.<sup>93</sup> She argues that taking advantage of globalization, transnational crime groups have coopted or displaced the state to the point of establishing a nonstate form of authoritarianism.<sup>94</sup>

My dissertation illuminates how elites in failing states can speed up the collapse of their rule by attempting to suppress the illicit economy on which the local populations are dependent. It also reveals how nonstate belligerent actors can enhance their own legitimacy by providing an alternative source of essential public goods through exploiting the illicit economy, thus further weakening government. Finally, the dissertation shows which government responses toward the illicit economy strengthen the state and limit violence, and which policies, paradoxically, hasten state failure.

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<sup>92</sup> Robert Putnam, Robert Leonardi, and Raffaella Nanetti, *Making Democracy Work* (Princeton: Princeton University Press, 1993).

<sup>93</sup> Louise Shelley, "Mafia and the Italian State: The Historical Routes of the Current Crisis," *Sociological Forum*, 9 (4), 1994: 661-672. See also, Raimondo Catanzaro, *Men of Respect: A Social History of the Sicilian Mafia* (New York: The Free Press, 1992).

<sup>94</sup> Louise I. Shelley, "Transnational Organized Crime: The New Authoritarianism," in H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham: Rowman and Littlefield Publishers, 1999): 25-52.

## **V. Conclusions**

The literatures analyzed in this chapter included both the works that underlie the conventional wisdom about narcoterrorism and narcoinsurgency and those that underlie my theory. In addition to specific literature on narcoterrorism, studies of terrorist financing, greed-driven conflict, and various works on transnational crime provide the theoretical underpinning of the conventional view. The standard wisdom is also consistent with the assumptions, views, and arguments presented in the dominant French approach to counterinsurgency, its U.S. equivalent, the coercion school of COIN, and the eradication approach to counterterrorism. What these works have in common is a desire to limit the physical resources of belligerents by cutting them off from the population and material supplies, by force if necessary. The desire to win the hearts and minds of the population is either irrelevant, or a lost cause, or potentially counterproductive. Moreover, as belligerents and criminals draw material support from similar sources, they need to be fought jointly.

My theory, the political capital of illicit economies, draws from rich and diverse critical analyses of counternarcotics policies and analyses of transnational crime that diverge from those informing the conventional view. My theory also builds upon the British approach to counterinsurgency and its U.S. equivalent, known as “hearts and minds,” the literature on peasant protests, and the legitimacy school of counterterrorism. This literature resolves the tension between the desire to win the hearts and minds of the population and the desire to cut them off from resources in the opposite way that the literatures underlying the conventional view. It argues that the need to increase the legitimacy of the government and the need to deprive the belligerents of legitimacy with

the local populations are the key defeating the belligerents. This literature also emphasizes the fragility of the alliance between criminals and belligerents.

The following chapter lays out the theoretical framework of the dissertation. It presents the conventional view of narcoterrorism and narcoguerrilla and contrasts it with my theory of political capital of illicit economies. It also presents the methods and cases used to test the validity of the two competing theories.



## CHAPTER III - The Theoretical Framework and Methodology

### I. Introduction

This chapter provides the questions, theoretical framework, and methods used in this study on the links between illicit economies and military conflicts. Although narcotics trafficking is often treated as *sui generis*, the drug trade is situated here within the larger class of markets for illicit products and services. The study investigates when and how access by belligerents to the production and trafficking of illicit commodities affects the strength of belligerents and governments:

- *Through what processes* does access to illicit economies affect the strength of belligerent groups?
- *What conditions* influence the size and scope of the benefits (and costs) belligerent groups derive (and incur) from their interaction with illicit economies?
- How do *governmental policies toward the illicit economies* affect the strength of belligerents and, ultimately, limit, contain, or exacerbate military conflicts?

The forms of military conflict examined range from civil war, insurgency, terrorism, and occupation to warlordism.

The chapter presents a general theory of the relationship between illicit markets and military conflict -- *political capital of illicit economies* -- and contrasts it with conventional wisdom on connections between drug trafficking and military conflict. To set up the balance of this study, the chapter then compares observable implications of the theory and several conventional alternatives and describes the methods and case studies used.

The study specifically focuses on *illicit* markets, not markets and resources in general. As distinct from licit markets, illicit markets have several crucial characteristics: they raise profits to very high levels; governments and legitimate businesses cannot openly participate in them, and hence outside-the-law actors, such as belligerent groups, can capture a large market share of the illicit economy. Crucially, government frequently feel obliged to destroy the illicit economy, thus allowing the belligerents to offer themselves as its protectors and obtain support from the local population that depends on the illicit economy.

The *conventional narcoterrorism view* argues that belligerents derive large financial profits from their participation in the illicit economy. These profits increase their military capabilities and allow them to escalate and prolong conflict. Consequently, the government needs to eliminate the illicit economy in order to cut off the belligerents' resources and limit conflict. The eradication of the illicit economy will result in critical reduction of the belligerents' capabilities. A corollary proposition is that belligerents and criminals can no longer be distinguished from each other and need to be fought as a joint enemy.

My theory, *the political capital of illicit economies*, argues that belligerents derive much more than simply large financial profits from their sponsorship of illicit economies. They also obtain freedom of action and, crucially, legitimacy and support from the local population -- what I call *political capital*. If belligerents choose to become negatively involved in the illicit economy (attempt to destroy it), they not only fail to increase their military capability, but also suffer costs in terms of political capital. The extent and scope of belligerents' gains/ losses from their involvement in the illicit economy depend on four

factors: the state of the overall economy; the character of the illicit economy; the presence of thuggish traffickers; and the government response to the illicit economy. These factors reflect both structural conditions outside of the immediate control of the belligerents and the government and strategic policy choices available to either the belligerents or the government.

Contrary to the conventional wisdom about narcotics and military conflict, my theory predicts that eradication of narcotics cultivation will have dubious effects on the capabilities of the belligerents and is extremely unlikely to severely weaken them. However, it will alienate the local population from the government and result in the population's unwillingness to provide intelligence on the belligerents – a crucial requirement for success against the belligerents. Thus, eradication of illicit crops increases the political capital of the belligerents without significantly weakening their military capabilities.

## **II. The Debate: The Conventional Narcoterrorism View versus the Political Capital of Illicit Economies**

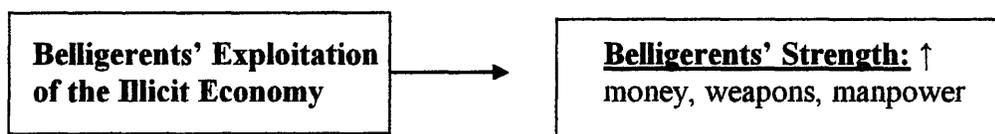
### ***II.A. The Conventional Narcoterrorism/Narcoinsurgency View***

Widely accepted by both government officials and academic scholars alike, the standard understanding of the relationship between illicit economies and military conflict assumes that belligerent groups derive large financial profits from illicit economies; hence the belligerents are best defeated by eradicating the illicit economy. With large financial profits from the drug trade, terrorists, warlords, and insurgents buy weapons and

hence expand conflict, while the government's relative capabilities vis-à-vis the belligerents shrink.<sup>1</sup>

The diagram below illustrates the posited relationship.

Diagram 1:



Moreover, the conventional view frequently maintains that whether or not the belligerent groups ever had any ideological goals, once they interact with the illicit economy, they lose all but pecuniary motivations. Profiting immensely from the illicit economy, they have no interest to achieve a negotiated settlement with the government.<sup>2</sup> Thus, the appropriate government strategy for defeating the belligerents is to eradicate the illicit economy.

The conventional view assumes that if the government eradicates the illicit economy – sprays the coca fields, burns down the poppy – the resources of the insurgents and the warlords will dry up. The belligerent groups will go bankrupt and will be significantly weakened if not altogether defeated. One analyst succinctly captured the essence of the conventional view when he argued: “we have more of a chance of winning the war on terrorism by winning the war against drugs because it’s, to a large degree,

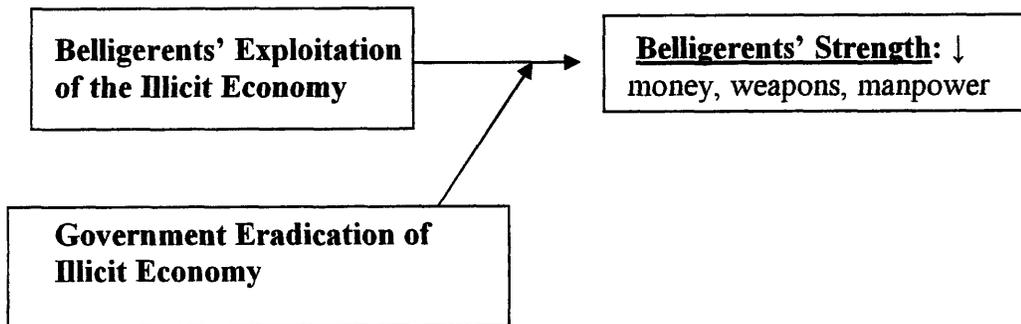
<sup>1</sup> James Adams, *The Financing of Terror* (London: New English Library, 1986); Rachel Ehrenfeld, *How Terrorism Is Financed and How to Stop It* (Chicago: Bonus Books, 2005); Douglas J. Davids, *Narco-terrorism* (Ardsey: Transnational Publishers, 2002); Rand Beers, Assistant Secretary for International Narcotics and Law Enforcement Affairs, “Narco-Terror: The Worldwide Connection Between Drugs and Terrorism,” a hearing before the U.S. Senate Judiciary Committee, Subcommittee on Technology, Terrorism, and Government Information,” March 13, 2002; <http://judiciary.senate.gov/hearing.cfm?id=196>.

<sup>2</sup> Paul Collier and Anke Hoeffler, “On the Economic Causes of War,” *Oxford Economic Papers*, 50 (4), October 1998: 563-573; Paul Collier and Anke Hoeffler, “Greed and Grievance in Civil Wars,” October 21, 2001, [http://econ.worldbank.org/files/12205\\_greedgrievance\\_23oct.pdf](http://econ.worldbank.org/files/12205_greedgrievance_23oct.pdf), downloaded May 18, 2003;

drug funding today that funds the terrorist organizations, and the terrorist organizations cannot operate in today's world without funding."<sup>3</sup> An additional claimed benefit of eradication is that with these drugs no longer entering the global trade, consumption will fall dramatically in consumer countries, such as the United States.

The diagram below illustrates the posited effect of eradication.

Diagram 2:



The conventional view also holds that the interaction of belligerents with the illicit economy transforms their identities and goals to such an extent that they are no longer distinguishable from pure criminals. Since they both operate in a global deregulated environment, it makes no sense to treat the terrorist groups and trafficking criminal organizations as two separate and distinct phenomena. The new danger threatening security and the quality of life in many countries is the specter of narcoterrorism.<sup>4</sup> Some analysts of this persuasion see a "gray area where the two actors

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<sup>3</sup> Raphael Perl, "Remarks at *Target America: Traffickers, Terrorists, and Your Kids*," A National Symposium on Narcoterrorism, Drug Enforcement Administration, U.S. Department of Justice, December 4, 2001 (Washington, DC: Miller Reporting, Co., Inc: 2001).

<sup>4</sup> See, for example, Larry Johnson, "Remarks at *Target America: Traffickers, Terrorists, and Your Kids*," A National Symposium on Narcoterrorism, Drug Enforcement Administration, U.S. Department of Justice, December 4, 2001 (Washington, DC: Miller Reporting, Co., Inc: 2001).

are indistinguishable from one another.”<sup>5</sup> Included in this gray area are: traditional criminal organizations that use terror tactics to eliminate their opponents; terrorist groups who initially use criminal activities as a source of financing, but subsequently lose their ideological beliefs and become motivated solely by financial profits; and finally civil war factions who lose their ideological goals and become motivated solely by profit. Other analysts contend that the belligerent groups form alliances with criminal organizations and frequently merge with them.

Despite some variations, the prevailing conventional view is one of a new conglomerate actor that has emerged out of two once separate types of actors, belligerents and criminals, with virtually identical and unified set of goals and interests. Consequently, the conventional view argues that the formerly separate actors need to be fought jointly – i.e., the belligerent groups cannot be defeated in the absence of eliminating the criminal organizations with whom they have merged and/or the illicit economies from which they profit.<sup>6</sup> Aggressive law enforcement against the criminals and the illicit economy will undermine the alliance between the traffickers and the belligerents and turn them against each other.<sup>7</sup>

The following section presents an alternative view of the nexus between illicit economies and military conflict and explains dynamics ignored by the conventional view.

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<sup>5</sup> Tamara Makarenko, “Crime, Terror and the Central Asian Drug Trade,” *Harvard Asia Quarterly*, 6 (3), Summer 2002, <http://www.asiaquarterly.com/content/view/121/40/>.

<sup>6</sup> Rollie Lal, “South Asian Organized Crime and Terrorist Networks,” *Orbis*, 49 (2), Spring 2005: 293-304; and Louise I. Shelley, “The Nexus of Organized International Criminals and Terrorism,” *International Annals of Criminology*, 1 (2), 2002: 85-93.

<sup>7</sup> Mónica Serrano and María Celia Toro, “From Drug Trafficking to Transnational Organized Crime in Latin America,” in *Transnational Organized Crime and International Security: Business as Usual?* Mats Berdal and Monica Serrano, eds. (Boulder: Lynne Rienner, 2002): 141-154.

## ***II.B. The Political Capital of Illicit Economies***

Belligerent groups exploiting illicit economies do in fact derive large financial benefits from the illicit economies, and hence increase their strength. However, they obtain much more than simply financial profits, and the increase in the strength is much larger and more multifaceted than assumed in the conventional view. Their ability to derive benefits from illicit economies is not uniform and is crucially influenced by the character of the illicit economy as well as government policies. The conventional narcoterrorism view fails to ascertain the factors that influence the size and scope of the increase in the strength of the belligerent group, and it also mispecifies the mechanisms and the dependent variable. The inadequate specification of the factors and causal mechanisms and the effects thus produce policies counterproductive to the defeat of the belligerent groups and conflict limitation.

My theory of *political capital of illicit economies* describes the strategic interactions between belligerents, traffickers, the population, and the government in the context of illicit economies. It explains how belligerents' involvement with the illicit economy affects the strength of belligerents. It specifies a set of factors that affect the size and scope of the gains belligerents derive from the illicit economy and that permit them to act as protostates. I do not assume any particular motivation on the part of the actors, beyond the elemental goals of the government to suppress the violent opposition,<sup>8</sup> of the belligerents not to be defeated, and of the traffickers to profit from the illicit economy. I offer a set of general rules that causally relate structural and policy variables to outcomes.

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<sup>8</sup> I am thus assuming that the local government is not only motivated to suppress the illicit economy (if at all), but is also and primarily interested in eliminating the violent opposition.

### II.B.1. Synopsis of My Theory

My theory, the political capital of illicit economies, holds that belligerents' involvement in illicit economies affects the strength of belligerents, in both its military and political components. The type of involvement, in other words the values the variable can take on, can be *positive involvement*, *negative involvement*, and *no involvement*. Positive involvement<sup>9</sup> means that the belligerents sponsor the illicit economy. This sponsorship includes simple protection of the illicit economy against other actors who are attempting to destroy it as well as direct forms of belligerents' participation in the illicit economy, such as direct trafficking. Negative involvement means efforts by the belligerent group to destroy the illicit economy, such as prohibition or eradication. Non-involvement, or neutrality, means that the belligerent group has a laissez-faire policy toward the illicit economy. It does not sponsor in any way, including not providing protection to the illicit economy, nor does it attempt to destroy the illicit economy.

The dependent variable "strength of belligerents" comprises two main components: I. *military capabilities* and II. *political capital*, each of which comprises two further subcomponents. The subcomponents of belligerents' military capabilities are: IA) physical resources (money, weapons, and numbers of belligerents) and IB) freedom of action (the ability to optimize tactics with strategy and the available scope of tactical and strategic options). The subcomponents of political capital are: IIA) legitimacy (perception in the population that the actions of the belligerents are beneficial to the population and

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<sup>9</sup> By using the terms positive and negative involvement, I am not making any judgment regarding the moral desirability or policy appropriateness of the behavior. I only use the terms as descriptors of whether the belligerents are embracing and exploiting the illicit economy or attempting to destroy it.

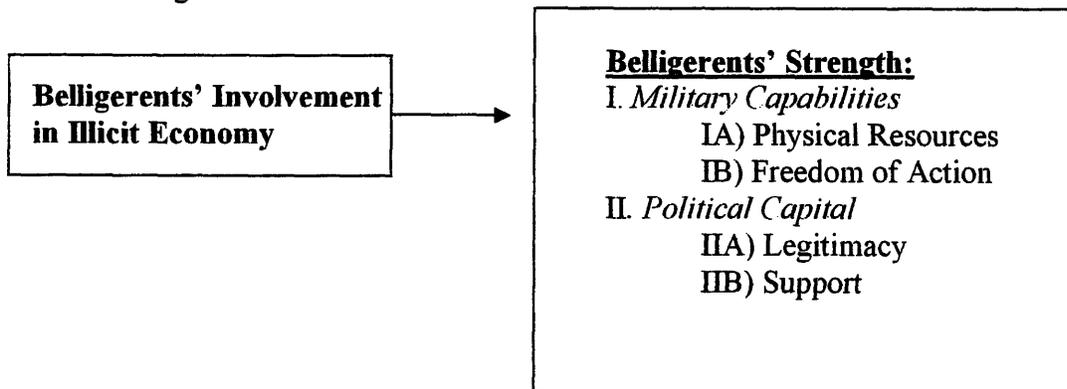
thus justified) and IIB) support from the population, crucially manifested in a willingness to deny intelligence on belligerents to the government.<sup>10</sup>

Belligerents' positive involvement in the illicit economy increases the strength of belligerents. In fact, it increases all four elements of strength: physical resources, freedom of action, legitimacy, and support. Belligerents' negative involvement in the illicit economy decreases the strength of belligerents along these dimensions. Non-involvement in the illicit economy on the part of the belligerents leaves their strength unaffected.

I recognize that the involvement (or non-involvement) by belligerents in illicit economies is not the sole source of their strength or weakness. There are, to be sure, other factors that affect the strength of belligerents, but this study is solely concerned with the effects of illicit economies on the strength of belligerents and conflict dynamics.

Diagram 1 below illustrates the overarching posited relationship between belligerents' access to illicit economies and the strength of belligerents:

Diagram 3:



<sup>10</sup> I recognize that there are interaction effects among the various components of strength. Greater political capital derived from positive involvement in the illicit economy, with a larger segment of the population more intensely supporting the belligerents, will of course also further increase the belligerents' freedom of action since the belligerents need not fear that the population will provide intelligence on them to the government. Similarly, greater military capabilities allow belligerents to protect a larger area of the illicit economy and to protect it more effectively, thus further increasing their political capital.

The magnitude and scope of the increase in strength of the belligerents resulting from their positive involvement in the illicit economy frequently allow the belligerent group to become entrenched. The group becomes difficult to defeat and gains the potential to expand conflict. Exploitation of illicit economies thus vastly increases the staying power of belligerent groups.

Four factors crucially influence the extent and scope of the change in belligerents' strength as a result of their involvement in the illicit economy. These factors apply both to belligerents' increase in strength resulting from their positive involvement in the illicit economy, as well as to the decrease in their strength resulting from their negative involvement in the illicit economy. These factors are: a) *the state of the overall economy in the region*; b) *character of the illicit economy*; c) *the presence of thuggish traffickers*; and d) *government response to the illicit economy*. These factors function as amplifiers of the overarching causal relationship, i.e. they determine the magnitude of increase (or decrease) in the strength of belligerents. These factors are not on-and-off switches: the posited relationship will take place no matter what value the factors take on, even though under certain combinations of the factors, the increase or decrease in strength will be very small.

The analysis below briefly describes the effect of each factor on the strength of the belligerents. However, the total magnitude of the change in the strength of the belligerents is the result of the interactive effects of the four factors, i.e. of the particular combinations of the values the factors take on. The subsequent elaboration of the theory will indicate what particular combinations of the values of these factors result in smaller or greater changes in belligerents' strength.

*The state of the overall economy in the region* is a structural condition outside of the immediate control of the government or the belligerents. It captures the level of poverty in the region, the availability of alternative means of subsistence for the population outside of the illicit economy, and the extent to which the local population is dependent on the illicit economy for basic survival. If the economy is poor, a large segment of the population is vitally dependent on the illicit economy, and hence the belligerents derive large political capital from their sponsorship of the illicit economy. If the economy is rich, the population has plentiful alternative means of subsistence, and the belligerents derive only small political capital. Conversely, if the overall economy is poor and belligerents attempt to destroy the illicit economy, they lose large political capital.

The second factor, the *character of the illicit economy*, indicates the extent to which the illicit economy is or is not labor-intensive. This factor thus captures the extent to which the illicit economy generates reliable livelihood for the local population. If the illicit economy is labor-intensive, it satisfies the livelihood needs of a large segment of the population, and hence generates large political capital for the belligerents. If the illicit economy is not labor-intensive, it provides livelihood for only a small segment of the population, and hence generates only small political capital for the belligerents. Conversely, if the belligerents attempt to destroy a labor-intensive illicit economy, they suffer large losses of political capital, while their negative involvement in labor-non-intensive illicit economies will generate only small losses of political capital.

This factor is one over which the belligerents have a degree of control. Although they cannot dictate whether a particular illicit economy is labor-intensive or not (a structural condition), they can and will choose whether or not to participate in a particular

illicit economy. Thus, in deciding whether to sponsor (or destroy) a labor-intensive or a labor-non-intensive illicit economy, the belligerents have some influence over the political capital they will obtain.

The third factor, *the presence of thuggish traffickers*, influences the extent to which the local population needs the protection of the belligerents against the traffickers. If thuggish traffickers are present, belligerents can protect the population against the abusive traffickers and thus increase their political capital. If thuggish traffickers are absent, belligerents cannot function as an agent improving the conditions of the peasants, and hence their political capital is relatively smaller. Similarly, if traffickers are present, but are not thuggish, that is, they care about the peasants' well-being, do not abuse them, and pay large compensation to the peasants, the belligerents cannot perform the regulatory role and their political capital is relatively smaller.

Traffickers' presence or absence also partially influences the size of the belligerents' financial benefits. If traffickers are absent, the belligerents take over the lucrative role of the traffickers. If the belligerents perform the trafficking function well, their financial profits increase substantially. If belligerents fail to perform the trafficking tasks well, the illicit economy in the region could substantially decrease, and hence the belligerents' financial profits will substantially plummet also.

Belligerents thus face a strategic choice of whether or not to eliminate the traffickers from the regional illicit economy. This strategic choice involves a tradeoff between the belligerents' political capital and financial profits. The elimination of traffickers and the belligerents' subsequent takeover of the trafficking function may

increase the belligerents' financial profits, but will relatively decrease their political capital because, obviously, they cannot provide regulatory services against themselves.

The fourth factor, *government response to the illicit economy*, represents a strategic choice for the government. Actions by the government, both in deciding whether an economy is licit or illicit and in adopting a particular policy toward the illicit economy, determine how crucial a role the belligerent group plays in the illicit economy. In other words, the government response to the illicit economy influences how critically dependent the two other main actors in the illicit economy – the overall population and the traffickers – are on the belligerent group for the preservation of the illicit economy. Government actions thus increase or decrease the demand for belligerents' services to the illicit economy and the value belligerents' services have for the population and the traffickers.

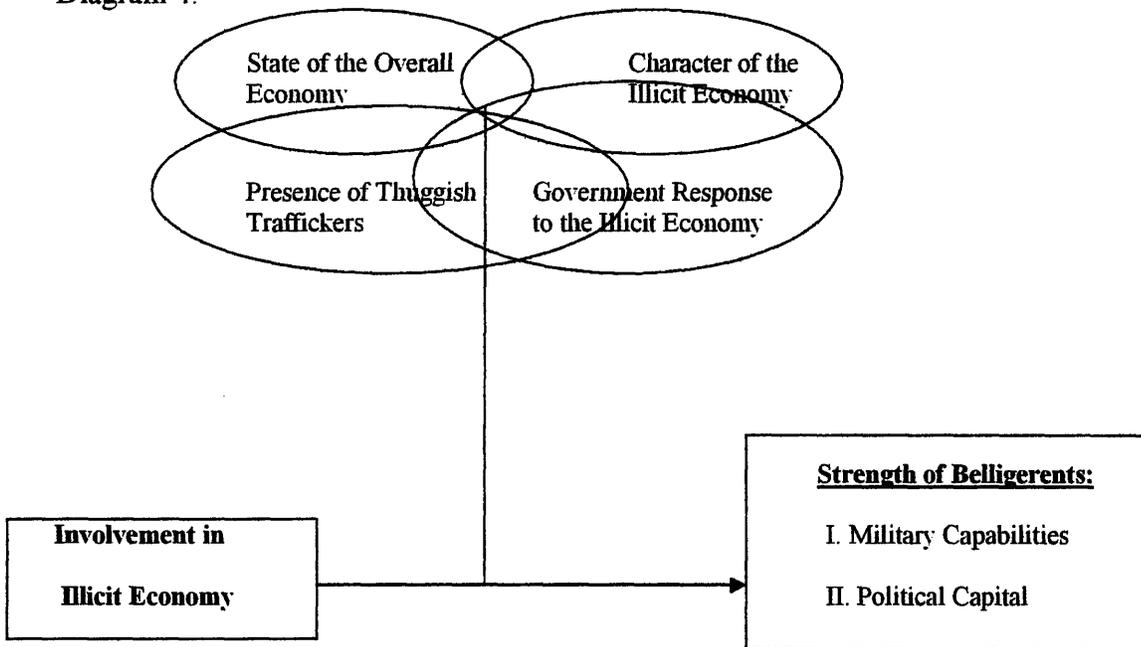
If the government engages in suppression policies that threaten the illicit economy (such as eradication), both the population and the traffickers become more dependent on the belligerents for the preservation and protection of the illicit economy, and thus the belligerents' political capital increases. Meanwhile, suppression policies have only limited effects on the physical resources of the belligerents since in the absence of reduction in demand for the illicit commodity (an exogenous variable), the belligerents (and the traffickers and the population) can adapt in a variety of ways to counteract the impact of the suppression policies.

If the government response to the illicit economy is one of *laissez-faire* or legalization (tacit acquiescence, licensing, or full legalization), the traffickers' and

population's need for the belligerents' services decreases, and hence the political capital of the belligerents is reduced.

The diagram below illustrates the posited influence of the factors described above on the increase in the belligerents' strength. The specified factors (in the ovals) are variable amplifiers of the effects of access by belligerents to the illicit economy.

Diagram 4:



The theory underlying the conventional wisdom is thus a small subset of my more comprehensive theory. The difference between the conventional view and my theory is analogous to the difference between the French school of counterinsurgency (and its U.S. equivalent, the coercion school) and the British school of counterinsurgency and hearts

and minds approach. The conventional view advocates policies that the government hopes will eliminate the physical resources of the belligerents regardless of their impact on the belligerents' political capital. My theory stresses the importance of the political capital of the belligerents and implies a set of policies that take into account the effects on the political capital of the belligerents.

The following section elaborates the posited effects of the variables of my *political capital of illicit economies theory* and explains the mechanisms through which the posited effects take place. Because the increase of belligerents' strength resulting from their positive involvement in the illicit economy and ways to mitigate against it are much more germane for policy (as well as more frequent than the belligerents' undermining of their own power by attempting to destroy the illicit economy), the subsequent analysis will focus mainly on belligerents' positive involvement and resulting increases in belligerents' strength. I will first describe the effects of belligerents' involvement in the illicit economy on the various components of the dependent variable, strength of belligerents. Second, I will describe in detail the effect of the factors that influence the size and scope of the posited change in strength.

*II.B.2. Detailed Discussion of Strength of Belligerents Resulting from Their Positive Involvement in the Illicit Economy*

*I. Military Capabilities*

*A. Physical Resources: Money, Weapons, and Numbers of Belligerents*

The most obvious benefit belligerent groups derive from their positive involvement in illicit economies, and the one that receives almost the entire attention of policymakers and scholars, is indeed financial profits. The size of belligerents' financial benefits from illicit economies is frequently in the tens to hundreds of millions of dollars per year per group. The actual magnitude of the belligerents' financial profits depends on the extent of their involvement with the illicit economy, the availability of competitors for the provision of the belligerents' services to that economy, and international market prices for the illicit commodities. International market prices for illicit commodities are a function of the international demand for the commodity and their illicitness. I take the existence of the international demand for the commodity as an exogenous variable. Given the existence of this demand, the illicitness of the production of the commodity then raises prices for the commodity to very high levels, and individuals or groups participating in the production or trade with the illicit commodity can reap very high profits. These profits increase as such actors participate further downstream from source-country production and closer to demand-country distribution.

The extent of the belligerents' financial profits grows as they become more deeply involved in various aspects of the illicit economy. Thus, in the case of drugs, their financial profits grow as they move from simply taxing the producers (peasants) of the

illicit substances, to providing protection and safe airstrips to the traffickers, to taxing precursor agents, to getting involved with money exchange and laundering.

The greater the number of other actors in the conflict capable of providing the services provided by the belligerents -- for example, the greater the number of belligerent groups the traffickers can hire to provide protection -- the smaller the financial profits of any one group. However, even in circumstances where several large belligerent groups participate in the same illicit economy, each group can still make tens if not hundreds of millions of dollars a year.

These profits are used to improve the belligerents' military capabilities by facilitating procurement, including that of heavy weapons, planes, and helicopters; allowing for greater salaries to be paid to soldiers; and improving logistics. The promise of substantial salaries can also facilitate recruitment, and thus increase the number of active belligerents. Such a recruitment process will likely be facilitated if the population that represents the recruiting pool for the belligerents lives in dire economic conditions with few survival alternatives. However, many other factors obviously also influence the decision of individuals whether or not to risk their lives fighting the government alongside the belligerent group, such as the ideology and brutality of the belligerents and fear of retribution from belligerents, governments, and the community.

### B. Freedom of Action

The facilitation of procurement and logistics by access to illicit economies allows the belligerents to optimize their tactics and strategies for achieving their larger goals. This *freedom of action* is a crucial component of military capabilities ignored by the

conventional view. Prior to solving the procurement and logistics problems by accessing the illicit economy, belligerent groups, for example, need to spend a lot of time attacking isolated military outposts and police stations to obtain basic small arms and ammunition and robbing banks and farms to obtain finances and food. Such activities are obviously very time-consuming, deplete a lot of the energy of belligerent groups, divert them from attacking more strategic targets with a greater political and military impact, and expose them to dangers of potentially devastating detection and physical destruction in low-impact operations. However, despite the small benefits and potentially large costs of undertaking such activities, in the absence of a rich sponsor or access to an illicit economy, belligerent groups will frequently have no choice but to undertake such activities to obtain the essential money, food, and weapons.

Once belligerent groups solve their procurement and logistics problems by tapping into the drug trade (or other illicit economies), they can choose to attack high-impact, high-visibility targets that are more consistent with their grand strategy. Instead of robbing farms, the belligerents, now better equipped and less taxed by mundane activities, can take on larger military units or attack high-impact, high-visibility civilian targets that do not bring them immediate material benefits, such as shopping malls. Or they can continue with hit and run tactics against small military units, but without the constant worry about supplies and without time-consuming activities such as attacking military depots. Positive involvement in the illicit economy also allows belligerents to build up their own weapons depots and stockpiles. Successful exploitation of illicit economies thus greatly expands the array of tactics that belligerents have at their disposal -- in other words, it increases their freedom of action. Access to the illicit economy that

solves their procurement and logistics problems thus greatly speeds up the time it takes for belligerents to transform themselves from a ragtag band of insurgents, hiding in caves and trying to make Molotov cocktails, into a formidable force. Whether or not the specific actions belligerents undertake are ultimately effective in attaining their goals is less significant for the purposes of the analysis than the fact that successful exploitation of illicit economies greatly expands the menu of tactical and strategic options available to belligerent groups.

Participation in the illicit economy can also potentially limit the mobility and freedom of action of belligerents if the belligerent group needs to defend the illicit economy from governmental actions. The ability of the belligerent group to retreat from a drug-cultivation territory, for example, can be compromised by the group's perceived need to defend the coca fields from governmental spraying planes, in order to satisfy the demands of the local population participating in the illicit economy. However, the constraint on the ability to retreat is a matter of choice for the belligerent group, not a matter of necessity. To the extent that the group does not retreat in order to protect the fields, it does so because it chooses such a strategy, not because it does not have the capacity to adopt another strategy. However, prior to solving their procurement and logistics problems through the positive involvement in the illicit economy, belligerent groups frequently are physically incapable of attacking certain targets, undertaking certain operations, and adopting certain strategies. In this case, the constriction of tactical and strategic options is driven by necessity, not by choice.

## *II. Political Capital – The Centerpiece of My Theory*

Most importantly, belligerents derive significant *political capital* from their involvement with the drug economy – that is, IIA) political legitimacy and IIB) support from the population. As defined earlier, legitimacy is the perception in the population that the actions of the belligerents are beneficial to the population and thus justified. Support from the population includes voluntary provision of supplies, shelter, and intelligence to the belligerents.<sup>11</sup> One crucial manifestation of support is the willingness of the population to deny intelligence on belligerents to the government.

Belligerents obtain this political capital by protecting the local population's reliable and relatively lucrative source of livelihood (i.e. the illicit economy) from the efforts of the government to repress the illicit economy. They also protect the peasants from brutal and unreliable traffickers who frequently pay the local population for their illicit products at one corner, but then rob them at another, and who frequently kill the farmers who fail to deliver a promised amount of the illicit commodity even if this failure resulted from government eradication program. Belligerents also bargain with traffickers for better prices on behalf on the peasants. Similarly, if there are several belligerent groups involved in the illicit economy, belligerents from one group protect the illicit economy against other belligerents who seek to destroy the illicit economy or who are less protective of the peasants' interests and more protective of the traffickers' interests.

In addition, with the large financial profits from illicit economies, belligerent groups provide otherwise absent social services such as clinics and transportation

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<sup>11</sup> Similar to Roger Petersen, for example, I assume that the levels of cooperation from the local population cover a spectrum of involvement, and the choice for the local population is much more varied than simply to "rebel" or "not rebel." See, *Resistance and Rebellion: Lessons from Eastern Europe* (Cambridge: Cambridge University Press, 2001): 8.

infrastructure to the local population. Moreover, the belligerents no longer need to sacrifice their political capital by extorting food and supplies from the local population as they frequently do to solving their logistics and procurement problems. Finally, where a foreign power also threatens the illicit economy, belligerent groups obtain nationalist credit for serving as protectors and sponsors of the illicit economy. In short, belligerents function as security providers and economic and political regulators. Successful positive involvement in the illicit economy thus allows belligerents to act as protostates.

How many of the security and regulation functions belligerents actually provide is determined both by factors partially outside the control of the belligerents, such as the factor presence or absence of traffickers discussed in detail below, and partially by the belligerents' choices and policies. A positive involvement with the illicit economy entails at minimum the protection of the illicit economy against the government – in of itself an initial choice on the part of the belligerents. Belligerents' provision of additional regulatory and protection services results from their explicit choices or implicitly from their behavior.

The difference in motivation of individuals seeking profit simply for its own sake and those seeking profit to advance their political goals may well have implications for the level of political capital belligerent groups can derive from their participation in the illicit economy. For example, groups motivated purely by desire for economic profit may not provide social services to the population and hence may derive smaller political capital from the illicit economy than politically-motivated groups that also provide social services.

The political capital garnered from the belligerents' positive involvement in the illicit economy is frequently thin, but nevertheless sufficient to induce the local population to withhold intelligence on the belligerents from the government in areas where the government attempts to suppress the illicit economy and the belligerents sponsor it. The acquisition of good local intelligence is a key ingredient of success in counterinsurgency and counterterrorism operations against elusive belligerents. Not only does suppression of the illicit economy compromise the government's ability to acquire intelligence, it may well motivate the population to provide intelligence on government units to belligerents in order to facilitate the belligerents' protection of the illicit economy. If government actions against the illicit economy are especially threatening to the population's interest in preserving the illicit economy, the population may even engage in riots and military actions on behalf of the belligerents and against the government. Similarly, if one belligerent group provides protection against the negative involvement in the illicit economy by another belligerent group, the population is motivated to provide intelligence, and possibly direct military action, for the sponsoring group and against the belligerent group that threatens the illicit economy.

Table I summarizes the processes by which belligerent groups derive political capital from illicit economies, showing the benefits they deliver to the population, and the payoffs they obtain from the population.

**Table I: Benefits Belligerents and Local Population Obtain from Each Other**

*What the Belligerents Provide to the Local Population*

- Reliable source of livelihood
- Security from government
- Security from traffickers
- Better prices from traffickers
- Security from other belligerent groups
- Otherwise absent social services

*What the Local Population Provides to the Belligerents*

- Denial of intelligence on belligerents to government units
- Provision of intelligence on government units to belligerents
- Denial of intelligence on belligerents to opposing belligerent groups
- Provision of intelligence on opposing belligerent groups to belligerents
- Shelter, supplies, safe-houses
- Riots and military action on behalf of the belligerents and against the government
- Military action against opposing belligerent groups

Belligerents' legitimacy and support from the population also vary on the basis of their ideology, their ethnicity, and their use or nonuse of brutality. But a crucial component of their political capital is their ability to feed the population by protecting the illicit economy and to deliver many otherwise absent physical goods. Sponsorship of the illicit economy thereby allows them to demonstrate potency and expose the relative unwillingness or inability of the government to provide for the population's needs. Moreover, when other sources of legitimacy wane over time – for example, the appeal of the belligerent's ideology declines –or when the belligerents' own brutality toward the population erodes their local popularity, the political capital that comes from their

sponsorship of the illicit economy may be sufficient to motivate the population to continue keeping intelligence on the belligerents from the government.

To be sure, the belligerent and government responses to the illicit economy are not the sole determinants of the willingness of the population to provide intelligence on the belligerents. The government's ability to protect the population from reprisals by belligerents can encourage intelligence provision. Also, levels of popular support correlate with expectations of who will win the conflict and be able to dispense punishments and rewards for previous defection and cooperation.<sup>12</sup> When deciding whether to cooperate with the government against the belligerents by providing intelligence, informers balance the risk to their survival from insurgent reprisals against the risk to the survival of their livelihood from government suppression of the illicit economy. However, the alienation due to government destruction of the illicit economy is frequently large enough to discourage the population from cooperating with the government even when other factors for intelligence provision are auspicious and even when other sources of belligerent legitimacy have disappeared.

The conventional wisdom on narcoterrorism mistakenly assumes that if belligerent groups no longer retain an ideology and political goals that appeal to the population, they become completely illegitimate and lose support from the population. This loss of ideology is supposed to take place especially when belligerent groups

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<sup>12</sup> See, for example, Stathis Kalyvas, *The Logic of Violence in Civil War* (Cambridge: Cambridge University Press, 2006), forthcoming; Robert Thompson, *Defeating Communist Insurgency* (London: Chatto & Windus, 1966); Nathan Leites and Charles Wolf, Jr., *Rebellion and Authority: An Analytical Essay on Insurgent Conflicts* (Chicago: Markham Publishing Company, 1970); Orrin DeForest and David Chanoff, *The Rise and Bitter Fall of American Intelligence in Vietnam* (New York: Simon and Schuster, 1990); and Robert W. Komer, "The Malayan Emergency in Retrospect: Organization of a Successful Counterinsurgency Effort," RAND Report, R-957-ARPA, February 1972, <http://www.rand.org/pubs/reports/2005/R957.pdf>; and Roger Trinquier, *Modern Warfare* (London: Pall Mall Press, 1964).

become involved with the illicit economy, and, as alleged by the conventional wisdom, are consequently corrupted and become motivated solely by a desire for financial profits. The conventional view maintains that at this point the destruction of the illicit economy by the government has no impact on legitimacy of the belligerents and the support the population provides to the belligerents. This view mistakenly assumes a very limited, singular source of political capital (legitimacy and support), based essentially on ideology.

My theory argues that positive involvement in illicit economies generates political capital for belligerents even when the group's ideology (or its lack of) is unappealing to the belligerents. My theory here is informed by work conducted in criminology. Even criminal, purely nonideological, illegal organizations can have a certain degree of political capital as long as they provide economic subsistence (or physical security) to the population in a more effective way than alternative claimants to power.<sup>13</sup> In his classic study of the Sicilian Mafia, Diego Gambetta demonstrates how, because of the inefficiency, corruption, and absence of the state, the local population in fact welcomes the presence of the Mafia. He asks the following two questions: What do the Mafiosi offer and what are the prerequisites for them to remain successful in their business?<sup>14</sup> He argues that the key activity of the Mafia does not lie in the provision of illegal goods,

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<sup>13</sup> The literature on organized crime typically assumes that criminal organizations serve one or more of the following functions: economic – the generation of material profit; social – establishment of contacts and promotion of social solidarity; and quasi-governmental – regulating the economic activity not only of their members, but also of other illegal economic competitors within their sphere of influence by establishing and enforcing rules of conduct. See, Klaus von Lampe, “Criminally Exploitable Ties: A Network Approach to Organized Crime,” in Emilio C. Viano, Jose Magallanes, and Laurent Bridel, eds., *Transnational Organized Crime: Myth, Power, and Profit* (Durham: Carolina Academic Press, 2003); and Annelise Graebner Anderson, *The Business of Organized Crime: A Cosa Nostra Family* (Stanford: Hoover Institution Press, 1979). However, like politically-motivated belligerent actors, criminal organizations can also regulate the organization of the larger society, establish rules and enforce them, be they related to an illicit or licit economy.

<sup>14</sup> Diego Gambetta, *The Sicilian Mafia: The Business of Private Protection* (Cambridge: Harvard University Press, 1993).

such as drugs, which constitute only a peripheral activity for the Mafia, but in their provision of protection. In poorly administered regions, such as Sicily, the threat of untrustworthy and dangerous business competitors, corrupt government officials, as well as thieves and robbers is so acute that the residents of these regions require protection. Gambetta's main claim is that "the main market for mafia services is to be found in unstable transactions in which trust is scarce and fragile," and implicitly describes a level of legitimacy the Mafiosi acquire by providing guarantees and protection.<sup>15</sup> Even though these services are illegal and inherently dependent on the use of violence, they are frequently welcomed by the residents. In fact, many consider them "extra legal" rather than illegal. Facing uninterested and inefficient, if not outright corrupt, law enforcement, many citizens feel they are better off having their physical protection and the protection of their businesses, including legal businesses, assured by a well-known "man of honor." The relationship that Gambetta describes is one of legitimacy, thin perhaps, but legitimacy nonetheless, that goes beyond the initial trust between the Mafiosi who are selling their services and the buyers. The deeper legitimacy comes from the mafia's repeated and reliable service as an economic regulator and enabler.

Similarly, Fiorentini and Peltzman show that once the monopoly of coercion has been acquired by a criminal organization in a particular locale, the latter can perform

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<sup>15</sup> Ibid.: 17. Other scholars of organized crime also accept that "one main economic effect of criminal organization derives from their role as alternative providers of public services, especially as alternative enforcers of property rights ... [C]ompetition between the mafia and the state as alternative providers of public services can be either a substitute for or a supplement to political competition among different potential ruling groups for control of the state." Herschel I. Grossman, "Rival Kleptocrats: The Mafia versus the State," in Gianluca Fiorentini and Sam Peltzman, eds., *The Economics of Organized Crime* (Cambridge: Cambridge University Press, 1995): 144, 155. See also, Diego Gambetta and Peter Reuter, "Conspiracy Among the Many: The Mafia in Legitimate Industries," in Gianluca Fiorentini and Sam Peltzman, eds., *The Economics of Organized Crime* (Cambridge: Cambridge University Press, 1995): 116-142. Gambetta and Reuter further maintain that the mafia is one of the few nongovernmental institutions that can provide the service of regulating competition if the state is unable or unwilling to meet the demand of entrepreneurs for profit-enhancing or risk-reducing regulation.

inside its territory activities typically performed by the state: levying of taxes, provision of public goods -- namely, stable property rights and arbitration, and economic regulation of private agents, such as the introduction of entry restrictions in order to limit excessive competition.<sup>16</sup> These examples from criminology are analogous to the belligerents' regulation and protection of the illicit economy.

Moreover, sponsorship of an illicit economy, especially the drug trade, has one distinct advantage for belligerent groups as compared to some other sources of legitimacy. Unlike ideology (which promises frequently hard-to-deliver benefits in the future), the sponsorship of the illicit economy allows belligerents to deliver immediate benefits to the population. In the majority of cases, belligerents do not need to *create* such an illicit economy, unlike when they promise to bring socialism to a particular country or lift the masses out of poverty; they simply need to embrace the illicit economy in order to deliver immediately very concrete material benefits to the population. The belligerents thus rapidly mobilize the illicit economy in order to win hearts and minds of the population.

*II.B.3. Factors that Influence the Magnitude of Change in Belligerents' Strength As a Result of Belligerents' Involvement in the Illicit Economy*

To recap, four factors influence the extent of belligerents' gains from their positive involvement in illicit economies and losses from their negative involvement in the illicit economy:

- (a) state of the overall economy of the region/country (level of poverty and alternative means of subsistence);

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<sup>16</sup> Fiorentini and Peltzman (1995): 1-30.

- (b) character of the illicit economy (illicit crops, synthetic drugs, conflict diamonds, trafficking);
- (c) presence of thuggish traffickers; and
- (d) government response to the illicit economy (legalization, licensing of production, tacit acquiescence, interdiction, eradication). Alternative development, now referred to as alternative livelihoods, can accompany any of the strategies.

Factor (a) captures the extent to which local population is dependent on the illicit economy. Factor (b) captures the extent to which the illicit economy satisfies the demands of the local population -- in other words, the extent to which it generates employment with viable income. And factors (c) and (d) capture the extent to which the local population (and the traffickers) need protection to preserve the existence of the illicit economy in their particular locale. Factor (d) describes the strategic choices for the government regarding the illicit economy.

**Factor (a): The State of the Overall Economy in a Country or Region**

The state of the overall economy is a structural condition outside the control of belligerents and, at minimum in the short run, also beyond the control of the government. While not a binary variable, it can be simplified for the purposes of this study into two categories: *poor* where there is a lack of alternative means of subsistence for the local population, and *wealthy* where there are plentiful alternative means of subsistence. All other factors being equal, positive involvement in the illicit economy brings greater political benefits to the belligerents if the economy is poor, since the belligerents' participation in and protection of the illicit economy is more vital for a larger segment of the population than when the economy is rich. By protecting the illicit economy in poor

(underdeveloped) regions, the belligerents provide and protect reliable livelihoods for a larger segment of the population who are critically dependent on the illicit economy for basic subsistence than they would be in rich (developed) regions. To be sure, in developed countries too, some individuals will engage in crime because they cannot participate in the licit economy or because they are lured by the large profits derived from illicit economic activities, but overall the population is not dependent on the existence of the illicit economy for basic subsistence.<sup>17</sup>

#### Factor (b): The Character of the Illicit Economy

This factor describes the extent to which the illicit economy generates opportunities for employment for the local population. In general, the cultivation of illicit crops is very labor-intensive and hence allows for the employment of a much larger segment of the population than simply the trafficking in illicit substances or the production of synthetic drugs, both of which are not particularly labor-intensive. As the refinement of coca and opium into cocaine and heroin advances, the process employs fewer and fewer people at each stage. At the retail level in consumer countries, there are again a large number of participants, though still considerably less than at the cultivation

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<sup>17</sup> The analytical difficulty with this condition – the state of the overall economy -- is that there is a very high correlation between poverty, the existence of large-scale illicit economies, especially the cultivation of illicit crops, and military conflict. Consequently, it is difficult to find a developed country with a large-scale cultivation of opium poppy and marijuana, for example, and military conflict. Since the late 1990s, significant cultivation of cannabis is emerging in various national parks in California, such as Yosemite, pushed by Mexican traffickers and tended to by poor, illegal Latino immigrants to the United States. However, the scale of this narcotics economy in California is much smaller than the cultivation of coca in Colombia, for example, and it employs many fewer people. Moreover, there is no military conflict in California.

In developed countries with active belligerency, such as Great Britain or Spain, the illicit drug economies in which belligerent groups, such as the Real IRA or the ETA participate either involve the production of synthetic drugs or the distribution of narcotics. These illicit economies critically differ from the illegal economy of cultivating illicit crops since they are not labor-intensive. From an analytical perspective then, it is hard to isolate the effects of each factor as both factor “a” (state of the overall economy) and factor “b” (character of the overall economy) point in the same directions.

level. Thus, protecting cultivation of illicit crops is expected to generate large political benefits for the belligerents since this stage of the illicit economy provides livelihood for a large number of people, frequently in the hundreds of thousands. On the other hand, direct trafficking or protection for trafficking are considerably less labor-intensive and generate employment for relatively few people, frequently only in low thousands. Consequently, the political capital belligerents obtain from their positive involvement in this type of illicit economies is considerably smaller.

That said, the political capital that belligerents derive from both simple trafficking with illicit commodities and the production of synthetic drugs is far from negligible. Even labor-non-intensive illicit economies create important local powerbrokers, whose patronage brings significant political benefits to the belligerents. Moreover, the byproducts of even a labor-non-intensive, but vibrant illicit economy are frequently the flourishing of broader local economies from which larger segments of population benefit. Consequently, the belligerents still obtain some political capital from positive involvement in labor-non-intensive illicit economies, albeit considerably smaller than in the case of labor-intensive ones.

To some extent, the belligerents have a degree of control over the character of the illicit economy in which they are involved. Although the belligerents cannot dictate whether an illicit economy is labor-intensive or not, they make implicit and explicit choices about what particular aspect of and what illicit economy to become involved in. They choose whether to participate only in trafficking or also to tax and protect cultivation. They choose whether to only extort the traffickers or also regulate and protect production.

### Factor (c): Presence of the Thuggish Traffickers

The presence of thuggish traffickers increases the political capital of belligerents by allowing the belligerents to provide protection to the population against the abusive traffickers. It also allows the belligerents to serve as political and economic regulators for the illicit economy, e.g. by bargaining on behalf of the farmers for better prices from the traffickers. In other words, it allows the belligerents to function as the population's agents.

Traffickers can be criminals or criminal cartels, but they also can be corrupt government officials, or even a different belligerent group that has taken over the trafficking role. I define traffickers to be present as long as there is some trafficking individual or entity that is separate from the particular belligerent group in question, whatever the motivations or origins of the traffickers. As long as there is such a separate entity (criminals, corrupt government, a different belligerent group, call it belligerent group B) and as long as it is thuggish (that is, abusive to the peasants), the peasants have a demand for the protection and regulation services of the belligerent group A vis-à-vis the traffickers, and the belligerent group A obtains greater political capital.

To the extent that thuggish traffickers are not present, these political benefits will go away. Traffickers' absence also influences the size of the belligerents' financial benefits. If traffickers are absent, the belligerents' financial profits depend on their own ability to fulfill the trafficking function: If they do this well, their financial benefits will increase. If they fail to do so, the illicit economy in the region, and hence their financial profits, could plummet substantially.

Modalities of the drug trade suggest that traffickers must be present in order for the economic exchange to take place. Note again, that traffickers could be any individual or entity facilitating the exchange: criminals, corrupt officials, or belligerents that are separate from the belligerent group in question. As Kevin Jack Riley explains, given the complexity, the large number, and the volume of drug transactions, drug flights, drug shipments, drug brokerage functions, intelligence needs, and bribe arrangements, “from a practical standpoint, it would be very risky if the farmers and retailers attempted to deal with each other directly.”<sup>18</sup>

Thus, the only way that the situation “traffickers’ absence” could arise is if they were physically eliminated – by the government or by the belligerents -- and then replaced by the belligerents, the same and only belligerent group operating in the region. Once the belligerents had taken over the trafficking function, they would no longer be able to protect the producers, say illicit crop farmers against the traffickers (now themselves). Nor could they provide regulatory services against themselves, such as bargaining for better prices on behalf of the producers since this would involve bargaining with themselves. Even if their pecuniary interests did not drive them to lower the prices paid to the farmers, they could not keep increasing prices to the same extent that they could *demand* that prices be increased when they were separate from the traffickers. Thus, the belligerents now working as also traffickers could no longer function as the peasants’ agents, and their political capital would correspondingly decrease.

There are various ways in which the elimination of traffickers could occur. The government could eliminate them through interdiction operations. Other criminal

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<sup>18</sup> Kevin Jack Riley, *Snow Job?* (New Brunswick: Transaction Publishers, 1996): 172.

organizations could eliminate them and then fail to hold onto the region, thus leaving a vacuum. The belligerents themselves could eliminate them, whether by accident, or lack of trust, or a desire for greater financial profits and centralized control over the illicit economy. Frequently, it would be hard for a belligerent group to eliminate and successfully replace entire cartels because the belligerent group would most likely lack international trafficking connections and distribution networks in consumer countries. But belligerent groups are certainly capable of eliminating small or medium traffickers in a particular region. In whatever way the absence of traffickers arises, the political capital of the belligerents goes down. For this reason, the factor “the presence/absence of thuggish traffickers” is one over which the belligerents have a degree of control. Although belligerents almost always encounter some traffickers in their region, they face the strategic choice of whether or not to eliminate them.

The discussion of the effect of the amplifier “presence of thuggish traffickers” also reveals the very uneasy alliance between the narcotraffickers and other criminal groups and the belligerents. Belligerents provide the traffickers with protection from the government, from other belligerent groups and criminal organizations, and for the traffickers’ transportation systems. Importantly, they also provide the traffickers with protection from themselves -- i.e. in a classic protection racket scheme, they guarantee that they will not severely hamper the business of the traffickers. Moreover, they make sure that the producers deliver the promised raw materials for the illicit commodities, by providing them with protection from the government and making sure that peasants do not cheat or abscond the region. In return, the traffickers provide the belligerents with

financial benefits and intelligence on the government's military movements. Table II summarizes these mutual benefits.

<b>Table II: <u>Benefits Belligerents and Traffickers Provide to Each Other</u></b>
<p><i><u>What the Belligerents Provide to the Traffickers</u></i></p> <ul style="list-style-type: none"><li>• Protection from government</li><li>• Protection for transportation systems</li><li>• Protection for themselves</li><li>• Reliable work from peasants</li><li>• Protection from other criminal organizations or belligerents groups</li></ul> <p><i><u>What the Traffickers Provide to the Belligerents</u></i></p> <ul style="list-style-type: none"><li>• Financial payoffs</li><li>• Denial of intelligence on belligerents to government</li><li>• Provision of intelligence on government units</li><li>• Denial of intelligence on one belligerent group to another</li><li>• Provision of intelligence on one belligerent group to others</li></ul>

However, the relationship is inevitably complicated by the fact that the belligerents have multiple audiences and interests: They also protect the population from the traffickers and bargain for greater prices on behalf of the population. Moreover, they frequently demand greater financial payoffs from the traffickers than the traffickers want to pay.

Belligerents and criminal organizations thus compete over both absolute and relative gains. They face problems of trust since they are unable to enforce mutual deals or assure that the other group will not defect and betray its partner, and since they frequently struggle to coordinate their efforts. Far from seeing the criminals and the belligerents as an identical actor, my theory of political capital argues that the belligerents

and the traffickers have many competing interests. Despite their desire to achieve accommodation so that business can flourish, they often physically fight each other,

#### Factor (d): Government Response

A government's policies toward the illicit economy can vary from repressive policies designed to eliminate the illicit economy; to a laissez-faire policy; to partial or full legalization. In the case of narcotics, such policies include eradication (compensated or not), interdiction, tacit acquiescence, alternative development (or what has recently evolved into the concept of alternative livelihoods),<sup>19</sup> partial or full licensing of production, demand reduction (treatment and prevention), decriminalization, and legalization. These various policies can also be adopted in combination; in fact, the current mantra of counternarcotics policies is a so-called "holistic approach" that combines eradication, interdiction, and alternative development.

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<sup>19</sup> The concept of alternative livelihoods evolved out of the policy of crop substitution that encouraged farmers to grow licit crops, such as coffee and onions, instead of coca or poppy. Crop substitution policies came to be seen as having largely failed all over the world to reduce cultivation of illicit crops. The concept of alternative development replaced crop substitution and was supposed to address the shortcomings of crop substitution. Alternative development was meant to encompass comprehensive rural development that addressed the larger structural causes that motivated farmers to choose illicit crops over licit ones, such as infrastructure inadequacies, the lack of market possibilities, the instability of prices, and the lack of access to credit. In practice, alternative development policies mostly ended up being of a more limited scope. They sought to reduce illicit crop cultivation once again largely by seeking to replace on-farm income and treating the symptoms, rather than the drivers of illicit crop cultivation. And once again, the successes in reducing illicit crop cultivation were few and far between, with alternative development projects in Thailand being one example of lasting success in improving the lives of the rural population and substantially reducing the cultivation of illicit crops.

Overall, the meager results of alternative development led to the advancement of a new concept and policy: alternative livelihoods. In theory, the concept of alternative livelihood refers to a wider state-building and development agenda that addresses the real drivers of illicit crop production, that is an integral part of the country's overall development policies, and that measures success not only in the numbers of hectares of illicit crops eliminated, but also in terms of overall development and improvement in the lives of the rural population. It remains to be seen whether this theoretical concept, the *chic de jour* in the counternarcotics field, will in fact be translated into actual policies or whether it will devolve essentially back to crop substitution combined with some limited investment in infrastructure and microfinance. For further elaboration of the theoretical difference and actual results of alternative development and alternative livelihoods, see, "David Mansfield and Adam Pain, "Alternative Livelihood: Substance or Slogan?" *AREU Briefing Paper*, October 2005.

These policies include both policies toward production, or what are known as source-country policies, and policies toward consumption, or what is known as demand-policies. Since this study is concerned with the connection between illicit economies and military conflict, I focus predominantly on policies toward production and their effect on the strength of belligerent groups. I do not explore the issue of domestic consumption, and hence do not assess the pros and cons of legalization of consumption. In any event, legalization of consumption is a rather remote political possibility, certainly in the United States, but also in Europe. Even in the Netherlands, a country with some of the most permissive drug policies, the use of marijuana is only decriminalized, not legalized, and only up to a certain amount per adult per time while the production of marijuana as well as bulk sales remain illegal.<sup>20</sup>

### *Eradication*

Contrary to the standard government wisdom and the narcoterrorism literature, eradication will have dubious effects on the financial resources of the belligerents. Even when carried out effectively – a rare occurrence -- eradication might not bring great, if any, financial losses to the belligerents. One reason is that effective suppression of the production of the illicit commodity may actually increase the international market price for the commodity to such an extent that the final revenues may be even greater<sup>21</sup> (at least

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<sup>20</sup> For details on the Dutch approach, see Robert J. MacCoun and Peter Reuter, *Drug War Heresies: Learning from Other Vices, Times, and Places* (Cambridge: Cambridge University Press, 2001): 238-264.

<sup>21</sup> A lively academic debate exists about the elasticity of demand for illicit commodities. If demand for the illicit commodity is sufficiently elastic, a liberalization of the regulatory regime for the illicit commodity will result in increases in consumption. On the other hand, if demand is inelastic, liberalization of the regulatory regime for the illicit commodity will not be associated with increases in consumption. Relatively few empirical studies makes use of reliable and systematic data for illicit commodities, since, due to their illicitness, such data are not easily available. Nonetheless, the existing data suggest that demand for gambling and betting appears to be rather elastic. As far as demand for drugs is concerned, estimating

temporarily greater – assuming that the illicit economy was not permanently completely eliminated).

Moreover, the extent of the financial losses of the belligerents also depends on the adaptability of the belligerents, traffickers, and producers. To what extent do they have the ability to store drugs? Do the belligerents have money saved? In the case of cultigen-based drugs, do the farmers have the ability to replant after eradication? Can they increase number of plants per acre to offset losses from areas eradicated? Do the farmers, traffickers, and belligerents have the ability to shift production to areas that are not being eradicated, such as deeper into the jungles under tree cover, or into higher elevation under cloud cover? Can they avoid detection by planting illicit crops in between licit crops? Do

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demand elasticity is considerably more complicated due to the variety of physical dependence associated with different drugs and with different individual physiological responses. While the physical dependence of old users may well result in very inelastic demand, this may not be the case for new users. Moreover, many users appear to be multidrug users, and hence could be rather responsive to changes in prices for a particular drug. Thus, while the demand for drugs as such may be quite inelastic if the demand market is dominated primarily by heavy long-time users, the demand for a specific drug may still be rather elastic. See, for example, Peter Reuter, *Disorganized Crime: The Economics of the Visible Hand* (Cambridge: MIT Press, 1983); Fiorentini and Peltzman; Richard Lawrence Miller, *The Case for Legalizing Drugs* (New York: Praeger, 1991). Accordingly, economists who have explored the possibility of decriminalization or legalization suggest a price discrimination regime for users, with drugs being sold very cheaply to long-time registered users and at very high prices to new users. For a seminal analysis, see Mark H. Moore, "Policies to Achieve Discrimination on the Effective Price of Heroin," *American Economic Review*, 63 (2), 1973: 270-77.

Until recently, most drug control economists believed that the overall demand was in fact rather inelastic. New analyses, however, suggest that price of drugs does matter. Demand for hard drugs, such as cocaine and heroin, is now considered to be somewhat elastic with respect to price, such that a 1.0 percent increase in price should reduce consumption somewhere between 0.2 to 1.0 percent. See, Mark A. R. Klein, "Controlling Drug Use and Crime with Testing, Sanctions, and Treatment," in Philip B. Heymann and William N. Brownsberger, eds. *Drug Addiction and Drug Policy: The Struggle to Control Addiction* (Cambridge: Harvard University Press, 2001): 168-92; Henry Saffer and Frank Chaloupka, "The Demand for Illicit Drugs," *Economic Inquiry*, 37 (1), 1999: 401-11; and Dhaval Dave, "Illicit Drug Use Among Arrestees and Drug Prices," National Bureau of Economic Research, 2004, <http://www.nber.org/papers/w10648.pdf>, downloaded March 19, 2004. Jonathan Caulkins and Peter Reuter argue that prices for drugs are high and extremely variable over time and space and that while high prices deter use, they have ambiguous effects on drug-related crime. See, Jonathan P. Caulkins and Peter Reuter, "What Price Data Tell Us About Drug Markets," *Journal of Drug Issues*, 28 (3), Summer 1998: 593-613. Regardless of the theoretical debate about the overall elasticity of demand for drugs, practical experience suggests that a temporary suppression of production in a particular region will at least in the short-term of up to several years result in an increase in farmgate and downstream prices. But the time lag before the effect of suppression is felt in retail prices may in fact be substantial. At least so far, production has always managed to recover before any suppression resulted in a substantial and lasting increase in retail prices. In fact, retail prices have been falling steadily since the early 1980s.

they have access to genetically-altered high-yield, high-resistance crops that do not die after being sprayed?

Furthermore, even if counternarcotics policies succeeded in permanently wiping out illicit crop cultivation in particular regions, belligerents always have the possibility of switching to other illicit economies, such as extortion, illegal logging, other illegal traffic, and, most easily and conveniently, they can switch to cooking synthetic drugs, such as methamphetamines. In other words, do they have other sources of income and can they generate other sources of income?

Yet, although the desired impact of eradication to decrease belligerents' financial resources is far from certain and is likely to take place only under the most favorable circumstances, eradication will definitely increase the political benefits of the belligerents. As the government destroys the population's livelihood, the local population will support the belligerents all the more strongly and will not provide the government with intelligence. Good local human intelligence is a crucial factor in defeating terrorist and insurgents groups. Without the willingness of the local population to provide such intelligence to government units, the counterterrorism and counterinsurgency missions are seriously compromised. Eradication may even motivate the rural population to more actively support the belligerents, such as by providing them with food, shelters, safehouses, or even fight along side the belligerents against the government.

Moreover, it is far from clear, that even if eradication were complete and permanently successful, the local population would adapt by participating in the legal economy. The local legal economy may not be sufficient to generate sufficient livelihood for the population, and the population may be forced to leave the region or join the

belligerents. Thus, even in the case of a total and permanent eradication, the link between the population and the belligerents may not be severed. In short, eradication loses the battle for hearts and minds without fulfilling its siren song of cutting off the belligerents from resources.

### *Interdiction*

Interdiction, the second policy option for the government, means disrupting the flows of illicit traffic and destroying processing facilities and labs. Like eradication this source-country policy still seeks to reduce the size of the illicit economy through law enforcement; but unlike eradication, it does not directly target the larger rural population by eliminating the raw ingredients that go into the production of drugs. Instead, it targets drug traffickers and the much smaller portion of the poor population that is involved in processing. Since it does not target the overall rural population and its cultivation of illicit crops, the political capital gains of the belligerents are considerably reduced and the alienation of the population from the government is significantly smaller than in the case of eradication. Consequently, the population is more willing to provide information to the military on the belligerents, all other factors being equal.<sup>22</sup>

In addition to reducing the belligerents' political capital, interdiction policies (especially when combined with money-laundering countermeasures) further enhance the possibility of detection and intelligence-gathering on belligerents by creating new sources of vulnerability. This is because interdiction operations allow drug shipments to be traced back not only to the traffickers, but also the belligerent groups, thus revealing other

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<sup>22</sup> Intelligence provision will also be influenced by the level of brutality imposed by the belligerents and the government on the population and by the ability of the government to protect informers from reprisals by belligerents.

information about the belligerents' membership, leadership structure, and whereabouts. Similarly, efforts against money laundering introduce a new vulnerability for belligerent groups and increase the intelligence-gathering options for the government.

If interdiction were effective to such an extent that it made illicit traffic in a certain locale impossible, the traffickers became uninterested in buying crops from that region, and prices for illicit crops in that region collapsed, the effects of interdiction on the local population would approximate that of eradication. The population's livelihood would be fundamentally threatened, the number of affected people would be very large, and consequently the number of people alienated from the government would also substantially increase. Thus, the level of political capital the belligerents would derive from the illicit economy would increase and approximate the levels obtained from eradication.

Effective interdiction, especially when combined with effective counter-money-laundering efforts, can also reduce the belligerents' physical resources, and hence their overall military capabilities. Effective destruction of processing labs and transportation networks with provisions to reliably prevent the resurrection of new labs and transportation systems will decrease traffickers' demand for illegal crops and farmers' prices will fall. Belligerents' revenues will fall since their profits from both taxing peasants and taxing the displaced traffickers will fall. Similarly, effective money-laundering would decrease the amount of revenues returning to source-countries and production regions, thus reducing the traffickers' payments to belligerents as well as to the producers. Highly effective and lasting interdiction and counter-money-laundering measures could decrease the traffickers' benefits to such an extent that they would vacate

the region and set up production, processing, and trafficking operations elsewhere, possibly where belligerents were not present. Thus, belligerents could suffer large financial losses, provided that they fail to adapt by finding an alternative source of revenue – an unlikely scenario.

However, it is extraordinarily difficult to carry out interdiction and money-laundering countermeasures effectively. Interdiction is believed to capture about 25-40% percent of cocaine shipments, and about 10 percent of heroin shipments since heroin is more compact and hence easier to hide.<sup>23</sup> The effectiveness rate of money-laundering countermeasures is frequently considered to be even lower. Combating money laundering is extraordinarily difficult since money-launderers have a large menu of laundering options, such as cash smuggling, currency exchange bureaus, front companies, purchase of real estate, securities, trusts, casinos, and wire transfers to name a few, and since it requires intensive international cooperation that is frequently lacking. In the case of Islamic groups, the problem is further complicated by the availability of the informal funds transfer systems, such as *hawala*, that easily escape monitoring.<sup>24</sup> Nonetheless, the advantage of interdiction is that it does not threaten the peasants directly, thus reducing the belligerents' political capital, and that it introduced new points of vulnerability and intelligence gathering, unlike eradication.

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<sup>23</sup> Peter Reuter, "The Limits of Drug Control," *Foreign Service Journal*, 79 (1), January 2002: 18-23. The development of new technology for drug detection has been met with an equal ability of traffickers to improve their smuggling technology and elude law enforcement.

<sup>24</sup> See, for example, Peter Reuter and Edwin M. Truman, *Chasing Dirty Money* (Washington, DC: Institute for International Economics, 2004); Robert E. Powis, *The Money Launderers* (Chicago: Probus, 1992); and Stephen E. Flynn, "The Global Drug Trade Versus the Nation-State: Why the Thugs Are Winning," in Maryann Cusimano Love, ed. *Beyond Sovereignty: Issues for A Global Agenda* (Toronto, Canada: Wadsworth, 2003): 167-194.

### *Tacit Acquiescence*

Tacit acquiescence, a third government policy option, is an essentially laissez-faire policy, a policy approach similar to “decriminalization” of production.<sup>25</sup> The government does not legalize the production of illicit substances and commodities, but also does not try to enforce its prohibitions against the illicit economy. In other words, tacit acquiescence is a hands-off approach. Such a policy can be expected to reduce the political gains of the belligerents. Since the government is not threatening the population’s livelihood, the positive relationship between the belligerents and the population is weakened. All other factors being equal, the population is more willing to provide intelligence on the belligerents to the government and otherwise support the government against the belligerents.

Similarly, the traffickers’ dependence on the belligerent group for business protection is greatly reduced. Consequently, the traffickers may well attempt to displace the belligerents from the illicit economy by providing intelligence on the belligerents to the government or physically fighting against the belligerents in order to eliminate protection payoffs.

The real downside of this policy is, of course, that it will likely leave the belligerents’ financial gains unaffected. Moreover, if the international demand for the particular illicit commodity – a variable exogenous to my theory -- is not satiated or is growing, tacit acquiescence will likely result in an expansion of the illicit economy in the particular locale and hence possibly also in greater financial benefits for the belligerents. The only way the belligerents’ financial resources could be reduced under a policy of

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<sup>25</sup> The term decriminalization is usually applied to reducing the sanctions against the use of drugs, but maintaining sanctions against trafficking and marketing.

tacit acquiescence is if the belligerents were displaced from the illicit economy. They could be displaced by the traffickers who no longer needed the belligerents' protection or by the government that would obtain better intelligence from intelligence from peasants and the traffickers.

### *Licensing of Production*

Licensing of production will allow the government to deprive the belligerents of political gains since the government no longer threatens the livelihood of the population. Consequently, the population is much more motivated to provide the government with intelligence on the belligerents, if not more actively supporting the government.

Licensing of production, especially if carried out in ways that make diversion into illicit uses and illicit traffic very difficult, also substantially decreases the financial profits of the belligerents. Moreover, since the government now captures at least a part of the revenues from the economy, its own financial resources are also increased.

The difficulty with this policy, especially in the case of illegal drugs, is the limited size of legal markets for derivatives from illicit crops. Although opium resin derivatives are widely used in medical purposes for anesthetics, such as morphine and codeine, heavy legal and political regulation makes it every difficult for new entrants to participate in this legal market.<sup>26</sup> The legal outlets for coca derivatives are even more limited, again consisting of a very limited market for pharmaceutical purposes, such as specialty anesthetics, and at various periods also including items, such as coca wine, coca toothpaste, and coca soap. However, licensing of production in compliance with certain

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<sup>26</sup> The major legal producers of medical opiates for export are Turkey, India, Australia, France, and Spain.

regulations was adopted in the case of blood diamonds, for example. In that case, certificates were issued to indicate that the diamonds did not come from mines belonging to belligerent groups, and that consequently they were legal and legitimate.<sup>27</sup> Such licensing schemes could be applied to other illicit commodities, such as ivory and timber.

### *Legalization*

Full legalization entails not only the legalization of production of a certain commodity, but also its legal consumption. Thus, unlike the case of licensing for special limited purposes or with certain regulatory constraints, this approach would entail the broad legalization of the previously illicit product. In the case of drugs, for example, poppy cultivation would be allowed not only for the production of morphine and codeine, but also for the production of opium and heroin. Processing, trade, retail, and consumption of the previously illegal commodities would also become legal. Since in this case the government would once again not destroy the livelihood of the population, the political gains of the belligerents from their sponsorship of the illicit economy would be greatly reduced, if not virtually eliminated, and the population would be willing to provide the government with information on the belligerents. Moreover, the financial benefits of the belligerents would also be greatly reduced. Instead, the government would capture the financial gains in the form of taxes. Expansion of the economy and of consumption of the commodity is likely to follow as well.

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<sup>27</sup> See, for example, Greg Campbell, *Blood Diamonds* (Boulder: Westview Press, 2002), and Douglas Farah, *Blood from Stones* (New York: Broadway, 2004); Jeffrey S. Morton, "The Legal Regulation of Conflict Diamonds," *Politics & Policy*, 33 (3), September 2005: 389-414; E. Ablorh-Odjidja, "Conflict Diamonds: The Kimberley Process for Corruption," *New African*, (421), August/September 2003: 40-1; and Ana M. Perez-Katz, "The Role of Conflict Diamonds in Fueling Wars in Africa: the Case of Sierra Leone," *International Affairs Review*, 11 (1), Winter/Spring 2002: 60-75.

The reason why both the political capital and physical resources of the belligerents would be greatly reduced but may not be altogether eliminated is that without effective government preventive measures, the belligerents could setup a parallel informal or illegal economy alongside the legal one. They could tax the producers considerably less than the government and hence attract a portion of the producers to their parallel economy. The emergence of this parallel economy would be analogous to the existence of an illegal market for cars in the context of a legal market for cars.

In the case of illicit drugs, such full legalization remains politically infeasible in most countries. However, certain pariah governments, such as North Korea (and at times Panama and Afghanistan) that may not be significantly concerned about their international legitimacy and may be less sensitive to additional sanctions – resulting, for example, from the decertification by the United States for failure to cooperate with U.S. counternarcotics policies<sup>28</sup> -- could adopt at least veiled legalization. Under such veiled legalization, illicit crop cultivation and drug production would remain *de jure* illegal, but *de facto* permitted, and the government would tax, regulate the illicit economy, and

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<sup>28</sup> Enacted by the U.S. Congress in 1986, the drug certification process requires that every year the State Department review whether the world's major drug producing and drug-transit countries are complying with international counternarcotics regulations and U.S. counternarcotics efforts and the U.S. president certify whether such compliance is taking place. The law gives the president three choices in his certification determination -- to certify fully, to deny certification, or to grant a waiver on the basis of "vital national interests." If certification is denied, the decertified country automatically faces economic sanctions, such as withholding of at least half of most of U.S. government assistance. The process is frequently criticized as both lacking objectivity and being driven by other political considerations as well as limiting the effectiveness of a variety of U.S. policies. See, for example, Bill Spencer with Gina Amatangelo, "Drug Certification," *Foreign Policy in Focus*, 6 (5), February 2001, <http://www.irc-online.org/fpif/briefs/vol6/v6n05drugs.html>, downloaded April 24, 2005. Proponents of the certification process, however, argue that it is a key factor in reducing global drug production. Former Secretary of State, Madeleine Albright, for example, commented that while the certification law "certainly can be refined, it has produced amazing results in the fight against illegal narcotics." See, Eric Green, "Drug Control," <http://www.usembassy.org.uk/drugs33.html>, downloaded April 24, 2005.

participate in the illegal traffic.<sup>29</sup> Thus, unlike in the case of tacit acquiescence, the government would not only tolerate the illicit economy, but also actively manage it, even if not officially declaring it legal.

Full open legalization, however, remains a definite possibility in the case of other illicit economies and commodities, such as illicit logging. A government can easily remove the prohibition on logging in national parks and tax the industry. While environmental groups may oppose such deregulation, the international pressure to amend the policy will likely be considerably smaller than in the case of deregulation of illicit narcotics.

To recap, government policies toward the illicit economy face a tradeoff between winning the hearts and minds of the population and decreasing the belligerents' military capabilities. Repressive government policies toward the illicit economy increase the political capital of the belligerents without likely accomplishing their promise of reducing the belligerents' physical resources. Laissez-faire government policies toward the illicit economy decrease the belligerents' political capital, and all other factors being equal, increase the government's political capital in terms of legitimacy and the population's cooperation with the government. However, such policies leave the belligerents' financial profits unaffected or even increased. Licensing/or legalization policies greatly decrease both political capital and military capabilities of the belligerents. The posited effects are relative to each other. My theory makes no statements regarding what policies toward the illicit economy are necessary or sufficient for the *defeat* of the belligerents. Other factors,

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<sup>29</sup> Frequently, even when the government carries out eradication, corrupt elements within the government can nonetheless participate in the drug trade.

such as the size of government forces relative to that of the belligerents and levels of government and belligerents' brutality, for example, obviously also play a vital role. My theory simply describes and explains why and how government policies toward the illicit economy hamper or enhance the government military effort against the belligerents.

#### *Relative Importance of the Four Factors*

Among the four factors that have a significant effect on the magnitude of increase or decrease in belligerents' strength as a result of their involvement in the illicit economy, the most important factor is the state of the overall economy. The second most important factor is the character of the illicit economy. The third and fourth are government response and the presence of thuggish traffickers.

The state of the overall economy is the most important factor since it determines how many people are dependent on the illicit economy for basic livelihood and hence how they view government response to the illicit economy. Similarly, the second most important factor – the character of the illicit economy -- determines the extent of the population's positive or negative view of the government. The attitudes toward government policies crucially influence the level of belligerents' political capital and popular support for the government. In a poor country with a labor-intensive illicit economy, by far the most prevalent combination of factors in the context of military conflict, government policy toward the illicit economy has a major impact on the level of belligerent's political capital. However, the impact of government policy is considerably weakened in the case of labor-non-intensive illicit economies even in poor countries. Government destruction of methamphetamine labs even in poor countries, for example,

affects only a small number of people. The amplifying effect of government policies in the case of a labor-non-intensive economy in a rich country is even smaller, and the detrimental effects of repressive policies toward illicit economies on the political capital of the belligerents is minimal. The presence/absence of traffickers is the weakest factor affecting belligerents' political capital since it affects the producers' (farmers') profits and work conditions, but not the overall importance of the illicit economy to the population.

### **III. Methodology, Empirical Implications, and Threats to Validity**

In this section, I specify empirically observable implications of my theory and of the competing conventional wisdom. I also discuss potential threats to validity and explain how my method and cases address these threats.

#### ***Empirical Implications of the Conventional Narcoterrorism View***

As detailed above, conventional narcoterrorism view argues that belligerents engage in the illicit economy with the purpose of obtaining large financial profits. These profits increase their military capabilities and allow them to escalate and prolong conflict. Consequently, the government needs to eliminate the illicit economy in order to cut the belligerents off from resources and limit conflict. The eradication of the illicit economy is desirable and will result in critical reduction of the belligerents' resources. Consequently, the government will be much more easily able to defeat the belligerents. The conventional wisdom does not recognize that belligerents also make political capital from their sponsorship of the illicit economy. A corollary proposition is that belligerents and

criminals can no longer be distinguished from each other and need to be fought as a joint enemy.

The empirical implications are:

1) A belligerent group engaged in the drug economy will be no more popular in the areas with drug production than in areas without drug production. The sponsorship of the illicit economy will not bring any political support to the belligerents. Rather their legitimacy will be based wholly on their ideology and use or nonuse of violence toward the population. Similarly, they will be equally popular or unpopular in areas of illicit crop cultivation as in areas of drug trafficking without cultivation or in areas of the manufacturing of synthetic drugs but without the cultivation of illicit crops.

2) The belligerent groups will not bargain on behalf of the peasants for better prices from the traffickers since such an activity does not increase their own financial profits.

3) The population's cooperation with the government's counterinsurgency effort does not change with change in government policies toward the illicit economy, regardless of whether the policy adopted is eradication, interdiction, tacit acquiescence, etc. All other factors being equal, the population will provide the government with equal amounts of equally reliable (or unreliable) intelligence whether or not eradication is undertaken.

4) Eradication will severely weaken belligerent groups and deprive belligerents of physical resources. The groups will no longer be capable of carrying out effective operations against the government. Deprived of their earnings from the particular illicit economy, they will no longer be capable of obtaining weapons, providing logistics for

their operations, and paying their soldiers. Government's success against the belligerents will be greatest when and where the government carries out the most extensive and repressive eradication.

5) Violence among belligerent groups and traffickers will be rare. The alliance between the traffickers and the belligerents will be weakest when the government most aggressively attempts to destroy the illicit economy.

### *Empirical Implications of the Political Capital of Illicit Economies*

My theory, the political capital of illicit economies, argues that belligerents derive much more than simply large financial profits from their sponsorship of illicit economies. They also obtain freedom of action and, crucially, political capital. The extent and scope of their gain from the illicit economy depends on four factors: a) the state of the overall economy; b) the character of the illicit economy; c) the presence of thuggish traffickers; and d) the government response to the illicit economy. Far from having morphed into a unified actor, the belligerents and the traffickers frequently have competing interests.

The empirical implications from my theory include a) those that are directly opposed to the conventional wisdom and b) those that if true support my theory but are not all addressed by the conventional wisdom.

#### *Empirical Implications that Contradict the Conventional Wisdom:*

1) The support for a belligerent group active in the drug economy will be stronger in drug-producing regions, especially in regions where illicit crops are cultivated. The population will approve the sponsorship of the illicit economy by the belligerents and praise the belligerents for their sponsorship of the illicit economy.

2) Support for the belligerents will be strongest in the drug-producing regions even when the ideology of the belligerents is no longer appealing, and/or the belligerents have become more brutal, and/or their overall popular support has declined.

3) Support for the belligerents will be weaker in areas or periods of trafficking only – that is where there is no cultivation of illicit crops -- or in areas and periods when the belligerents are engaged in the manufacture of synthetic drugs or in other labor-non-intensive illicit economies but do not sponsor the cultivation of illicit crops.

4) Those belligerent groups that provide greater social services and are more active in bargaining on behalf of the peasants for better prices from the traffickers will receive greater cooperation from the peasants.

5) The willingness of the population to supply the government with intelligence and otherwise cooperate with the government will be much smaller if not altogether halted during periods when the government carries out strong suppression of the illicit economy, especially eradication. The affected peasant population will condemn the government efforts to suppress the illicit economy and praise the belligerents for their protection of the illicit economy. But if the belligerents neglect to protect the illicit economy, they will alienate the population and lose some of their political capital.

6) During periods and in regions when the government has adopted a tacit acquiescence approach (or fully legalized the illicit economy), the population will cooperate with the government to a much greater degree and will provide it with intelligence.

7) Eradication will not severely weaken the belligerents, who will either continue to find ways to derive large profits from the illicit drug economy or switch to other forms

illicit economic activity. They will be able to continue carrying out their military campaign at a level that presents a serious threat to the government.

8) The narcotraffickers and the belligerents will be frequently in conflict, physically fighting each other and trying to displace one another from the illicit economy. They will even conspire with the government in order to get rid of the other actor. Traffickers' cooperation with the government against the belligerents will increase when the government does not attempt to eradicate the illicit economy or interdict the illicit flows and bust labs.

*Empirical Implications of My Theory Beyond the Scope of the Conventional View:*

1) Less labor-intensive illicit economies will generate far smaller political capital for the belligerents.

2) The belligerents will lose some of their political capital when they get rid of the traffickers since they will stop functioning as the peasants' agent protecting them against the traffickers and will put themselves in the position of the monopolist.

3) Belligerents who initially are religiously or ideologically-motivated to suppress the illicit economy will become concerned about the negative reaction of the population dependent upon that economy, leading to their tolerance if not outright embrace of the illicit economy. Such a switch by the belligerents away from suppression will occur even when the belligerents have other large sources of income.<sup>30</sup>

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<sup>30</sup> Statements of concern by the belligerents over negative reactions from the population could, of course, be just a way to disguise their purely pecuniary motives. However, it is compelling evidence in support of my political theory especially if the population also praises the belligerents' sponsorship of the illicit economy and condemns and physically resists the attempts by the government to suppress it.

### ***Difficulties with the Study***

An obvious difficulty for the conduct of the study is the *availability of data* due to the criminal nature of the activities studied, the secrecy of many insurgent and terrorist organizations, and the difficulties of doing systematic fieldwork in countries consumed by civil war and violence.

The limited availability of good data is an acute problem even in the easiest aspect of the study to research, i.e., the size of various illicit economies. In the case of the drug economy, even the most basic step of estimation, the size of the area cultivated with illicit crops, is at best a wild guesstimate, and numbers vary dramatically among estimates by the United Nations Office on Drugs and Crime, local governments, and the United States. Moreover, any further derivative estimates, such as the amount of heroin or cocaine produced, the volume of goods being trafficked, the efficacy of interdiction, farmgate or street prices of illicit goods, and the size of the belligerents' financial profits from the illicit economy, are even more difficult to assess.

The official estimation process works like this: Satellite data are gathered to estimate the area cultivated with illegal crops, say coca. Alternatively, a research team is sent to a sample area to measure the area cultivated with illicit crops, an estimate from which the size of the overall cultivated area in the country is extrapolated. The physical estimation procedure, however, makes the assumption that the area where the observations are carried out is representative of the overall territory, which may or may not be true. Even the satellite method is not mistake-proof. Satellites rarely cover the

entire territory of even major-producing countries, and frequently do not penetrate cloud cover and fail to detect the presence of illicit crops under dense foliage of forests.<sup>31</sup>

Based on the already unreliable data about the level of cultivation, a formula is used to derive the number of coca leaves harvested, the amount of coca paste produced from the quantity of coca leaves, and finally the amount of cocaine produced from the coca paste. Yet as the State Department admits, estimates of crop harvest can hinge upon “small changes in factors such as soil fertility, weather, farming techniques, disease.”<sup>32</sup> Furthermore, productivity per plant also varies with the plant’s age, the number of harvests per year, and the specific variety of coca. For example, at least nine different varieties of coca plant exist in Latin America, with different alkaloid yields, yet there is no estimate of the distribution of each variety in the total area cultivated.

With each further step up the processing ladder, estimates become more complicated and less reliable. Yields after refining, for example, depend on the technique used, the quality of precursor agents, and the skill of the local workers and chemists.

Thus, at each step, new uncertainties are introduced, compounding the soft character of

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<sup>31</sup> The wild jumps in estimates of Mexican marijuana cultivation during the mid-1980s illustrate the softness of the data. The estimates of net production (after eradication) by the National Narcotics Intelligence Consumers Committee (NNICC), an interagency group chaired by the Drug Enforcement Administration (DEA), rose from 4,125 metric tons in 1985 to 5,460 metric tons in 1986. The State Department estimates, released in the annual *International Narcotics Control Strategy Report*, however, showed a substantially smaller increase from a considerably different base, with production estimated at 2,700 metric tons in 1985 and 2,800 in 1986. In 1987, the Department of State showed a slight decrease in net cultivation in Mexico, while the NNICC showed a one third increase in production. The International Narcotics Matters Bureau of the Department of State justified their data as follows: “The Department of State considers its country estimates more reliable because the data were derived principally from aerial surveys. There are, however, no survey data of marijuana cultivation in Mexico; the State Department relied on random reports from Mexico which were higher than the NNICC figures, which is an extrapolation of seizure data.” General Accounting Office, *Control: Drug Interdiction and Related Activities along the Southwestern US Border*, Fact Sheet, GAO/GGD-88-124FS, Washington, DC, September 1988: 53; and Peter Reuter, “The Organization and Measurement of the International Drug Trade,” Economics of the Narcotics Industry, Conference Report, November 21-22, 1994, <http://www.druglibrary.org/schaffer/MISC/economic.htm>, downloaded February 18, 2003.

<sup>32</sup> U.S. Department of State, *International Narcotics Control Strategy Report*, March 2004, <http://www.state.gov/p/inl/rls/nrcrpt/2003/index.htm>, downloaded March 18, 2004.

the initial input data. Estimates of flows and the effectiveness of interdiction, for example, are based on seizures. Yet, since the knowledge of the size of production is so poor, it is not clear what percentage of output interdiction is actually capturing. Instead, because of the inherent difficulties of catching small bulk products over thousands of miles of territory, it is frequently assumed that interdiction captures about ten to twenty percent of illicit flows. How can one interpret, however, a sudden dramatic jump in the amount of drugs seized? Does it mean that interdiction efforts have suddenly become more effective or that larger quantities of drugs are flowing across the borders? The case of synthetic drugs is even more complicated, because production can only be estimated on the basis of seizures and numbers of labs busted. But again, no one knows what percentages of total output seizures and labs busted represent. Once again, this approach introduces the baseline problem.<sup>33</sup> Estimating prices, such as payoffs to traffickers, belligerents, and government officials, including the “easiest component,” street prices in consumer countries, is even more of a magical process. In the highly segmented, highly imperfect markets, prices vary greatly over time and even from shipment to shipment.

Estimating “softer” variables, such as political capital, legitimacy, and support provision for belligerents, faces even greater challenges. *Measuring* popular support in the absence of frequent and reliable polling data is inherently difficult. Yet, both polling data as well as other systematic measures of the popular support for belligerents are hard to obtain in areas where violence and lawlessness are prevalent and belligerents,

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<sup>33</sup> For critiques of the estimation method, see, for example, Peter Reuter, “The Organization and Measurement of the International Drug Trade,” *Economics of the Narcotics Industry*, Conference Report, November 21-22, 1994, <http://www.druglibrary.org/schaffer/MISC/economic.htm>, downloaded February 18, 2003; Francisco Thoumi, “The Numbers’ Game: Let’s All Guess the Size of the Illegal Drug Industry,” *TNI Crime & Globalization Paper*, <http://www.tni.org/crime-docs/numbers.pdf>, downloaded October 2, 2005; C. Peter Rydell and Susan S. Everingham, *Controlling Cocaine: Supply Versus Demand Programs* (Santa Monica: RAND, 1994); Washington Office on Latin America, “U.S. Wholesale and Retail Prices of Heroin,” [http://www.wola.org/ddhr/ddhr\\_data\\_measures.htm](http://www.wola.org/ddhr/ddhr_data_measures.htm), downloaded November 17, 2005.

traffickers, and the military repress the local population. Even common demographic data is frequently missing. Thus, the study needs to rely on qualitative descriptors of the level of popular support and legitimacy, and the overall aggregate political capital, based on less than systematic data. Insisting than only variables that can and have been measured can be examined in a study would eliminate a host of theoretically and policy-significant subjects, including the large components of the study of insurgency, terrorism, and the drug trade.

Interviews are also difficult to conduct since traffickers and frequently peasant producers tend to be wary of admitting participation and disclosing information. While government officials may well be willing to give interviews, their information could be significantly biased. While recognizing the inherent limitations of the data produced through fieldwork and interviews, I have carried out fieldwork in four countries analyzed in the study: Peru, Colombia, Afghanistan, and Burma.<sup>34</sup>

Another difficulty is the very high level of *multicollinearity*. The character of government response influences also to a large extent whether or not drug traffickers are present. Legalization of the illicit economy may allow governments to eliminate all traffickers. Yet, the relationship is not fully determinative, thus not allowing for the removal of the factor “the presence of thuggish traffickers”: A black market, with thuggish traffickers, may exist even within a legal economy. Similarly, there is a very strong correlation between the state of the overall economy and the presence of the drug-conflict nexus. There is, for example, not one case where in the context of an overall rich

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<sup>34</sup> The lack of systematic data also bears directly on the difficulty of constructing the universe of cases of the nexus between drugs and insurgencies. Most analysts of the drug issue, in fact, complain that no systematic data exists prior to mid-1980s. Indeed, the CIA only started reporting on narcotics activities around in the world in its *World Factbook* in 1986. My expectation therefore is that the “universe” of cases of the drug-insurgency nexus I constructed from various literatures is imperfect.

economy with multiple alternative sources of livelihood an extensive cultivation of illicit crops coincides with military conflict. Finding critical cases where the variables do not covary is extremely difficult in this domain of inquiry.

The *baseline problem* presents yet another potential threat to testing the validity of the propositions. Some of the factors that influence the size and scope of the belligerents' benefits have not varied in reality, even if they can vary theoretically. Thus, full legalization of drugs has not been tried anywhere. The best variation the study can achieve with respect to this factor is a *de facto* legalization in some countries. Similarly, some combination of structural and policy conditions – large-scale labor-intensive illicit economy in a rich country in the context of military conflict – do not exist. Consequently, my study can offer only a limited test.

### ***Case Selection***

Therefore, to address these threats to validity, it is especially important to examine in detail the relationships between illicit economies and military conflict in particular cases instead of relying on statistical regression. I examine the relationship in detail in three cases: Peru, Colombia, and Afghanistan. Northern Ireland, Burma, Turkey, and India are brought in as extensions in the final chapter.

The principal cases have been selected on the basis of their capacity to illuminate both the impact of illicit drugs on the two main components of belligerents' strength and the impact of the four factors on the size and scope of the belligerents' benefits from illicit economies. Special attention has been paid in the selection of cases to achieve maximum variation of the one condition over which the government has direct and

immediate control: namely, government response to the illicit economy, and thus to mitigate against the potential baseline problem. All too often, studies of the drug trade and other illicit economies neglect to consider cases with such variation.

Peru and Afghanistan are particularly illustrative of the impact of change in government policy toward the illicit economy on the strength of the belligerents and conflict processes. In the Peru case, the government policy toward drug cultivation kept changing back and forth between repressive policies and laissez-faire policies even while other variables influencing government legitimacy and intelligence provision kept constant, thus allowing for an isolation of the impact of government policies. Moreover, the repressive policies also covered a range of possible options (both eradication and interdiction) that were at times adopted in isolation, thus allowing for a fine-tuned distinction between the impact of each specific policy. The case of Peru also contains two non-governmental belligerent groups interacting with both the illicit economy and the drug traffickers, and hence provides a good vehicle for analyzing the relationship between politically-motivated belligerents and criminal organizations. Moreover, the types of belligerents' involvement with the illicit economy also covered a spectrum from negative involvement, to noninvolvement, to positive involvement.

The Afghanistan case is rich with a multiplicity of conflicts and belligerent actors with dramatically different ideologies, goals, and beliefs, including anti-colonial forces, pro-Communist guerrillas, anti-Soviet mujahideen, warlords, and the Taliban -- all interacting with a variety of illicit economies, including drugs, and adopting a different type of involvement at various times. The case thus allows for an analysis of possible

intervening variables, such as ideology, on the ability of groups to derive benefits from the illicit economy.

Second, the Afghanistan case contains both labor-intensive and non-labor intensive illicit economies, which generate approximately the same level of financial benefits to belligerents, but which are predicted by my theory to generate vastly different levels of political capital for their sponsors.

The official policy toward drugs also varied along several dimensions in Afghanistan. First, in different regions, various ruling elites adopted different attitudes toward drugs. Second, over time, even in the same regions, such as those controlled by the Taliban, official policy varied from stringent eradication to a *de facto*, if not *de jure*, legalization, thus allowing for an isolation of the impact of various government policies on the different components of the strength of belligerent movements.

The case of Colombia, the most studied case in existing literature on the impact of illicit economies on military conflict, complements the previous cases in allowing observation of two values of the amplifying factors with low incidence: a rich overall economy in the region in the context of military conflict and illicit economies, specifically M-19 insurgents' involvement in the drug trade in Bogotá, and the absence of traffickers. Multiple belligerent groups, covering a large ideological spectrum, are present in the case of Colombia, and at various times eliminate the traffickers from different parts of the country under their control. Focusing on the impact of this variable, in addition to their ability to extract various gains from the illicit economy, allows me to mine this case freshly, with a different lens than applied so far in other analyses.

Finally, although the case of Colombia does not allow for the evaluation of the various government responses to the illicit economy since the policy has been a more or less intensive eradication, it allows for evaluating the ability of eradication to bankrupt belligerent groups. Since very intensive large-scale eradication has been applied consistently for several years in Colombia, if it can succeed in bankrupting the belligerents anywhere, it should be in Colombia.

Table III summarizes how the selected cases achieve variation with respect to type of belligerents' involvement in the illicit economy and with respect to the four factors that function as amplifiers of the posited relationships.

AMPLIFYING FACTORS		TYPE OF INVOLVEMENT		
		POSITIVE	NEGATIVE	No INVOLVEMENT
STATE OF OVERALL ECON.	Poor	SL, MRTA <i>FARC, ELN, AUC</i> <b>mujahideen, Taliban, warlords</b>	SL <i>FARC</i> <b>warlords, Taliban</b>	MRTA <b>mujahideen</b>
	Rich	<i>M-19</i>		
CHARACTER OF ILLICIT ECON.	Labor Intensive	SL, MRTA <i>FARC, ELN, AUC</i> <b>mujahideen, Taliban, warlords</b>	SL <i>FARC</i> <b>Taliban (drugs &amp; logging)</b>	MRTA <i>ELN, M-19</i> <b>mujahideen</b>
	Labor-Non-Intensive	<i>FARC, ELN, M-19</i> <b>mujahideen, Taliban, warlords</b>		
PRESENCE OF TRAFFICKERS	Present	SL, MRTA <i>FARC, AUC, ELN, M-19</i> <b>mujahideen, Taliban, warlords, Northern Alliance</b>	SL <i>FARC</i> <b>Taliban</b>	MRTA <i>ELN</i> <b>mujahideen</b>
	Absent	<i>FARC, AUC</i> <b>mujahideen, Taliban, warlords</b>	<b>warlords</b>	
GOVERNMENT RESPONSE TO ILLICIT ECON.	Eradication	SL, MRTA <i>FARC, AUC, ELN</i> <b>Taliban, warlords, Northern Alliance</b>	SL <i>FARC</i> <b>warlords, Taliban</b>	MRTA <i>ELN</i>
	Interdiction	SL, MRTA <i>FARC, AUC, ELN</i> <b>Emirs of 19<sup>th</sup> century; Warlords, Taliban</b>	<b>British colonial forces</b>	MRTA <i>ELN</i>
	Tacit Acquiescence	SL <b>Mujahideen, warlords, Northern Alliance</b>	<b>Taliban</b>	SL (1970s), MRTA <b>Mujahideen</b>
	Licensing/ Legalization	<b>Taliban</b>	<b>Taliban</b>	

Peru, Colombia, Afghanistan

#### IV. Conclusions

This chapter provided the theoretical framework for analyzing the interaction of illicit economies and military conflict. It argued that the existing analyses of the phenomenon, expressed in the conventional view of narcoterrorism and narcoinsurgency, provide a highly incomplete and mistaken understanding of the dynamics of the interaction between illicit economies and military conflict. Consequently, such analyses lead to ineffective and counterproductive policy recommendations. The chapter offered an alternative theory – the political capital of illicit economies – which corrects the deficiencies of the existing theory and provides a more comprehensive understanding of the nexus between illicit economies and military conflict.

The *conventional narcoterrorism view* argues that terrorists derive large financial profits from their engagement with the illicit economy. These profits allow them to escalate and prolong conflict. Consequently, the government needs to eliminate the illicit economy in order to cut the belligerents off resources and limit conflict. The eradication of the illicit economy is desirable, and will result in critical reduction of the belligerents' resources. Consequently, the government will be able to defeat the belligerents much more easily. A corollary proposition is that belligerents and criminals can no longer be distinguished from each other and need to be fought as a joint enemy.

*My theory of political capital of illicit economies* holds that belligerents' involvement in illicit economies affects the strength of belligerents, but not only the military component of strength, but also the political one. Positive involvement in the illicit power (in other words, its sponsorship) increases the strength of belligerents; negative involvement decreases their strength; and non-involvement leaves their strength

unaffected. The strength of belligerents is not only the belligerents' physical resources, but also their freedom of action – both of which constitute their military capabilities -- and, crucially, their political capital. Positive involvement in the illicit economy generates not only an increase in belligerents' military capabilities, but also, and crucially, an increase in their political capital.

The magnitude of increase in strength resulting from positive involvement in the illicit economy (or the magnitude of decrease in strength resulting from belligerents' negative involvement in the illicit economy) is a function of four structural and policy factors: a) the state of the overall economy of the country/ region; b) the character of the illicit economy; c) the presence of thuggish traffickers; and d) the government response to the illicit economy. A corollary position of my theory is that the traffickers and the belligerents have highly competing goals and frequently physically fight each other.

Contrary to the conventional wisdom, my theory predicts that eradication of the illicit economy will have dubious effects on the financial resources of the belligerents and is extremely unlikely to result in serious weakening of the belligerents' ability to continue with their military campaign. Rather, eradication will lose hearts and minds of the people and result in an unwillingness of the local population to provide the government with intelligence. Less repressive and nonrepressive policies toward the illicit economy, such as interdiction, tacit acquiescence, and licensing, are predicted to result in smaller alienation of the populace and better intelligence provision.

The two competing theories each give rise to empirically-observable implications that I have specified in the methodology section of this chapter and the presence of which in the cases will support or disconfirm the two theories. I have also described the likely

threats to validity and explained how my methodology and case selection addresses these threats. The following chapters will test these theories in the cases of Peru, Colombia, and Afghanistan.

## CHAPTER FOUR – Peru

### I. Introduction

Peru had one of the largest illicit narcotics economies in the world from the 1980s through the mid-1990s. During this period, its illicit narcotics economy was the biggest in the Southern hemisphere in terms of area cultivated with coca, which in 1992 peaked at 130,000 hectares. Peru was thus the world's and the United States' largest supplier of the raw ingredients for cocaine – coca leaf and coca paste, even though Colombian cartels dominated both final processing into cocaine and the traffic from Peru. Although not as large as the illicit coca economy in Bolivia in terms of its economic importance relative to the legal economy, the illicit narcotics economy in Peru employed up to 500,000 people, generated large inflows of hard currency during a time of acute economic crisis in Peru, and represented between 4-5 percent of Peru's GDP.<sup>1</sup> The United States devoted large resources to combat the drug trade in Peru and put major pressure on the Peruvian government to do so as well.

At the same time, Peru also experienced the emergence and growth of one of the most brutal and most effective Communist guerrillas, the Shining Path. The insurgency kept steadily increasing throughout the 1980s, and by the early 1990s, many Peruvians and many foreign analysts believed it would topple the government. Over the first ten years of the conflict, 20,000 Peruvians were killed, and there were 500,000 internal and external refugees while \$10 billion of infrastructure was destroyed.<sup>2</sup>

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<sup>1</sup> Patrick L. Clawson and Rensselaer W. Lee III., *The Andean Cocaine Industry* (New York: St. Martin's, 1996): 161.

<sup>2</sup> David Scott Palmer, "Peru's Persistent Problems," *Current History* 89 (543), January 1990: 6-7.

This chapter analyzes the interaction between the illicit narcotics economy and insurgency in Peru from the late 1970s through the current period. I explore these dynamics with respect to the two main insurgency groups in Peru during last thirty years, the Shining Path (Sendero Luminoso or Sendero or SL) and the Tupac Amaru Revolutionary Movement (MRTA). As part of this analysis, I also describe how the illicit narcotics economy is structured and how it operates at various times in order to explicate how belligerent groups obtain a variety of gains from sponsoring illicit economies.

I also briefly examine the interaction between the remnants of the Shining Path and the illicit logging economy during the late 1990s and early 2000s. Illicit logging provides a useful comparison with the illicit narcotics economy with respect to the belligerent group's ability to derive political capital from its sponsorship of illicit economies. Among other things, it shows what kinds of adaptation strategies belligerent groups have at their disposal if their sponsorship of the dominant illicit economy is severed.

The case of Peru well illustrates the ways in which a government's counternarcotics policy influences its effectiveness in counterinsurgency operations. Peru's policy toward the illicit economy kept changing back and forth between repressive policies and laissez-faire policies even while other variables influencing the government's legitimacy and its ability to obtain intelligence on the insurgents kept constant -- thus allowing for analytic isolation of the impact of government policies. Moreover, the repressive policies also covered a range of possible options (both eradication and interdiction) that were at times adopted as discrete policies -- instead of together as in the so-called "holistic approach" (where a range of repressive and non-

repressive policies are adopted simultaneously) -- thus allowing for a fine-tuned distinction between the impact of each specific policy. The case of Peru also contains two non-governmental belligerent groups interacting with both the illicit economy and the drug traffickers, and hence provides a good vehicle for analyzing the relationship between politically-motivated belligerents and criminal organizations.

In addition, the Peru case is useful in revealing how the demise of the belligerent group affects the existence of the illicit economy. Unlike the cases of Colombia and Afghanistan, where military conflict persists and many belligerent groups continue operating undefeated, in Peru, both the Shining Path and the MRTA were defeated, and only small remnants of the Shining Path continue operating. The case of Peru can be therefore used to test one of the central propositions of the conventional view that eradication leads to the elimination of the illicit economy and hence the defeat of the belligerents. In fact, one of the major proponents of the conventional view argues that the Shining Path was defeated and Guzmán was captured because the guerrilla and the drug traffickers were fought at last as a single entity and that in fighting them as one, Peru was able to defeat both.<sup>3</sup> I will show, however, that empirical evidence fundamentally contradicts this assertion. Rather, it was a combination of tacit acquiescence by the government toward the narcotics economy in the countryside and an intelligence operation in the urban theater, unrelated to counternarcotics, that led to the defeat of the Shining Path. In fact, when Sendero was defeated, the illicit economy was at its peak. Only several years after the defeat of Sendero was there a substantial decline in the size of the illicit economy.

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<sup>3</sup> Douglas J. Davids, *Narco-terrorism* (Ardsey: Transnational Publishers, 2002): 23.

With respect to the entire period of Sendero's interaction with the illicit economy, my theory of political capital of illicit economies performs considerably better than the conventional view. The analysis will show that in the early 1980s, Sendero's strength was limited and the belligerent group was more an irritant than a fundamental threat to the government. Its numbers, extent of operations, and political capital were limited. Once Sendero was able to tap into the drug trade, however, its strength grew dramatically both in terms of its military capabilities and in terms of its political capital.

The analysis will also show how Sendero's ability to effectively exploit the illicit economy was crucially affected by the eradication policy undertaken by the government in the early 1980s. Eradication antagonized and radicalized the peasants while the government's dismissal of peasants' efforts to stop eradication, fueled by U.S. pressure to carry on with eradication, exposed the ineffectiveness of the peasant coca defense groups. Sendero was able to step in and offer itself to the peasants as a more effective protector of the illicit economy and their interests.

I further show how subsequently the Shining Path was able to harness and increase political capital by protecting the peasants not only against the government eradication teams but also against the traffickers. Sendero bargained on behalf of the peasants for better prices, protected the peasants against the traffickers' brutality, and with its drug money sponsored various social services. Clearly, such behavior was not driven by a desire to increase its pecuniary gains, thus disconfirming the conventional view. Sendero's overall interaction with the traffickers reveals the fallacy of assuming a unity of goals, if not identity, between the criminal trafficking organizations and the guerrillas. Much of Sendero's attitude toward the traffickers was driven by its desire to

solidify and maximize its political capital. In fact, political support for Sendero was greatest in the coca growing regions, and neither ideology nor coercion adequately account for Sendero's political capital.

Moreover, I demonstrate that when the military in command of the coca-growing regions adopted a tacit acquiescence policy toward the narcotics economy, it was able to obtain vital intelligence on the guerrillas from the rural population and even the traffickers. It was subsequently able to effectively push out Sendero from the coca growing regions. When on the other hand the government insisted on aggressive eradication, the population was antagonized, stopped providing intelligence, and even actively fought alongside the guerrillas against the government. This oscillation in government counternarcotics policy matched by the increased and decreased effectiveness of the counterinsurgency effort contradicts the conventional view.

Finally, I show that once Sendero was defeated, a combination of fungus and aerial interdiction were effective in diminishing the size of the illicit narcotics economy. However, this success in greatly limiting the extent of illicit crop cultivation did not bankrupt the remnants of Sendero. Instead, the remaining Senderistas adapted by penetrating another illicit economy, illicit logging. While able to obtain financial profits from this economy, they have not been able to obtain large-scale political capital, due to the small numbers of the remaining Senderistas, and, crucially, due to government laxity (tacit acquiescence) in enforcing the prohibitions against illicit logging. Renewed forced coca eradication, however, has created new political openings for Sendero, and the group is actively competing for the allegiance of the once-again antagonized and radicalized

peasants. The current situation thus again supports my theory while disconfirming the conventional view.

The following table summarizes how the Peru case covers the variation of the amplifying factors and types of belligerents' involvement as determinants of the strength of belligerents.

<b>DETERMINANTS OF STRENGTH OF BELLIGERENTS</b>				
<b>AMPLIFYING FACTORS</b>		<b>TYPE OF INVOLVEMENT</b>		
		<b>POSITIVE</b>	<b>NEGATIVE</b>	<b>NO INVOLVEMENT</b>
<b>STATE OF OVERALL ECON.</b>	Poor	<i>Sendero (1985 --)</i> <i>MRTA (1986-7)</i>	<i>Sendero (1983-4)</i>	<i>Sendero (until 1983; and several months in 1984 after pushed out from UHV)</i> <i>MRTA (until 1986)</i>
	Rich			
<b>CHARACTER OF ILLICIT ECON.</b>	Labor Intensive	<i>Sendero (1985-)</i> <i>MRTA (1986-7)</i>	<i>Sendero (1983-4)</i>	<i>Sendero (until 1983; and several months in 1984 after pushed out from UHV)</i> <i>MRTA (until 1986)</i>
	Labor-Non-Intensive			
<b>PRESENCE OF TRAFFICKERS</b>	Present	<i>Sendero (1985-)</i> <i>MRTA (1986-7)</i>	<i>Sendero (1983)</i>	<i>Sendero (until 1983; and several months in 1984 after pushed out from UHV)</i> <i>MRTA (until 1986)</i>
	Absent			
<b>GOVERNMENT RESPONSE TO ILLICIT ECON.</b>	Eradication	<i>Sendero (1985-89; 1996-)</i> <i>MRTA (1986-7)</i>	<i>Sendero (1983-4: eradication by police)</i>	<i>Sendero (until 1983)</i> <i>MRTA (until 1986)</i>
	Interdiction	<i>Sendero (late 1989-)</i>		
	Tacit Acquiescence	<i>Sendero (1989)</i> <i>Sendero (after 1996 – illicit logging)</i>	<i>Sendero (1983-4: tacit acquiescence by military)</i>	<i>Sendero (several months in 1984 after pushed out from UHV)</i>
	Licensing/ Legalization			

The rest of the chapter proceeds as follows: I first analyze the limits of Sendero's strength prior to its access to the illicit narcotics economy. Second, I show how Sendero was able to grow and increase its physical resources, freedom of action, and political capital as a result of its effective exploitation of the illicit economy. Third, I show how Sendero's sophistication in exploiting the illicit economy grew over time and how it provided an example for the MRTA to emulate in its own approach to the narcotics industry. In this third section, I also disconfirm the conventional view's proposition of a unity of purpose and goals among the traffickers and the belligerents. In the fourth section, I discuss how government policy toward the narcotics economy impacted on the effectiveness of the counterinsurgency campaign. In section five, I analyze how the remnants of the Shining Path adapted to the capture of their leadership, the defeat of the bulk of their force, and the decline in the illicit narcotics economy, and how they are exploiting eradication during the current period to rebuild the belligerents' political capital. In presenting the empirical work, I evaluate the validity of the two competing theories in each section. Finally, I present a summary of evidence and discuss the cumulative implications of the evidence supporting and disconfirming the two theories.

## **II. The Shining Path Before Access to Drugs**

The Shining Path (or in its full name, the Communist Party of Peru on the Shining Path of José Carlos Mariátegui), one of the most effective and most brutal Maoist guerrilla movements, emerged in the rural Andean province of Ayacucho in Peru in the early 1960s when Dr. Abimael Guzmán started the long process of recruiting and organizing a system of SL's cadres. After a final split from the more traditional Peruvian

Communist Party in 1970, Guzmán's group started using the name Sendero Luminoso. Since its inception, the guerrilla movement had Marxist political goals. It sought to take over the political and military power in Peru and establish a new radical Marxist society.<sup>4</sup>

Several explanations have been advanced as to the causes of the emergence of the Shining Path -- ranging from a subsistence crisis and a radical decline in standards of living of the Peruvian periphery since the 1960s<sup>5</sup> to the failure of the government's reforms and the subsequent revolution of rising expectations<sup>6</sup> to the brilliant organizational skills of the Shining Path, mainly its tremendously successful recruitment and indoctrination of teachers, students, and young people in general<sup>7</sup> to the provincial origins of Sendero which allowed for the development of a quasi-religious character of the organization.<sup>8</sup> McClintock (1998) provides a multivariate synthetic analysis according to which the *sine qua non* of Sendero's success was the profound economic crisis in Peru, which threatened the peasants' very subsistence. This economic situation interacted with the organizational skills of Sendero -- their adept recruitment of disillusioned middle class teachers and students whose opportunities for advancement had been blocked -- and with the progressive deterioration of the state's capabilities due to a profound economic

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<sup>4</sup> For more details on the emergence and organization of the Shining Path, see David Scott Palmer, ed., *Shining Path of Peru*, (New York: St. Martin's Press, 1994) and Gustavo Gorriti, *The Shining Path: A History of the Millenarian War in Peru*, Robin Kirk, trans. (Chapel Hill: University of North Carolina Press, 1999). The Shining Path was a true Maoist guerrilla movement that early on rejected the Cuban-style *foco* model of guerrilla movements based on the ideas of Che Guevara.

<sup>5</sup> Cynthia McClintock, "Theories of Revolution and the Case of Peru," in David Scott Palmer, ed., *Shining Path of Peru*, (New York: St. Martin's Press, 1994): 243-259.

<sup>6</sup> David Scott Palmer, "Introduction: History, Politics, and the Shining Path in Peru," and "Conclusion: The View from the Windows," in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin's Press, 1994): 1-33; and 259-275.

<sup>7</sup> Carlos Iván Degregori, "Sendero Luminoso: Los hondos y mortales desencuentros," in *Movimientos Sociales y crisis: El caso peruano*, Eduardo Ballón, ed. (Lima: DESCO, 1985): 261 and Carlos Iván Degregori, "A Dwarf Star," *NACLA Report on the Americas*, 24 (4) (December-January 1990-1991): 10-19.

<sup>8</sup> *Ibid.* See, also Gorriti (1999).

crisis.<sup>9</sup> McClintock thus combines a demand-driven explanation, i.e., the threat to peasant subsistence, with a supply-driven explanation, i.e., the availability of political entrepreneurs and social networks capable of exploiting the social conditions for mobilization. What is important for the purposes of this inquiry is that the emergence of the Shining Path was due to social problems in the culturally diverse and geographically isolated periphery of Peru, not due to the production of drugs in that region or in Peru more broadly. In fact, the Shining Path only gained access to drugs more than fifteen years after its inception, and hence its emergence was fully independent of the presence of the illicit economy.

Under the leadership of Guzmán, the Shining Path embraced a variant of Maoist ideology. Its teachings emphasized protracted guerrilla war in the countryside, culminating in the capture of urban centers, and the destruction of markets in any form, including small local markets. Guzmán further combined this Maoist strategy with the radical *indigenismo* of José Carlos Mariátegui, a Peruvian Communist theoretician of the 1920s who called for agrarian communism based on the indigenous peasant community.<sup>10</sup> Sendero was thus highly sectarian and inward-looking. Rejecting all forms of Marxism other than Maoism, Guzmán not only attributed a fundamental role to violence in the political process, but also exalted violence as a transformational process. Indeed, Sendero did not shy from violence – whether against unarmed civilians or political leaders and the military – and often employed great savagery. Guzmán sought a fundamental restructuring of Peruvian society, by rooting out existing popular and communal

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<sup>9</sup> Cynthia McClintock, *Revolutionary Movements in Latin America: El Salvador's FMLN & Peru's Shining Path* (Washington, DC: United States Institute of Peace Press, 1998): 14-15, 281.

<sup>10</sup> Carlos Iván Degregori, *Sendero Luminoso, lucha armadas y utopia autoritaria* (Lima: Instituto de Estudios Peruanos, 1986).

organizations and replacing them with revolutionary ones.<sup>11</sup> As Carlos Iván Degregori put it, the Shining Path combined “ideological zeal, military strategy, and [a] totalitarian political project.”<sup>12</sup>

Creating a god-like aura around Guzmán, Sendero insisted on absolute obedience to superiors and devotion to its leader. The resulting organization was thus extremely hierarchical. Part of its recruitment strategy was the indoctrination of teachers who then went out to the peasant communities and spread Sendero’s message. In theory, the movement as a whole was to be controlled by its national executive committee, known as the *Cúpola*, with Guzmán as its head. The committee in principal coordinated the various subordinate political and military units. But while Guzmán and the top leadership defined the large parameters and strategies of Sendero’s struggle against the state, they found it very difficult to fully control what at its peak was ten thousand active members.<sup>13</sup>

Even though the Shining Path was conceived in the 1960s, only in 1979, after over fifteen years of organizing, did Guzmán and his Central Committee make the decision to launch an armed struggle. On May 17, 1980, the day before the first free presidential election since General Juan Velasco’s military coup of 1968, four masked students from the University of Ayacucho (where Guzmán had been a professor of philosophy), armed with non-functioning pistols, entered the town hall in the city of Chuschi in the Ayacucho province, tied up the registrar, seized the registration book and

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<sup>11</sup> For details on methods, including the separation of children from their parents and training of children to enjoy tormenting others, see, Ponciano del Pino H., “Family, Culture, and ‘Revolution’: Everyday Life with Sendero Luminoso,” in Steve J. Stern, *Shining and Other Paths: War and Society in Peru, 1980-1995* (Durham: Duke University Press, 1998): 158-92.

<sup>12</sup> Carlos Iván Degregori, “Harvesting Storms: Peasant *Rondas* and the Defeat of Sendero Luminoso in Ayacucho,” in Steve J. Stern, *Shining and Other Paths: War and Society in Peru, 1980-1995* (Durham: Duke University Press, 1998): 136.

<sup>13</sup> See, for example, Cyrus Ernesto Zirakzadeh, *Social Movements in Politics: A Comparative Study* (New York: Longman, 1997): 206-8.

the ballot boxes, and burned them.<sup>14</sup> The long revolution thus took off with a purely symbolic start.

For the remainder of 1980, the armed struggle continued to be very low-scale. Only a few bombs exploded in the Andean region and in Lima, taking the lives of seven people in total. In 1981, the Shining Path's military activity escalated. The number of terrorist attacks grew to 685, and there were over 50 bank robberies in Lima. But still only 13 people were killed that year, thus making the total 20 for the first two years.<sup>15</sup> The people killed were either police officers or victims chosen by Sendero to gain approval from the peasants in villages where Sendero was trying to build its support organizations.<sup>16</sup> As Richard Clutterbuck maintains, "the SL spent 1980 and 1981 building up their support organizations in the villages in Lima, training their 'People's Guerrilla Army' and, perhaps more important, raising funds by bank robberies and extortion."<sup>17</sup> What inhibited the expansion of conflict by the Shining Path was its weakness –in terms of both military capabilities and political capital.

The lack of access to the Peru's illicit economy limited not only Sendero's popular support and its capabilities in terms of money and weapons, but also its freedom of action. The lack of assured financing dictated that robberies and extortion remained the main source of revenues. The guerrillas were unable to raise a large amount of money to buy weapons and other supplies. Their weapons comprised revolvers, outdated rifles and shotguns, a few machine guns, and dynamite – all looted from police and military

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<sup>14</sup> Richard Clutterbuck, *Drugs, Crime and Corruption* (New York: New York University Press, 1995).

<sup>15</sup> Gordon H. McCormick, "*From the Sierra to the Cities: The Urban Campaign of the Shining Path*" (Santa Monica: RAND, 1992): 22.

<sup>16</sup> Billie Jean Isbell, "Shining Path and Peasant Responses in Rural Ayacucho," in David Scott Palmer, ed., *Shining Path of Peru*, (New York: St. Martin's Press, 1994): 79-86.

<sup>17</sup> Clutterbuck: 19.

outposts.<sup>18</sup> Struggling with supply and logistics problems even in small-scale operations, the movement of Sendero's units and operatives was highly constrained.

The Shining Path tried to overcome this major military impediment by attacking police and army outposts and seizing their weapons. As with bank robberies, this source of weapons procurement consumed a large amount of the guerrillas' time and energy and was intrinsically inefficient from the perspective of the revolution since it indicated a choice of operational tactical targets that were not optimal from the SL's strategic perspective. As Carlos Iván Degregori, a leading Shining Path expert maintains, "apart from the police, whom Shining Path placed on the run during the early years by dynamiting their rural posts, the most important targets were abusive peasants, cattle thieves, corrupt judges, and drunk husbands."<sup>19</sup> Such a target list, while pleasing to some peasants in particular villages, did little to launch Sendero onto the path of a major insurgency in Latin America. Although highly time- and resource-consuming activities, bank robberies and extortion of individuals brought only very revenues per each action undertaken. Sendero was also unable to pay salaries to its soldiers during this period. The group had no ability to bring down the Peruvian government and little ability to seriously engage the military.

An equally important impediment to the growth of Sendero's power and its ability to expand conflict was its limited political capital. Although peasants welcomed the SL's execution of unpopular landowners and thieves, they otherwise remained passive. Very much aware of the critical need to build political support, Sendero tried to compensate for its inability to deliver large material benefits to the population by providing regular

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<sup>18</sup> Rensselaer W. Lee III., *The White Labyrinth: Cocaine and Political Power* (New Brunswick: Transaction Publishers, 1989): 175-76.

<sup>19</sup> Degregori (1998): 135.

paramedical services, agricultural advice, and at least limited food handouts. The Senderistas killed, pushed out, and robbed well-to-do landowners and shopkeepers, distributing the spoils among the peasants.<sup>20</sup> As in the case of their own financing, such high-consuming activities generated only very limited resources that could be distributed among the rural population, and hence constrained the extent of popular support Sendero could buy.

Despite the large constraints on Sendero's political capital and military capabilities, the group tried to up violence. The number of people killed by the Shining Path rose to hundreds a year in 1982. The Shining Path even launched operations in three company-sized units of one hundred fighters or more.<sup>21</sup> In fact, this level of violence was now sufficient to scare President Fernando Belaúnde Terry into overcoming his unwillingness to use the military to suppress the insurgency.<sup>22</sup> Still, SL's actions remained rather low-key and limited compared to the level of violence that took place after 1986, i.e., after the guerillas consolidated control over Peru's coca cultivating regions. A lack of access to Peru's illicit narcotics economy thus critically limited not only Sendero's physical resources, but also severely constrained its freedom of action and, crucially, its ability to obtain political capital. In short, during this period the Shining Path was unable to present a systematic threat to the Peruvian state, even though it could harass individual communities.

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<sup>20</sup> Cynthia McClintock, "Peru's Sendero Luminoso Rebellion: Origins and Trajectory," in Susan Eckstein, ed., *Power and Popular Protest* (Berkeley: University of California Press, 2001): 78-9.

<sup>21</sup> Otto Guibovich, *Shining Path: Birth, Life, and Death* (Camberley: Staff College, 1993): 18.

<sup>22</sup> President Belaúnde attempted to rely on the police for the first two years of the armed phase of the SL's revolution since he feared that employing the military in any major way and giving it prominent responsibility would undermine Peru's still new and fragile democracy.

### **III. The Shining Path's First Encounter with Drugs: Testing the Effect of Belligerents' Negative Involvement in the Illicit Economy**

When Sendero first encountered the narcotics illicit economy, it decided to prohibit the illicit economy. Since the state of the overall economy was poor, the illicit economy labor-intensive, traffickers present, and the government was eradicating, my theory of political capital of illicit economies predicts that such a negative involvement in the illicit economy on the part of the belligerents will result in the inability of the belligerents to generate political capital and the obtain support from the population. Since the Shining Path was new to the region and had not built up any support base there yet, the negative involvement in the illicit economy will not result in a loss of political capital (there is none to lose since Sendero does not have any in the region), but will hamper Sendero's effort to develop a support base.

In 1983 the military was deployed to the department of Ayacucho to suppress the insurgency, and the department was placed under a state of emergency. The military campaign rapidly pushed out the Shining Path from its strongholds in Ayacucho's highlands, which until then had been its main areas of operations. The Peruvian military now held the central highlands territory of the departments of Ayacucho, Huancavelica, and Apurimac and continued making considerable inroads into SL's logistical organization. Most significantly, it threatened Sendero in its traditional base where the majority of Sendero's organizing and support network had been built.<sup>23</sup> The guerrilla group was on the run and seriously weakened.

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<sup>23</sup> Clutterbuck: 24.

To counter the logistical difficulties that the military was creating for the guerrillas in its traditional region of operations, the Shining Path was forced to open a new front in the Upper Huallaga Valley. The remoteness and inaccessibility of the territory was ideally suited for guerrilla warfare. By chance, the area also happened to be the main coca production region in Peru. At that time, Peru was the world's largest supplier of coca, and the Upper Huallaga Valley the biggest coca-production region of the world.<sup>24</sup> Around 300, 000 families were growing coca on more than 100,000 hectares in the region.<sup>25</sup> At its peak, that number rose to seven percent of the economically active rural population.<sup>26</sup> Ninety-five percent of economic activity in the UHV was coca-based.<sup>27</sup>

Engagement in the illicit economy was economically far superior for the peasants than traditional non-coca livelihood. Even with only two full harvests of coca leaves per year (a low average), the mean annual earnings of a coca peasant in the Upper Huallaga Valley were estimated to be \$3,630 – or three times higher than Peru's per capita income of \$1,000 and many more times higher than the income of a peasant in non-coca

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<sup>24</sup> The settlement of the Amazonian *selva* (forest) began in the 1960s, conceived by President Fernando Belaúnde as a solution to Peru's growing demographic problem that was overwhelming the major cities. With a loan from the Inter-American Development Bank, the Peruvian government encouraged colonization of the Tingo Maria-Tocache area in the departments of Huánuco and San Martín in the Upper Huallaga Valley. But the various schemes of agricultural development failed to take off, and the population that had migrated to the regions remained largely impoverished. Both the first colonization effort and the subsequent coca boom contributed to critical deforestation and devastating environmental destruction of the pristine Amazonian rainforest. This impact was further compounded by subsequent waves of eradication and replanting after eradication by moving crops further into the jungle.

<sup>25</sup> Enrique Obando, "Subversion and Anti-Subversion in Peru 1980-2," *Low Intensity Conflict and Law Enforcement*, 2 (2), Autumn 1993: 323. See also, LaMond Tullis, *Unintended Consequences: Illegal Drugs and Drug Policies in Nine Countries* (Boulder: Lynne-Rienner, 1995): 96.

<sup>26</sup> International Crisis Group, *Coca, Drugs and Social Protest in Bolivia and Peru*, Latin America Report No. 12, March 3, 2005, [http://www.crisisgroup.org/library/documents/latin\\_america/12\\_coca\\_drugs\\_and\\_social\\_protest\\_in\\_bolivia\\_and\\_peru\\_amended.pdf](http://www.crisisgroup.org/library/documents/latin_america/12_coca_drugs_and_social_protest_in_bolivia_and_peru_amended.pdf), downloaded March 17, 2005.

<sup>27</sup> "Los Intis de la Coca," *Perú Económico*, September 1987.

regions.<sup>28</sup> Other estimates put profits from coca cultivation and the wage differentials even higher: A coca farmer in the UHV could earn as a maximum gross income \$12,350, 60% of which was profit. His net per-hectare earnings were thus ten times higher than those of cacao farmers and 91 times higher than those of a rice farmer.<sup>29</sup> The price per hectare that traffickers offered for coca leaves surpassed the price that peasants could get for cacao pods between two and eight times, for rubber four times, and for maize more than forty times.<sup>30</sup> Coca was thus by far the most profitable crop. Even seasonal workers hired to collect coca leaves would earn twice the average rate in the licit agricultural sector, while *pisadores* (peasants who stamp on coca leaves to make coca paste) made several times the wages of coca leaf pickers. In mid-1986, *pisadores* earned up to \$40 a day while a schoolteacher would earn \$23 per month, or less than a dollar a month.<sup>31</sup> In fact, some parents' associations in the UHV provided teachers with at least a hectare of land for growing coca while local peasants cultivated the plot and arranged for the processing of coca,<sup>32</sup> in order to make it at all attractive for anyone to remain a teacher.

But apart from price profitability, other structural drivers were crucial for peasants' decision to grow coca. The plant *erythoxylum coca* grows in poor acid tropical soil, rugged terrain, high humidity-heavy rain conditions unsuitable for many legal crops. Native to the region, it requires little care, thus minimizing expenses on fertilizers and

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<sup>28</sup> Gabriela Tarazona-Sevillano, with John B. Reuter, *Sendero Luminoso and the Threat of Narcoterrorism* (Washington, DC: Center for Strategic and International Studies, 1990): 116.

<sup>29</sup> "U.S. AID Project Wins Few Friends and Fails to Match the Drug Industry's Complete Package," *The Andean Report*, Lima, December 1985: 244.

<sup>30</sup> David Whyntes, "Illicit Drugs Policy in Asia and Latin America," *Development and Change*, (22), 1991: 475-96.

<sup>31</sup> Lee (1989): 46. For a comparison with Bolivia, see Kevin Healy, "The Boom Within the Crisis: Some Recent Effects of Foreign Cocaine Markets on Bolivia's Rural Society and Economy," in Deborah Pacini and Christine Franquemont, (eds.), *Coca and Cocaine: Effects on People and Policy in Latin America*, Cultural Survival Report Series, 23, 1986: 101-145.

<sup>32</sup> Raúl González, "Coca y subversión en el Huallaga," *Quehacer*, (48), September-October 1987: 58-72.

pesticides. Coca is also very durable with a lifespan of thirty-years,<sup>33</sup> and allows for 3-6 harvests a year. Growing coca thus brought not only more money, but did so with less effort and smaller risks. Compared to the remarkably hardy coca plan, legal crops tend to have fewer harvests per year, tend to be less sturdy, and are subject to greater market price fluctuations. Moreover, planting legal crops often required initial investments that the peasants could only put down by taking out high-interest loans.

Another key driver of coca cultivation was the lack of infrastructure. The Upper Huallaga Valley and many other parts of rural Peru lacked roads. The inability to transport easily and rapidly other agricultural commodities, such as bananas, citrus, and pineapples, not only substantially raised transaction costs for the peasants, but frequently resulted in their products getting spoiled before arriving in local markets, thus generating critical financial losses for the peasants. Coca leaves and coca paste, on the other hand, were frequently picked up by traffickers right at the farm, and thus transportations costs were eliminated. Even when farmers took coca products to the local market themselves, the shipments weighed less than shipments of licit products and were less subject to spoilage.<sup>34</sup> In short, growing coca greatly reduced transaction costs and market risks.

Coca also performed the function of a means of exchange. Wages, for example, were often paid in coca and coca was bartered for potatoes, corn, and other *altiplano* crops to highland farmers.<sup>35</sup> Traffickers would advance financing, fertilizers (not necessary for cultivation of coca but helpful), seeds, and even technical assistance to

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<sup>33</sup> Unless, of course, sprayed or burned down under U.S. sponsored eradication programs.

<sup>34</sup> David Scott Palmer, "Peru, the Drug Business and Shining Path: Between Scylla and Charybdis?" *Journal of Interamerican Studies and World Affairs*, 34 (3), Autumn 1992: 68.

<sup>35</sup> Edmundo Morales, *New Trends in Coca and Cocaine Economy in the Andes of Peru* (Narcotics and Drug Research, 1985): 7-14.

*cocaleros*. This microcredit and exchange systems based on coca gave an additional impetus to coca cultivation and to the spread of the coca economy in the UHV.

Not all coca in the UHV and Peru was illegal. Apart from the illicit market, there was also a legal traditional market for coca. At least since the Incas, coca was chewed by the highland people of the Andes as a mild stimulant, pain reliever, hunger suppressor, and treatment of altitude sickness.<sup>36</sup> A 1970 survey revealed that about 15 percent of Peru's population chewed coca daily.<sup>37</sup>

In addition, there was also a legal industrial market for the production of licit cocaine for specialty pharmaceutical purposes as well as a small market for a Coca Cola extract. Both the licit and traditional production was regulated by Peru's national wholesale agency, ENACO (National Coca Enterprise). However, neither the profits per unit nor the size of the traditional and licit markets could compete with the illicit economy.<sup>38</sup> The price ratios of the illicit to licit cultivation ranged from 3:1 to as high as 15:1. Moreover, cultivation for both legal and industrial purposes absorbed only a small percentage of overall production. In 1986, for example, ENACO purchased only 4,000 tons of coca leaf out of the estimated 100,000 tons produced.<sup>39</sup>

The importance of the illicit economy becomes even more apparent in light of the state of the overall economy in Peru during the early 1980s. From the late 1970s, national economic trends in Peru were among the worst in the region. Living standards had

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<sup>36</sup> See, for example, Edmundo Morales, *Cocaine: White Gold Rush in Peru* (Tucson: The University of Arizona Press, 1989).

<sup>37</sup> Lester Grinspoon and James B. Bakalar, *Cocaine: A Drug and Its Social Evolution* (New York: Basic Books, 1985): 12.

<sup>38</sup> Since the early 1980s, the United States has strongly discouraged all efforts for commercialization of coca-based products, arguing that such efforts would increase diversion into the illicit market and stimulate further cultivation.

<sup>39</sup> Lee (1989): 60.

declined precipitously for southern highlands peasants, Sendero's original base. During the 1970s, the average annual economic growth per capita was 0.9 percent while during the 1980s, the economy declined on average by 3.2 percent annually.<sup>40</sup> Inflation hovered in three-digit levels a year, peaking at a four-digit 7,650% in 1990.<sup>41</sup> Unemployment and underemployment were high. As Peru linked debt payments to export earnings and was cut off from access to international loans, cash coming from the cocaine trade was frequently the only source of hard currency coming into Peruvian banks. The gross amount of hard currency was estimate to equal to about 20 percent of Peru's legitimate GNP.<sup>42</sup>

Thus when the Shining Path was pushed into the Upper Huallaga Valley, it found a burgeoning drug economy amidst widespread grinding poverty in the rest of the country. Paradoxically, since the Shining Path had not actively sought out to exploit the illicit economy, it did not immediately know how to take advantage of the drug windfall. In fact, Sendero's first reaction was to prohibit the anti-Marxist drugs, as it prohibited prostitution and tried to limit the consumption of alcohol. The political economy in the UHV represented what the Shining Path doctrinairely abhorred – unrestrained capitalism in a "Wild West" setting. With no state presence, opulent riches of the drug traffickers, ubiquitous casinos and prostitution houses, and large amount of social violence -- among

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<sup>40</sup> McClintock (1998): 163.

<sup>41</sup> Palmer (1992): 66. Even out of those who were not employed in the coca economy, many survived by participating in other forms of illicit or informal economy. See, Hernando de Soto, *The Other Path* (London: Taurus, 1989).

<sup>42</sup> Tazarona-Sevillano (1990): 113. Some authors have argued that by the late 1980s, income of the illicit drug trade accounted for 40% of Peru's GDP. See, for example, Laura Vásquez, "Peru," in Scott B. MacDonald and Bruce Zagaris, eds., *International Handbook on Drug Control* (Westport: Greenwood Press, 1992): 218. Such a high number, however, is a gross overestimate. Francisco Thoumi, for example, argues persuasively that in the case of Peru, returns from the drug trade never represented more than ten percent of the GDP. See, Francisco Thoumi, *Illegal Drugs, Economy, and Society in the Andes* (Baltimore: John Hopkins University Press, 2003).

the Colombian cartels that controlled the trade,<sup>43</sup> between the Colombian cartels and Peruvian *traquateros* (intermediaries), and against the growers – the Upper Huallaga Valley’s drug regions were seen by the Sendero as the worst manifestation of capitalism, “free market unfettered by the state.”<sup>44</sup>

While the top traffickers enjoyed great riches, the majority of the peasants earned only a small percentage of the total earnings from the illicit economy, even if living considerably better than the rural population elsewhere in Peru did. While the paste producers and local traffickers were believed to collect \$7.48 billion or 25.84% of the trade, the coca peasants were estimated to earn collectively \$240 million or around 0.86 percent of the total value of the Peruvian illicit drug trade. The remaining 73.3 percent went to international, mainly Colombian, traffickers.<sup>45</sup> The Upper Huallaga was thus a paradox -- poverty, combined with a desire for and a possibility of upward mobility through the illicit economy, and wealth, achieved through the illicit economy. Observed Rensselaer W. Lee: “The town of Tocache in Peru’s Upper Huallaga Valley has six banks, six Telex machines, several stereo dealerships, a discotheque, and one of the largest Nissan outlets in Peru. Tocache also has no paved streets, no drinking water and no sewage system.”<sup>46</sup>

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<sup>43</sup> Colombian traffickers were the ones who introduced the expansion of coca cultivation in the Ené and Upper Huallaga Valleys in the late 1970s, persuading the locals to engage in cultivation on a much larger scale than the consumption of coca for traditional purposes required. For details on the role of Colombian traffickers in the spread of coca cultivation, see Nelson Manrique, “The War for the Central Sierra,” in Steve J. Stern, ed., *Shining and Other Paths: War and Society in Peru, 1980-1995* (Durham, Duke: 1988): 213-15.

<sup>44</sup> Author’s interview with Gustavo Gorriti, a prominent Peruvian journalist who did field work in the UHV during the early 1980s and a leading scholar of the Shining Path, Lima, summer 2005.

<sup>45</sup> Tarazona-Sevillano (1990): 113.

<sup>46</sup> Rensselaer W. Lee III., “Why the United States Cannot Stop South American Cocaine,” *Orbis*, 32 (4), Fall 1988: 503. The other main centers of the coca economy and the region were Uchiza and Tingo María.

In other words, when the Shining Path entered the UHV, it encountered a totally unregulated economy, rife with unmitigated violence and with an extremely unequal distribution of income between top traffickers and the peasants. But instead of tapping into the ready social base by embracing the illicit economy, Sendero at first tried to capture the social base by agitating among the population in the same way it had done in the central highlands – criticizing the government, denouncing capitalism, and, ironically, prohibiting the illicit economy.<sup>47</sup>

However, the message did not resonate with the peasants of the UHV, and the Shining Path made little progress in securing the allegiance of the coca farmers. Their main grievance was not destitution for they were considerably better off than peasants elsewhere in Peru. Their main grievance was not even exploitation by the drug traffickers. Their main aspiration was not a socialist economic system that would abolish the existence of the capitalist free trade with illicit drugs. Their main grievance was the government threat to their coca economy.

Thus, instead of securing the peasants' support, Sendero's impulsive embrace of the anti-drug policies and its prohibition of cultivation alienated the peasants. The reaction from the peasants was fierce. The peasants were alienated and condemned Sendero. The Shining Path saw its own prohibitionist policy backfiring and fundamentally antagonizing the peasants from the movement.<sup>48</sup> Although the population did not turn to the government for help since the government too was eradicating the coca economy, they rejected the Shining Path. Sendero was thus unable to obtain political capital and grow in strength.

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<sup>47</sup> Author's interviews in Peru, summer 2005.

<sup>48</sup> Author's interviews in Peru, summer 2005.

*A Taste of Power: Testing the Effect of Government Response to the Illicit*

*Economy*

Sendero's negative involvement in the illicit economy coincided at first with a coca eradication policy on the part of the government. Given that the other amplifying factors are a poor overall economy, a labor-intensive illicit economy, and the presence of traffickers, my theory of political capital predicts that eradication will radicalize the peasants and alienate them from the government, making them a ready base for a belligerent group that will become positively involved in the illicit economy. The prediction of the conventional view, on the other hand, is that eradication will destroy a potential resources base of the belligerents, thus preventing the possibility of their growth.

In addition to the peasants' reaction to Sendero's own prohibition of the illicit economy, the group also witnessed the tremendous alienation of the peasants from the government as a result of the government's coca eradication efforts. Not only did the peasants' reject the government, they also active resisted against its eradication policy. The first attempt at eradication in the UHV took place in 1978. Under steadily mounting pressure from the United States, the government of President Francisco Morales Bermudez placed coca-growing regions in the departments of Huánuco, San Martín, and Loreto under a state of emergency and ordered government forces to destroy the coca crops, confiscate land, and incarcerate resisting peasants. In reality, during "Operation Mar Verde," as the eradication effort was dubbed, government forces accomplished the

eradication of only 60 out of the estimated 12,000 hectares of coca in the UHV in 1978<sup>49</sup> while dramatically boosting prices for coca and thus attracting more migrants into the region. Instead of suppressing cultivation, eradication actually resulted in a rapid increase in cultivation.

The second wave of eradication took place in 1983, this time as compensated eradication. Under the name CORAH (Control y Reducción de los Cultivos de Coca en el Alto Huallaga, or Special Project for the Control and Eradication of Coca in the Upper Huallaga) and funded with an annual \$1.3 million from the U.S. Bureau for International Narcotics Matters, 450 men were hired to manually dig up coca plants while paying the farmers a nominal fee for their losses. At its peak year in 1985, CORAH eradicated 5,000 hectares of coca while 20,000 new ones were planted that same year. The fee offered to peasants -- \$300 per hectare<sup>50</sup> -- was a paltry fraction of what the peasants were making on the illicit market for the same amount of coca.

Nor did alternative development fare any better in reducing the area of coca cultivation. Under the name PEAH (Programma Especial del Alto Huallaga, or Upper Huallaga Area Development Project) and with an annual budget of \$3 million from U.S. AID,<sup>51</sup> the project was intended to promote crop substitution and general economic development of the region. Eradication was seen as an integral part of alternative development, promising to raise the perceived risks of coca cultivation and reduce the profit margins to the point where growing alternative crops would be economically

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<sup>49</sup> Tarazona-Sevillano (1990): 109.

<sup>50</sup> Cynthia McClintock, "The War on Drugs: The Peruvian Case," *Journal of Interamerican Studies and World Affairs*, 30 (2-3), Summer-Autumn 1988: 133.

<sup>51</sup> Cynthia McClintock and Fabian Vallas, *The United States and Peru: Cooperation at a Cost* (New York: Routledge, 2003): 113. Interestingly enough, the CORAH and PEAH efforts in Peru in the 1980s were one of the rare moments when alternative development received more funding than eradication even though both efforts were grossly underfunded given the scale of the problem.

attractive. A key problem with the design of PEAH was a requirement that only peasants certified by CORAH not to be cultivating any coca were allowed to participate in PEAH's programs. Obtaining such a certification turned out to be a complex bureaucratic headache, partially stemming from a lack of land registry and titles and compounded by the fact that it was unclear who was cultivating coca legally for ENACO. The peasants who actually participated in PEAH's projects were unable to raise sufficient money to support themselves and their families and repay the debts they had to incur to cultivate legal crops. The only way to repay these debts was to go back to growing coca. Moreover, legal crops took too long to become productive, generating income only several years after peasants had to have repaid their debts. Crop failure and low profitability due to a decline of international market prices for legal crops also systematically plagued the effort, impoverishing peasants who had agreed to eradicate coca and participate in the legal schemes. Commented a UHV peasant (quoted by MacDonald): "God made this valley for coca. I plant coffee: it gets knee high and it dies. I plant cacao and it turns yellow. Coca – that's all that grows."<sup>52</sup>

Overall, the alternative development efforts largely failed, and employees of PEAH became targeted by angry peasants. As Cynthia McClintock and Fabian Vallas observed, "Gradually the fifty-odd employees of PEAH focused primarily on research into viable alternative crops at PEAH's own headquarters."<sup>53</sup> By 1986, PEAH spent almost as much money on project administration and bureaucracy (\$1.3 million) as on agricultural extension services to peasants (\$1.6 million). The early failure of PEAH

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<sup>52</sup> Quoted in Scott B. MacDonald, *Dancing on a Volcano: The Latin American Drug Trade* (New Praeger, 1986):

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<sup>53</sup> McClintock and Vallas: 114.

soured many Peruvian peasants on the concept of alternative development and made them distrust its viability in general. Such a poor image of alternative development persists even today.<sup>54</sup>

Eradication and the failure of alternative development generated widespread resentment and resulted in the formation of local defense committees to negotiate with the central government. Throughout the early 1980s, these local defense committees continued organizing. One such committee was Comité Regional de Productores de Coca de La Provincia de Leoncio Prado y Anexos (Regional Coca Producers Committee of Leoncio Prado Province) in the Leoncio Prado region of the UHV, a region that bore the brunt of eradication efforts in the 1970s and 1980s. In the northern part of the UHV, the coca peasants formed the Front for the Defense of the Interests of the People (FEDIP) of Tocache province. At the peak of FEDIP's activity in 1986, its membership included tens of thousands of peasants in the region. Their agenda included legalization of coca cultivation, expansion of markets for legal uses of coca for medicines and food, and protection of *cocaleros*' rights against the abuses of UMOPAR (the Unidad Móvil de Patrullaje Rural or Rural Mobile Patrol Unit)<sup>55</sup> that was tasked by the government to protect eradication units<sup>56</sup> and that came to be widely accused of gross human rights violations. FEDIP's demands also included the promotion of agricultural and industrial development of the region and development of social services and infrastructure.

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<sup>54</sup> Author's fieldwork in Peru, summer 2005.

<sup>55</sup> UMOPAR consisted of about 350 men that were trained by the DEA and directly or indirectly paid by the U.S. government. Allegations of UMOPAR's abuses included violating personal and property rights, raping women, stealing money from peasants, seizing coca leaves and reselling them to the traffickers, and extorting money from the peasants.

<sup>56</sup> Between 1982 and 1988, 32 eradication workers and six development workers were killed.

Eradication thus *pre*mobilized the peasants for Sendero. In the central highlands, peasants were unconnected to the state, and under Sendero's tutelage, gradually embraced some of its teachings, but remained passive. In contrast, the peasants in the drug-producing regions were already mobilized and fighting when Sendero encountered them. All Sendero needed to do was to offer itself as a credible protector of their interests and an agent of their goals, i.e., as protector of their coca. Once Sendero realized that their own prohibition of the illicit economy was a mistake, this is exactly what it did. At least some members of the United States government understood the dynamic. In his Senate testimony, Deputy Assistant Secretary for Narcotics Matters, Clyde B. Taylor, commented that

Many [cocaleros] see coca eradication efforts as a threat to their survival. When [Sendero] recruiters announce that they have come to protect the livelihood of growers against government interference, they find ready listeners. Paradoxically, the U.S.-funded eradication efforts may be making the remaining growers more desperate and more susceptible to the blandishments of terrorist recruiters.<sup>57</sup>

By 1985, the Shining Path thus abandoned its prohibition on coca cultivation and became positively involved in the illicit economy. In its contestation for the allegiance of the *cocaleros*, the Shining Path was helped by one important factor: the ineffectiveness of the *cocaleros*' defense organizations. The defense groups did engage in symbolic actions. They had organized strikes and shut down roads, even paralyzing economic activity in the valley. They also captured and beat up UMOPAR members to deter them from carrying out counternarcotics activities.<sup>58</sup> Most importantly, they forced the federal

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<sup>57</sup> Clyde B. Taylor, "International Insurgency and Drug Trafficking: Present Trends in Terrorist Activity," Joint Hearings before the Committee on Foreign Relations and the Committee on the Judiciary, U.S. Senate, May 1985 (Washington, DC: U.S. Government Printing Office, 1986): 133.

<sup>58</sup> See, for example, Lee (1989): 62-4 and 86.

government into negotiations.<sup>59</sup> But despite all of their actions and despite the negotiations, they failed to achieve any meaningful and lasting concessions from the central government, nor any real improvements in the lives of the rural population in the UHV. By the mid-1980s, they were largely defunct; local farmers had lost interest in joining the groups.<sup>60</sup> Politicians from traditional parties representing the region in the Peruvian Congress, such as Huánuco Senator Andres Quintana Gurt, or mayors in Tocache and Tingo María, while critical of the counternarcotics policies and demanding an end to CORAH, were equally ineffective in bringing about meaningful policy changes. Thus, by 1986, the Shining Path began infiltrating both the Leoncio Prado committee and the Tocache FEDIP and offering itself as a more effective alternative to protect the interests of the *cocaleros*. The lack of legitimate and effective representation thus thrust the *cocaleros* into the hands of Sendero.

Other entrepreneurs vying to represent the *cocaleros* lost to Sendero because they were unable to deliver any real goods to the peasants. Sendero had several crucial advantages. First, it could resort to violence in an organized and effective way in order to successfully repel the eradication teams. The scale of violence that Sendero was able to put up to frustrate eradication was considerably greater than the reprisals against specific UMOPAR and CORAH individuals and general strikes the *cocaleros*' defense organizations could organize. Second, unlike the establishment politicians and the coca defense organizations, Sendero was under less pressure to deliver immediately. Every failure of the peasant organizations' negotiations with the government exposed their weakness and the futility of the effort. But Sendero was offering to solve the problem by

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<sup>59</sup> One such major strike took place in 1986. Ibid.

<sup>60</sup> Jo Ann Kawell, "The Cocaine Economy," in *The Peru Reader: History, Culture, Politics*, in Orin Starn, Carlos Iván Degregori, and Robin Kirk, eds. (Durham: Duke University Press, 1995): 408-09.

altogether overthrowing the system. At the same time, because of the scale of violent resistance it could offer, it was able to deliver immediately visible results in halting and interrupting eradication.

Furthermore, the continuous influx of people migrating to the UHV in search of a better economic future was also highly advantageous to the insurgency, since it put a greater number of people into contact with Sendero and isolated them from the state – both physically and legally. As other means of representation – namely, the coca defense committees -- dissipated Sendero became the only available protector for those participating in the illicit economy.

In sum, Sendero's experience with the peasants' negative reaction to its own prohibition and to the government eradication made the Shining Path change its policy and eventually actively encourage the production of illicit substances. The Shining Path justified its participation in the drug trade, violating its Marxist principles, by explaining that the narcotics were destined for the United States, and hence contribute to the corrosion and demoralization of "Yankee imperialists."<sup>61</sup> It is interesting to note that while the SL turned out to be very inflexible and extremely doctrinaire with respect to its other demands, such as the forcible recruitment of children as young as eight or ten and the prohibition of legal crop markets, it learned not to interfere with coca production. While it doggedly insisted on its other unpopular policies, it learned that it could not support eradication. The costs in terms of political capital were simply too high for the Shining Path to absorb while the political capital generated by SL's sponsorship of the illicit economy was too valuable to forego. By reversing its policy and offering itself as a

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<sup>61</sup> Tarazona-Sevillano (1990): 118. Sendero did maintain its prohibition against drug consumption.

protector of the *cocaleros* and the illicit economy, Sendero was able to capture a ready and mobilized political base. Contrary to the predictions of the conventional view, eradication was not able to prevent the growth of Sendero's strength, neither in terms of military capabilities (described in detail below), nor in terms of political capital. In fact, consistent with the prediction of my theory, government eradication antagonized the peasants and contributed to Sendero's learning that its own prohibitionist policy of the illicit economy was extremely politically costly, thus motivating Sendero to embrace the illicit economy.

#### **IV. Embracing the Drug Economy: *Testing the Effect of Belligerents' Positive Involvement in the Illicit Economy***

By 1986, the Shining Path consolidated its control of the Upper Huallaga Valley and became its active sponsor. Meanwhile, UHV's illicit economy continued expanding despite the government counternarcotics efforts. According to the U.S. Department of State, in 1986, coca was cultivated on 107,500 hectares in Peru.<sup>62</sup> The numbers used by Peru's Multisectoral Committee for Control of Drugs were even higher, ranging from 135,000 to 180,000 hectares.<sup>63</sup> Coca cultivation had spread to 14 out of Peru's 24 departments. The five departments with strong Sendero presence – Cuzco, Ayacucho, San Martín, Huánuco, and La Libertad -- accounted for more than 90 percent of both cultivation and production. Eradication also resulted in a balloon effect within Peru, pushing production out of the Upper Huallaga Valley also in the Central Huallaga region.

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<sup>62</sup> U.S. Department of State, *International Narcotics Control Strategy Report* (Washington, DC, 1988): 78, 92, 109. In 1993, the USAID estimated that the illicit coca economy added \$640 million to Peru's GDP, of which \$482 stayed in the country while \$158 million remained abroad. Cited by Clawson and Lee: 13.

<sup>63</sup> Quoted by Lee (1989): 23.

The estimated earnings from the illicit economy ranged from \$800 million to 1 billion annually.<sup>64</sup>

Given Sendero's positive involvement in the illicit economy, both the conventional view and the theory of political capital of illicit economies predict that Sendero would be able to significantly increase its strength. However, while the conventional view only predicts an increase in the group's physical resources, the theory of political capital of illicit economies also predicts an important increase in its freedom of action and political capital. Because the state of the overall economy was poor, the character of the illicit economy labor-intensive, traffickers present, and the government policy toward the illicit economy suppression, the theory of political capital of illicit economies predicts a substantial increase in power, and significantly, a substantial increase in the belligerents' political capital. Thus, while the conventional view predicts the same level of popular support for the Sendero in both drug-producing and drug-non-producing regions, my theory predicts a significantly greater support for the group in the drug-producing regions.

### ***Military Capabilities I: Physical Resources***

After firmly securing control of the region in 1986, the Shining Path levied a five percent tax on the coca paste sold by the *campesinos* to the traffickers who exported it to Colombia. From this tax alone, Sendero was able to raise around \$30 million a year.<sup>65</sup> This income was later supplemented by the *traquatero* barons paying a facilitation fee of \$5,000 to \$15,000 for Sendero's provision of a safe airstrip for each takeoff by an aircraft

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<sup>64</sup> MacDonald (1989): 59.

<sup>65</sup> "Los Intis de la Coca," *Peru Economico*, September 1987.

carrying coca paste out of the Upper Huallaga Valley, amounting to about \$75 million extra a year.<sup>66</sup> The total income the guerrillas gained from drugs was estimated to be as high \$550 million per year.<sup>67</sup> Even at an actual income considerably lower, Sendero's sponsorship of the illicit economy allowed it to be financially self-sufficient and eliminated any need for foreign sponsors. Thus, unlike other Marxist/Maoist guerrillas, the Shining Path was not financially hit by the collapse of the USSR and the economic crisis in Cuba and the subsequent drying up of resources available to Communist rebels from these two countries.<sup>68</sup>

The financial profits from drugs increased Sendero's physical capabilities and greatly facilitated an improvement in procurement and logistics. While elsewhere in the country, including in its traditional stronghold Ayacucho, Sendero could operate only in small columns of 10 to 15, in the UHV it was able to field actual companies of 60 to 120 individuals. Although dynamite stolen from mines continued to be used more often any other weapon by the Shining Path throughout its campaign, after 1986 the guerrillas could also procure weapons such as M-60 machine guns, G-3 and FAL automatic rifles,

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<sup>66</sup> Clutterbuck: 46. A roughly equal amount went to corrupt officials of the Peruvian police or armed forces who turned a blind eye to coca trafficking. In 1994, there were about 82 such airstrips in the Huallaga Valley, of which 14 were controlled by the army, another 10 known and patrolled by the air force, and about 58 clandestine – a varying number, since on flat ground an airstrip can be made quickly and easily. See, Clutterbuck: 44. According to a prominent captured Peruvian trafficker, Demetrio Limoniel Chavez Peñaherrera, known as El Vaticano, the air flight facilitation fees were as low as \$5000 per flight plus \$3 per kilogram of coca paste or \$6 per kilogram of cocaine base.

<sup>67</sup> Other analysts put Sendero's income substantially lower. McCormick estimates \$20 to \$30 million (p. 22). José Gonzales estimates an income of \$20 to \$100 million. See, José E. Gonzales, *"Peru: Sendero Luminoso en el Valle de la Coca,"* in *Coca, cocaine, y narcotráfico: Laberinto en los Andes*, Diego García Sayan, ed. (Lima: Comisión Andina de Juristas, 1989): 217. The \$550 million figure was an estimate by a Peruvian admiral, based on his knowledge of the airstrip fees in the Upper Huallaga Valley, in his testimony to the Peruvian congress. See, *Latin American Weekly Report*, January 24, 1991: 1.

<sup>68</sup> It is important to note that in addition to taxing the drug trade, Sendero also levied taxes on businesses in the areas they controlled. But profits from drugs represented by far the largest income.

U.S.-made hand grenades, grenade launchers, and 81mm mortars.<sup>69</sup> Similarly, after gaining access to the drug money, Sendero was able to pay salaries to its soldiers -- in fact, very large ones by Latin American standards. The common salary range - \$20-\$500 per month -- was about three to eight times the salaries of most of Peru's teachers.<sup>70</sup> In coca producing regions, salaries may have been as high as \$1,000 a month.<sup>71</sup> At an estimated 10,000 guerrillas, around \$5 million was thus spent on salaries annually. For comparison, the salary of top military generals in Peru was less than \$200 per month, and about \$10 for enlisted personnel.<sup>72</sup> The SL also rewarded its other members and sympathizers by providing them with food, housing, and livestock.<sup>73</sup> Apparently, Guzmán also ordered a considerable amount -- possibly as much as \$200 million -- to be deposited in foreign bank accounts, hedging for possible difficult times.<sup>74</sup>

### ***Military Capabilities II: Freedom of Action***

But sponsorship of the illicit economy brought much greater gains to the Shining Path than simply an improvement in its physical resources. Sendero's capabilities also improved because its operational capacity, namely freedom of action, expanded. After 1986, for example, the SL no longer felt the need to acquire weapons by seizing police and military caches or robbing banks. Instead, it focused on attacking regular military

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69 McClintock (1998): 73, and Tom Marks, "Making Revolution with Shining Path," in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin's Press, 1994): 218. See also *Newsweek*, April 24, 1989: 45, and *La República*, May 27, 1992: 22.

70 McClintock (1998): 292.

71 Cynthia McClintock, "The Evolution of Internal War in Peru: The Conjunction of Need, Creed, and Organizational Finance," in *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed*, Cynthia J. Arnson, and I. William Zartman, eds. (Washington, DC: Woodrow Wilson Center Press, 2005): 63.

72 Palmer (1992): 70.

73 McClintock (1998): 292.

74 *Ibid.*: 72.

units while continuing with a campaign of terror. Self-sufficiency in financing also secured freedom from dependence on foreign support and allowed the belligerent group to develop its struggle on its own terms and without any outside interference.<sup>75</sup> An effective exploitation of the illicit economy thus allowed the Shining Path to optimize its tactics with its overall strategy.

Paradoxically, counternarcotics efforts beefed up the belligerents' military capabilities yet in another way. They served as a training exercise for Sendero's fighters. As Sendero came to actively protect the coca fields from eradication units (described below in detail), its fighters became engaged in combat with Peruvian and U.S. counternarcotics forces. As a top Peruvian military official, quoted by Tom Marks, put it, "Providing security for the drug lords is good training."<sup>76</sup> Although it is unclear just how much such military experience contributed to the efficacy of the guerrillas, it is likely that such training experience was not negligible. The anti-narcotics squads frequently operated with superior equipment and better training provided by the United States than the counterinsurgency forces that were frequently badly equipped and faced low morale problems. Overall, engagement in the drug trade thus greatly improved Sendero's military capabilities.

### ***Political Capital***

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<sup>75</sup> Palmer (1992): 77. Gabriela Tarazona-Sevillano maintains that even though the SL continued fund-raising activities after it tapped the drug money, it did so only for symbolic purposes to demonstrate the SL's international solidarity with Communist guerrillas. See, Gabriela Tarazona-Sevillano, "The Organization of Shining Path," in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin's Press, 1994): 203.

<sup>76</sup> A top Peruvian military official quoted in Marks: 218.

Most importantly, positive involvement in the illicit economy generated large political capital for the Shining Path. The most direct way in which Sendero acquired political capital was by providing the large poor rural population with a reliable source of livelihood. First, Sendero physically protected the coca fields from eradication. In August 1987, for example, Sendero led the *cocaleros* to shut down the jungle highway between Tingo María and Tocache. They destroyed bridges, erected barriers, and dug trenches. A year later, in August 1988, Sendero helped the *cocaleros* organize a general strike that shut down business and paralyzed traffic in the UHV for five days. Sendero also routinely engaged counternarcotics units and fired on CORAH, UMAPOR, and PEAH workers. Over time, Sendero managed to place entire zones of the UHV off limits to CORAH eradicators.

Sendero also attacked U.S. interdiction teams operating in Peru. In the mid-1980s, the United States, jointly with the Peruvian government, launched a major drug interdiction effort dubbed Operation Condor.<sup>77</sup> It targeted processing labs, traffickers' airstrips, and the traffickers themselves. The United States provided Twin Bell 214 helicopters piloted by a private security company, Evergreen Air.<sup>78</sup> These U.S.-Peruvian interdiction efforts were enhanced in 1990 when the United States built an anti-drug air base in the heart of the Upper Huallaga Valley, at Santa Lucía. The goal of Santa Lucía operations was to interdict airplanes leaving the UHV for Colombia with coca paste and cocaine. In April 1990, Sendero attacked the base with rocket-propelled grenades.

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<sup>77</sup> Snowcap in Peru was a subset of a large Snowcap operation that involved nine Latin American countries and funded with \$24 million for three years.

<sup>78</sup> See, Peter Andreas, "The US War on Drugs in Peru," *The Nation*, August 13-20, 1988; and *Peru Report*, "Political Report," 2 (11), November 1988: 71-78.

Catering to the farmers' sentiment, Sendero also opposed alternative development. It correctly sensed that the concept of alternative development was fundamentally discredited among the Peruvian peasants and seen as a ploy to lure them into voluntary eradication without providing reliable livelihood in return. The Shining Path thus came to threaten PEAH workers and literally immobilized PEAH's programs.<sup>79</sup> Sendero's rationale was pragmatic: In an internal document captured in 1986, Sendero argued that "Through coca cultivation, the peasantry earns more [than through other crops] because it is a product that has a ready market."<sup>80</sup> Shortly after the Palmas de Espina palm oil plantation and processing complex started in the UHV, the Shining Path attacked it and inflicted \$1.5 million worth of damage.<sup>81</sup> The peasants applauded.

Second, Sendero also adopted language and imagery that stressed the state's threat to people's subsistence. As Cynthia McClintock recounts, Sendero described the Peruvian state as "*hambreador*" (making people hungry) and genocidal, intentionally killing people through starvation.<sup>82</sup> It adopted slogans such as "Against genocide and against eradication." Simon Strong quotes a Senderista commander in Lima, Félix Córdor, arguing in a eulogy for a boy: "They say that we are terrorists ... [But] the terrorists are those who kill us with hunger every day."<sup>83</sup> Both in its actions and in its rhetoric, Sendero thus actively and ardently opposed government efforts to destroy the illicit drug economy.

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<sup>79</sup> Elena Alvarez, "Illegal Export-Led Growth in the Andes: A Preliminary Economic and Socio-political Assessment for Peru," A Study For UNRISD and UNU, draft of January 25, 1993, quoted in Tullis (1995): 98.

<sup>80</sup> Document quoted in Lee (1989): 82.

<sup>81</sup> Lawrence Jay Speer, "Legal, illegal firms share Peru jungle," *Washington Times*, July 13, 1993.

<sup>82</sup> McClintock (2005): 65.

<sup>83</sup> Félix Córdor quoted in Simon Strong, *Shining Path: Terror and Revolution in Peru* (New York: Times Books, 1992): 263.

In addition to providing the *cocaleros* with protection against the government's eradication efforts, Sendero protected the peasants from the *narcos* themselves. Prior to the Shining Path's protection, the peasants were vulnerable to being killed by the drug traffickers if they failed to deliver a certain amount of coca leaves, even if they failed to do so because of the eradication of the crop by the anti-narcotics squads.<sup>84</sup> Sendero put an end to this practice. Commented a coca-plantation employee to a Lima journalist (quoted by Tarazona-Sevillano): "From [the day the SL came] our salaries went up, and there aren't so many abuses. The Senderistas come every week and ask the townspeople how they are being treated by the traffickers, if there have been abuses, what problems we have."<sup>85</sup> Progressively, Sendero moved to regulate all sorts of aspects of the illicit coca economy. After repeated complaints from the peasants about the traffickers using altered weights for weighing coca leaves, for example, Sendero established rules about how to weigh coca. There were even reports of Sendero executing traffickers who abused and cheated the peasants.

Sendero also negotiated better prices for the peasants from the traffickers. In 1985 U.S.- Peruvian interdiction efforts under Operation Condor succeeded in disrupting processing and traffic. The subsequent overproduction of unprocessable coca leaves led to a precipitous decline in the price of coca leaf, slashing the price by half.<sup>86</sup> Sendero's reaction was to force the traffickers to pay above the market price to the peasants. Sendero repeated this practice in April 1990, after it lost crucial political capital as a result of the Peruvian government's ending eradication (as described in detail below). To

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<sup>84</sup> Raúl González (1987): 67.

<sup>85</sup> Interview reproduced by Tarazona-Sevillano (1990): 124.

<sup>86</sup> See, for example, Richard Craig, "Illicit Drug Traffic: Implications for South American Source Countries," *Journal of Interamerican Studies and World Affairs*, 29 (2), Summer 1987: 21.

regain political capital with the *cocaleros*, Sendero attempted to concentrate coca leaf dealing in their own local committees and bases. This allowed Sendero to directly supervise the price the traffickers were paying to the peasants and force them to pay more than the market price.

Another mechanism by which Sendero acquired political capital was through the use of its drug money to provide social services. As described above, the Upper Huallaga Valley as well as most of rural Peru lacked basic services, such as sewage, roads, schools, and hospitals. The large financial resources obtained from coca production allowed the Shining Path to deliver the lacking social services and improve the existing ones. Whenever it took over a village, Sendero organized water supply, sewage, and street cleanup.<sup>87</sup> It also invested money in the building of a better transportation system and building of hospitals and in the acquisition of medication.<sup>88</sup> The Shining Path supplemented this provision of social services by providing a previously-missing system of law and order, albeit a brutal one.<sup>89</sup> Through its positive involvement in the illicit economy, the Shining Path was thus able to fill— at least in a rudimentary way — the role of the state in the areas it controlled. And it was able to deliver immediate material benefits to the population.

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<sup>87</sup> Tullis: 22.

<sup>88</sup> Zikarzadeh: 213, and Merrill Collett, “Maoist Guerrilla Band Complicated Anti-Drug War in Peru,” *Washington Post*, June 4, 1988.

<sup>89</sup> This system of law and order included prohibiting prostitution, punishing homosexuality, and clamping down on crime. Those who did not comply with Sendero’s rules were executed. Commented a resident in La Morada, a UHV town under Sendero’s control (recounted by Gonzales): “The best thing, though, is that now the police don’t abuse us like they used to and nobody steals a thing. You can leave your car in the middle of the road unlocked for several days, go back and actually find it completely intact.” José E. Gonzales “Guerrillas and Coca in the Upper Huallaga Valley,” in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin’s Press, 1994): 129. Sendero also imposed tolls on roads and checked the identity documents of anyone entering the areas under its control.

Finally, positive involvement in the illicit economy also allowed the Shining Path to increase its political capital by obtaining nationalist legitimacy. The Sendero Luminoso was able to turn widespread resentment against the United States-sponsored coca-eradication program into a nationalist campaign. As an experienced DEA agent, quoted in an interview by Merrill Collett, put it, “You’ll have imperialists cutting down coca trees in front of a crying peasant woman. Mao could not have thought of anything better.”<sup>90</sup> As the American presence in the UHV increased after the opening of the base at Santa Lucía in 1988 where 25 DEA agents and 450 Peruvians were located, Sendero happily prepared to confront them, reasoning that if it could turn the insurgency into, in its words, “a war of national resistance,” then, “90 percent of the population would follow us.”<sup>91</sup> After an increase in eradication and interdiction operations, Sendero predicted a national liberation war between “the U.S. interventionist forces” and the Peruvians whom the SL would lead.<sup>92</sup> In an interview with the Peruvian daily, *El Diario*, a Senderista commander commented: “Here are the American advisers, their mercenary pilots, veterans of the counterrevolutionary Vietnam war, who were defeated by that small nation – here they will be defeated by the masses together with their Army of Popular Liberation [the Shining Path].”<sup>93</sup> Both American and Peruvian journalists started reporting on the eerie Vietnam-like image that U.S. agents in fatigues and Huey helicopters brought to the area.

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<sup>90</sup> Alan Riding, “Rebels Disrupting Coca Eradication in Peru,” *New York Times*, January 26, 1989.

<sup>91</sup> Proclamation of the Sendero Luminoso quoted in Gustavo Gorriti, “Shining Path’s Stalin and Trotsky,” in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin’s Press, 1994): 186.

<sup>92</sup> Sandra Woy-Hazleton and William A. Hazleton, “Shining Path and the Marxist Left,” in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin’s Press, 1994): 233. Although the 100,000 victims within the next two years predicted by the SL in the upcoming conflict with the United States turned out to be a gross exaggeration, the number of confrontations between the United States and the SL did in fact increase dramatically. See interview with Luis Arce Borja, “There is no other way,” by Anita Fokkema, in “Fatal Attraction: Peru’s Shining Path,” *NACLA Report on Americas*, December/ January 1990-91: 25.

<sup>93</sup> Reproduced in Lee (1989): 85.

The Sendero Luminoso only encouraged that comparison, playing up the nationalist card.<sup>94</sup>

### *Summary of Sendero's Gains*

In sum, the Shining Path was able to derive large political capital from its sponsorship of the illicit economy. Its protection of the coca fields against the government eradication teams allowed the Shining Path to capture UHV's mobilized peasant base and maintain its allegiance. Sendero further obtained political support from the UHV peasants by providing the rural population with protection against the drug traffickers, bargaining on behalf of the peasants for better prices, and using the illicit economy to deliver otherwise absent social services to the rural population. Through a successful sponsorship of the illicit economy, Sendero was thus able to identify a mutual enemy with the peasants – the state and its eradication units – as well as joint goals with the peasants – the end to eradication. At the same time, the sponsorship of the illicit economy allowed Sendero to take on the functions of a protostate and reliably provide lacking goods as a governing authority. Finally, by exploiting the presence and key role of the United States in the war on drugs, Sendero was also able to portray itself as a national liberation movement, thus crucially enhancing its political capital. The number of Sendero's *committed* supporters thus grew to between 50,000 and 100,000, while its passive support was even larger.<sup>95</sup>

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<sup>94</sup> The Peruvian government wanted the United States to help it defeat the insurgency, but the US only sought to provide military assistance for coca eradication and coca flow interruption. See Waltrud Queiser Morales, "The War on Drugs: A New U.S. National Security Doctrine?" *Third World Quarterly*, 11 (3), July 1989: 147-169.

<sup>95</sup> David Scott Palmer, "The Revolutionary Terrorism of Peru's Shining Path," in *Terrorism in Context*, Martha Crenshaw, ed. (University Park: Pennsylvania State University Press, 1995): 270.

This increase in the multiple dimensions of its strength – including political capital -- allowed Sendero to escalate to conflict to such an extent that, as will be shown below, it posed a serious threat to the government.

### *Conventional View's Alternative Explanations for Sendero's Political Capital*

The conventional view of narcoinsurgency would, of course, argue that Sendero's acquisition of political capital was completely independent of the guerrilla's sponsorship of the illicit economy. Two alternative explanations consistent with the conventional view can in particular be offered as the source of Sendero's political capital -- ideology and coercion. Offering these two explanations as potential causes of Sendero's political capital is germane to the conventional view: As explained in chapters Two and Three, the conventional view argues that when belligerent groups lose their ideological appeal, they lose their legitimacy. Conversely then, ideology is the primary source of legitimacy. Second, the French school of counterinsurgency that provides an important part of the intellectual framework of the conventional view of narcoinsurgency stresses intimidation and coercion as the key source of obtaining the peasants' allegiance.

According to the first alternative explanation, the Shining Path obtained the peasants allegiance because it was able to present them with an attractive vision of the social order, i.e. an ideology that resonated with the population. In other words, it was Sendero's radical socialist ideology that attracted the peasants to support the movement. The problem with this explanation is that the Shining Path never succeeded in uniting the peasants behind its ideology. In fact, its radical socialist ideology significantly alienated the peasants from the Shining Path. A key concept of Sendero's ideology was to end the

capitalist economic system and prohibit the existence of markets. Frequently, Sendero imposed systems of communal planting and barter in lieu of commercial exchange. Some activists also insisted that villages terminate market relations with the rest of the country and become economically self-reliant, leading Sendero to close down roads on market days.<sup>96</sup>

Yet this ideologically-driven interference with markets turned out to be one of the peasants' greatest grievances toward Sendero.<sup>97</sup> The closing of markets in fact undermined the peasants' ability to obtain basic commodities and satisfy subsistence needs. As one of the peasant commented (quoted by Zirakzadeh): "We could not let them close the markets. Where would we get our salt and matches?"<sup>98</sup> Such Sendero's zealotry backfired, and the peasants who had previously tolerated or even welcomed them into the village, started reporting Sendero to the police.<sup>99</sup> The peasants also resented Sendero's *instrumental* interference with markets as a strategy to starve out cities and enlarge its campaign into the urban areas after Sendero captured the countryside.<sup>100</sup> As Cyrus Zirakzadeh maintains, the peasants had limited goals: they did not want radical socialism; they only wanted a piece of land and a stable income.<sup>101</sup> It is significant to note that the one market that Sendero learned it could not prohibit was the coca trade. The political

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<sup>96</sup> Isbell: 66-7; 71-2.

<sup>97</sup> See, for example, Orin Starn, "Maoism in the Andes: The Communist Party of Peru-Shining Path and the Refusal of History," *Journal of Latin American Studies*, 27 (2), May 1995: 414-15. The population also greatly resented the demand of the guerrillas to hand over little children to them for education in the ideology and warfighting.

<sup>98</sup> Zirakzadeh: 208.

<sup>99</sup> Author's interviews with Peru's former intelligence officials, summer 2005. See also, Degregori (1998): 133.

<sup>100</sup> Degregori (1998): 133.

<sup>101</sup> Zirakzadeh: 191-94.

costs of prohibiting the coca trade, as compared with prohibiting other markets, were simply too high for Sendero to endure.

Importantly, support for the Shining Path was significantly greater in the coca-producing regions than overall in the country. In fact, by far the greatest support was in the Upper Huallaga Valley where the Shining Path had some of its strongest support bases and where as much as 20 to 30 percent of the population actively supported the Shining Path. The national average support for the Shining Path was estimated at 15 percent at most.<sup>102</sup> As a Peruvian journalist, quoted by McClintock, commented: “The people of Tingo María and Tocache [i.e. the main coca-growing regions] never talk about ‘terrorists’ but about ‘the movement,’ ‘compañeros,’ and ‘the party’. The Shining Path [there] has a high level of support from the population.”<sup>103</sup> If ideology were the primary factor driving the peasants’ allegiance, one would expect uniform geographical distribution of results irrespective of coca production. Furthermore, because of the large migration to UHV from the poor regions of Peru, the UHV was more ethnically diverse than Sendero’s traditional base. While in the non-drug producing regions, Sendero’s base consisted predominantly of the indigenous Ayacucho highlands farmers, in UHV Sendero obtained legitimacy and support from other ethnic groups to whom it otherwise lacked a connection. In short, ideology does not adequately account for Sendero’s political capital, undermining the potential validity of the conventional wisdom.

A second alternative explanation, derived from the conventional wisdom, for the guerrillas’ ability to secure the allegiance of the population is coercion. The allegiance of the population is not primarily a function of the belligerent group’s provision of benefits,

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<sup>102</sup> McClintock (1998): 73, 78-9; Marks: 219.

<sup>103</sup> McClintock (1998): 79.

but mainly a function of the belligerents' coercive power. Sendero Luminoso was in fact highly determined to coerce the population into adopting its mores and was one of the most brutal Maoist guerrilla movements. It routinely resorted to smashing in public the heads of its victims with stones or cutting their throats with knives.

Yet Sendero's excessive brutality turned out to be counterproductive, alienating both the uncommitted population and previous supporters. Instead of scaring the population into compliance, brutality only encouraged dissent and turned the population against Sendero. The relationship between Sendero and the population followed a pattern: The rural population initially accepted Sendero, or at least tolerated it. As shown above, the level of acceptance was considerably higher in drug-producing regions. But as Sendero progressively increased its brutality in an effort to coerce the population into closing down markets and recruiting and separating children from their parents, its political capital eroded. The rural population increasingly came to see Sendero with mounting dissatisfaction.<sup>104</sup> To overcome the population's dissatisfaction and lack of compliance, Sendero resorted to more indiscriminate violence. But as its brutality increased, it started losing support among the peasants to such an extent that the peasants were willing to organize self-defense units. Based on interviews with the population under SL's control, Carlos Degregori argues that while the peasants welcomed some level of order the SL established, they abhorred the level of brutality with which the SL tried to enforce its rules: "'punish, but don't kill' marks the level of peasant acceptance."<sup>105</sup> Similarly, Cynthia McClintock maintains, "In various areas where the Sendero was unable to make inroads or where it gradually lost support, the explanation

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<sup>104</sup> See, for example, Isbell.

<sup>105</sup> Degregori (1998): 137.

given was excessive violence: ‘The Senderistas have killed too many innocent people.’”<sup>106</sup> Coercion thus does not appear to be a valid explanation for Sendero’s political capital. In fact, coercion directly undermined the political capital that Sendero obtained from its distribution of benefits to the population.

Positive involvement in the illicit economy mitigated the negative effects of excessive brutality. In the UHV region, Sendero did not need to use the same brutal methods it had been known to use elsewhere.<sup>107</sup> If coercion is the dominant explanation of support, then in areas where the Sendero exercised greater coercion should also be areas of greatest support. But the opposite is the case. In UHV where Sendero was much less brutal and coercive, it had considerably greater support. In fact, the sponsorship of the illicit economy not only allowed Sendero to acquire peasant allegiance without the need to resort to violence, but also mitigated against a future loss of political capital by precluding the need to resort to violence. The Upper Huallaga Valley remained the stronghold of Sendero, even after its popularity waned elsewhere. Thus, contrary to the conventional wisdom, neither ideology nor brutality are compelling as explanations for Sendero’s acquisition of political capital, thus undermining the validity of the conventional wisdom. It was the positive involvement the illicit economy that allowed Sendero to acquire large political capital.

***Sendero’s Learning Curve About Political Capital and Military Gains Derived from Positive Involvement in Illicit Economies***

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<sup>106</sup> McClintock (1998): 69.

<sup>107</sup> McClintock (2001): 94.

As shown above, it took some time for the Shining Path to learn how to effectively exploit the coca production in the region. After it abandoned its initial impulse to prohibit the illicit economy, it first satisfied itself with managing the illicit economy by simply levying a tax on coca cultivation. Later, it also charged the *narcos* a protection fee for their coca-paste and cocaine labs and a facilitation fee for each plane taking off from an airstrip it controlled.<sup>108</sup> Next, Sendero used the coca gains to pay for the provision of social services.

Over time, Sendero also sought to limit direct interaction between the peasants and the traffickers. It established a system of delegations – i.e., groups of Senderistas charged with dealing with the traffickers. A trafficking organization or individual traffickers had to register with Sendero to gain access to coca leaf and pay a \$15,000 fee. Fifty percent of this fee reportedly went to SL's central accounts, forty percent was used to purchase supplies for local units, and ten percent was left with the delegation.<sup>109</sup>

Finally, the SL also branched into other phases of cocaine-production and distribution. In the region of Xion, for example, Sendero became involved with currency exchange. The Colombian *narcos* would arrive in the area with U.S. dollars which they would need to change for Peruvian *intis* to carry out their transactions in Peru. Before the involvement of Sendero with the currency exchange, the *narcos* would change in money in the banks in Xion. However, once the Shining Path diversified its operations, it insisted that all currency exchanges be carried out through them, fixing the exchange rate

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<sup>108</sup> See, for example, Tarazona-Sevillano (1990): 121.

<sup>109</sup> Enrique Obando, "El Narcotráfico en el Perú: Una Aproximación Histórica," *Análisis Internacional* (2), 1993: 85.

and cutting large profits on hard currency at a time when the Peruvian government's hard currency reserves were depleted.<sup>110</sup>

## **V. MRTA's Positive Involvement in the Illicit Economy**

Once the SL figured out how to exploit the drug windfall to its advantage, it provided a modus operandi for other guerrillas in Peru to emulate. Gleaning from Sendero's successful exploitation of the illicit economy and the increase in the multiple dimensions of Sendero's strength, Tupac Amaru Revolutionary Movement (MRTA – Movimiento Revolucionario Tupac Amaru) began emulating the Shining Path's policies toward the illicit economy. Created in late 1983, the urban-based MRTA, headed by Víctor Polay Campos, presented itself as an armed Communist alternative to the Shining Path. It denounced international corporations and the world economy as culprits of the poverty of Peru's poor. The great majority of its members were students. Many of them were disaffected supporters of the APRA party who believed that APRA became institutionalized and stopped representing the poor and that democracy had failed in Peru. Its goals were to replace the failed representative democracy with "the power of the people" through revolution and the creation of a socialist political economy with limited private ownership but predominantly based on communal ownership.<sup>111</sup>

Inspired by the Castro revolution in Cuba and having embraced Che Guevara's "foco strategy" and Carlos Marighela's teachings, it sought to instill a martial spirit among the urban poor and provoke the rich into an intolerable repression of the poor that would provoke a large-scale revolution and topple the regime. It rejected Maoism and

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<sup>110</sup> Raúl Gonzales (1987): 70; Tarazona-Sevillano (1990): 121.

<sup>111</sup> James F. Rochlin, *Vanguard Revolutionaries in Latin America* (Boulder: Lynne Rienner, 2003): 72.

exhibited a pro-Cuba, pro-Soviet orientation. It criticized Sendero as both ideologically misguided and excessively brutal and liked to present itself as kinder and gentler than Sendero.<sup>112</sup> MRTA operated through “Robin Hood” tactics, such as stealing food trucks and distributing the food to the poor, and attacking symbols of capitalism. Approximately one-thousand-militants strong at its apex, the MRTA was responsible for about ten percent of all political attacks and about five percent of all deaths from violence. In comparison, Sendero was responsible for about 75 percent of political attacks and 50 percent of violent deaths.<sup>113</sup>

Although the MRTA was actually first in the coca-growing regions of the Upper Huallaga Valley – specifically in the San Martín department – it essentially ignored the illicit economy and the rural poor. Focused on the urban theater, the MRTA at first did not consider mobilization among the rural poor crucial. As a result of its noninvolvement in the illicit economy, it was not able to grow in strength and expand through the UHV. In fact, it lost the San Martín sections of the UHV it previously controlled to Sendero. Consistent with the theory of political capital of illicit economies, the MRTA’s noninvolvement in the illicit economy resulted in the stagnation of its strength.

It was only after the MRTA had observed Sendero’s increase in strength due to its embrace of the illicit economy that it attempted to emulate this policy and acquire control over the illicit economy itself. Through positive involvement in the illicit economy, it sought to attract legitimacy and support and obtain funds. It thus attempted to protect the farmers’ illicit livelihood against the government and the narcos.<sup>114</sup> Thus, in the San

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<sup>112</sup> Ibid.: 44.

<sup>113</sup> McClintock and Vallas: 69.

<sup>114</sup> James Anderson, *Sendero Luminoso: A New Revolutionary Model?* (London: Institute for the Study of Terrorism, 1987): 1.

Martín coca regions where it had made inroads, the MRTA protected the coca peasants and dealers from the government counternarcotics teams. It also tried to bargain with the traffickers for better prices for the *cocaleros* and ultimately attempted to penetrate processing. Through positive involvement in the illicit economy, MRTA's power in the rural theater grew and the MRTA was able to consolidate its control of the portions of the UHV. So temporarily, the MRTA controlled Medio Huallaga and Alto Mayor, the area between Juanjui el Norte to Tarapoto and Moyobamba -- while the Shining Path controlled the Alta Huallaga -- the area between Tingo María and Juanjui al Sur.<sup>115</sup>

Naturally, the Shining Path was not keen on sharing the large and multi-faceted gains from the drug economy with a rival belligerent group and Sendero actively resisted MRTA's presence. After a major shootout with the MRTA in 1987, Sendero pushed the MRTA out of the UHV and out of the drug business. Peasant support for Sendero against the MRTA was important for Sendero's victory. The Shining Path obtained this support by persuading them that the MRTA had betrayed them by pacting with the narcos on coca prices.<sup>116</sup> The drug traffickers also helped Sendero push out the MRTA, by providing Sendero with men, arms, and intelligence.<sup>117</sup> The drug dealers apparently resented the fact that the MRTA tried not only to tax the peasants, but also to control the processing stage of the cocaine industry, thus threatening the interests of the narcos.<sup>118</sup>

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<sup>115</sup> Enrique Obando, "US Policy Toward Perú: At Odds for Twenty Years," in *Addicted to Failure: US Security Policy in Latin America* (Lanham: Rowan and Littlefield, 2006), forthcoming. Author's copy.

<sup>116</sup> McClintock (1998): 138

<sup>117</sup> Raúl González (1987): 69.

<sup>118</sup> Apparently, the MRTA was also close to the Colombia's M-19 which sent members to the area to help the MRTA. But the M-19 was at odds with the Colombian cartels that controlled the upper stages of the drug industry, thus further pushing the traffickers into cooperation with Sendero. For details, see Andreas (1988).

Ultimately, the MRTA did not succeed in gaining control of the UHV and the coca production, but the significance of sponsoring the illicit economy was not lost on it.

***Relations Between Belligerents and Traffickers: Testing the Unity Hypothesis of the Conventional Wisdom***

The rivalry between the MRTA, Sendero, and the traffickers also reveals the uneasy relationship between belligerent groups and drug traffickers and the fallacy of unity between these two groups assumed in the conventional wisdom, which argues that criminals and belligerents have morphed into a conglomerate actor and need to be fought as a joint enemy of the state. The drug traffickers actively sought to rid the UHV of the MRTA. Ironically, once the MRTA was out of the picture, and Sendero did not face a competitor, it also tried to get involved with the cocaine-processing part of the illicit economy, thus threatening the turf of the narcos. The Colombian drug syndicates even sent 300 heavily armed guards to the UHV to protect their Peruvian intermediaries and the cocaine shipments from Sendero's attacks and extortion.<sup>119</sup> Both groups challenged the traffickers on a number of points.

On the one hand, the narcos welcomed the MRTA and Sendero protecting the coca fields from eradication and the cocaine labs and airstrips from destruction by the counternarcotics forces. They also welcomed that the belligerents insured that peasants delivered the promised amount of coca leaf. On the other hand, the belligerent groups' other goals and interests threatened the interests of the traffickers. The belligerent groups limited the violence, abuse, and cheating the traffickers could impose upon the peasants,

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<sup>119</sup> Lee (1989): 164.

killing the most abusive traffickers. First, Sendero insisted that the traffickers disband gangs they had hired to prevent the farmers from organizing themselves against the traffickers. If the traffickers refused, Sendero would simply kill the gang members one by one.<sup>120</sup> Second, the insurgents reduced the traffickers' profit margins by forcing them to pay more to the peasants. Third, they charged high protection rents for airstrips and labs, consecutively increasing fees. Fourth, they sought to displace the traffickers from aspects of the trade. In sum, the narcos and the belligerent groups in no way morphed into one actor, nor did they even have identical goals. Their relationship was one of tension, competition, and at times violent hostility.

### *Conflict Expansion*

The vast increase in the multiple dimension of strength through its positive involvement in the illicit economy also allowed the Shining Path to expand the military conflict. Although effective sponsorship of the illicit economy was not the sole reason why Sendero was able to expand conflict, it was an important one.<sup>121</sup> Unlike prior to its positive involvement in the drug economy, when Sendero was only able to impose death tolls in the low hundreds, once it secured controlled of the coca economy in the UHV, it was able to impose death tolls in the thousands. The number of people killed rose to over 3000 a year in 1989 and 1990.<sup>122</sup> The table and graph below summarize the number of deaths due to the armed conflict prior and after SL's access to drugs.

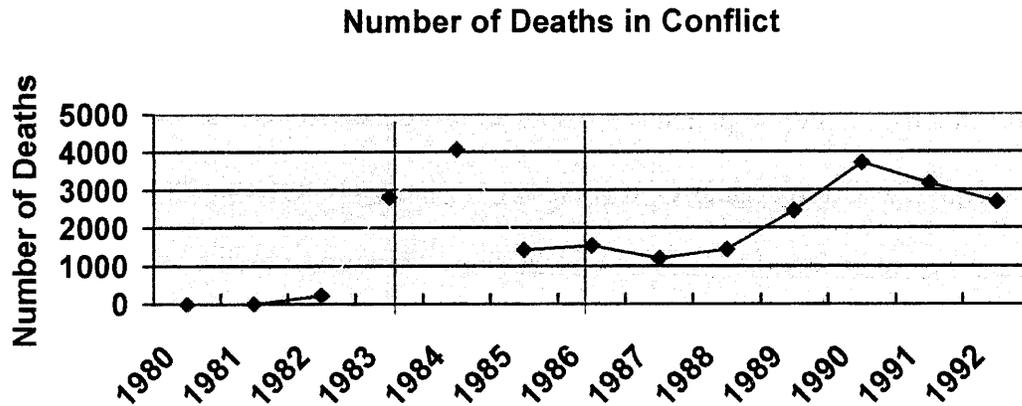
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<sup>120</sup> Tarazona-Sevillano (1990): 117.

<sup>121</sup> Other factors that contributed to the overall effectiveness of the guerrilla were a long preparation and charismatic leadership.

<sup>122</sup> Clutterbuck: 26.

Number of Deaths due to Conflict in Peru												
1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
7	13	244	2850	4081	1423	1534	1208	1447	2466	3724	3181	2683



*Before Access to Drugs*

*Securing Access  
to Drugs*

*After Control of Drug Regions  
Consolidated*

Data from Gordon McCormick: *From the Sierra to the Cities: The Urban Campaign of the Shining Path* (Santa Monica: RAND, 1992): 22; David Scott Palmer, "Peru, the Drug Business and Shining Path: Between Scylla and Charybdis?" *Journal of Interamerican Studies and World Affairs*, 34 (3), Autumn 1992: 76; and James F. Rochlin, *Vanguard Revolutionaries in Latin America* (Boulder: Lynne Rienner, 2003): 70.

The graph and the table show two spikes, reflecting two expansions of the conflict, one before the Sendero consolidated its access to drugs and one after Sendero consolidated its access to the illicit narcotics economy. Does the pattern of violence mean then that the escalation of the conflict was due to some factor other than increase in the strength of the belligerents as a result of their access to the illicit economy? Yes and no.

The dramatic increase in the number of casualties after the 1986 can indeed be attributed to the increase in Sendero's activity, in large part stimulated by gains from sponsoring the illicit economy. The first increase cannot be attributed to drugs; in fact, it cannot be attributed to the Shining Path at all. Rather, the first spike denotes the first counterinsurgency approach adopted by the Peruvian military forces between 1983 and 1985. In 1983, the military implemented a counterinsurgency strategy based on the indiscriminate use of terror against the peasantry -- what came to be known as "the dirty war"<sup>123</sup> and highlighted in the graph by vertical lines. During this period, the military tortured and killed even peasants suspected of merely sympathizing with the insurgents. The peak number of deaths per year was thus rose to 4081 in 1984. During this period of indiscriminate slaughter by the Peruvian armed forces, the vast majority of the deaths were caused by the military forces, not the Shining Path.

By 1985, as a result of the arrival of a new government in Peru as well as the recognition on the part of the military that the counterinsurgency strategy was not working, the military abandoned the "brutality en masse" approach and resorted to selective killing with the hope of gaining the support of the population.<sup>124</sup> This new strategy is expressed in the sharp decrease in the number of deaths after 1985. The steady increase after 1986, i.e., after Sendero consolidated its control over the UHV, was due to the expansion of the SL's activity, in a large part due to the drug windfall. The subsequent decline in 1990 reflects Sendero's losses in the countryside, to a large extent

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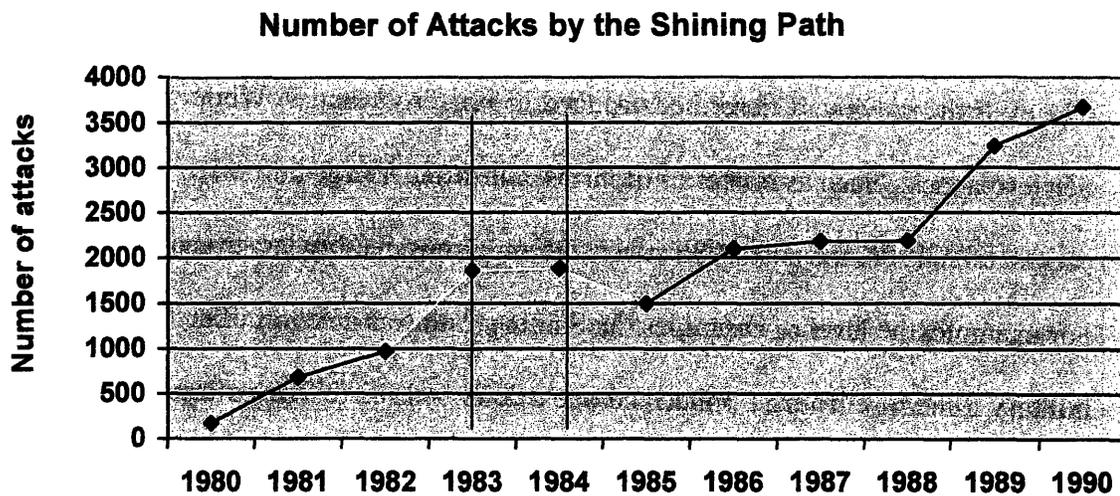
<sup>123</sup> Manrique: 192; Enrique Obando, "Civil-Military Relations in Peru, 1980-1996: How to Control and Coopt the Military (and the consequences of doing so), in *Shining and Other Paths: War and Society in Peru, 1980-1995*, Steve J. Stern, ed. (Durham, Duke: 1988): 385-410.

<sup>124</sup> José Ruiz Rénique, "Apogee and Crisis of a 'Third Path': *Mariateguismo*, 'People's War,' and Counterinsurgency in Puno, 1987-1994", in *Shining and Other Paths: War and Society in Peru, 1980-1995*, Steve J. Stern, ed. (Durham, Duke: 1988): 325.

driven by the military's tacit acquiescence to coca cultivation, detailed below in Section VI.

An even better measure of the expansion of the conflict as a result of the increase in Sendero's strength is the increase in SL's attacks from 1986 on. The graph and table below illustrate this increase of SL's activities after the Shining Path consolidated its involvement with the drug economy.

Number of Actions Undertaken by the Shining Path										
1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
178	685	969	1865	1888	1497	2098	2181	2189	3240	3672



*Before Access to Drugs*

*Securing Access  
to Drugs*

*After Control of Drug Regions  
Consolidated*

Data from Gordon McCormick: *From the Sierra to the Cities: The Urban Campaign of the Shining Path* (Santa Monica: RAND, 1992): 22.

Once again as in the previous graph, there is a temporary spike in the number of SL's military actions between 1982 and 1984, and a subsequent decrease in 1985. As in the previous graph, this surge in activity corresponds to the military's aggressive counterinsurgency policy. This temporary surge in SL's activity was due to both the necessity on the part of the SL to defend itself against the military's attacks as well as due to its strategy of increasing activity after military attacks to demonstrate that it has not been defeated.<sup>125</sup> The steady increase after 1986 reflects the intensification of the conflict as a result of the increase in Shining Path's strength due to access to the illicit narcotics economy. Although the graph may give the impression of a steady increase in Sendero's activity regardless of its positive involvement in the illicit economy, what it does not capture is the previously described change in Sendero's tactics. While very small-scale Sendero attacks, such as robberies of farms, constitute a large portion of the pre-1986 period, after 1986, the post-1986 attacks become considerably larger and more deadly.<sup>126</sup> For example, the level of casualties the Shining Path was able to inflict on the police and military force rose from 31 police and one soldier in 1982 to 229 policemen and 109 soldiers in 1989.<sup>127</sup>

The vast gains from positive involvement in the illicit economy enabled the Shining Path not only to increase the number and scale of attacks it carried out, but also to expand the area where it operated and that it controlled. Thus, by 1991, the Shining Path controlled not only Ayacucho and the neighboring Huancavelica and Apurímac, but

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<sup>125</sup> McCormick: 28.

<sup>126</sup> Author's interviews with former Peruvian defense and intelligence officials, Peru, summer 2005. See, McCormick: 20-32.

<sup>127</sup> David Scott Palmer, "National Security," in *Peru: A Country Study*, Rex A. Hudson, ed., Area Handbook Series, 4<sup>th</sup> Edition (Washington, DC: Federal Research Division, Library of Congress, 1993): 289-292. The total numbers of police and military deaths caused by the Shining Path over the ten-year period were 795 and 401 respectively.

also parts of the departments of San Martín, Huánuco, Pasco, Junín, and Cusco. It was also able to extend attacks into the more prosperous departments, distant from its base, Arequipa and Ica. In other departments the Shining Path also contested the military over control of the area. An estimated 25 to 40 percent of Peruvian territory was brought under the effective Sendero control or shadow Sendero administration, and more than half of the population lived under a state of emergency.<sup>128</sup>

The increase in Sendero's strength took place despite an improvement in the counterinsurgency policy of the Peruvian military. In fact, most of the strategic and tactical mistakes occurred prior to 1986. As indicated above, the years of 1983 to 1985, were years of the so-called "dirty war" during which the military approach was to brutalize not only the Shining Path, but also the peasants suspected of merely sympathizing with the guerrillas. The military thus profoundly alienated the peasants who refused to provide it with intelligence against the guerrillas. As Gordon McCormick argues, the weakness of the Peruvian military response was further compounded by the style and objectives of the military and police counterinsurgency operations: "The military's chief measure of effectiveness is the body count. Rather than attempt to target Sendero's organization, which would strike at the heart of the movement's capacity to regenerate, the security forces have been content to tally up guerrilla kills. This objective, coupled with severe resource constraints, training and leadership deficiencies, and the general passivity of the forward-deployed units, has helped ensure that the SL will retain

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<sup>128</sup> McCormick: 38.

the initiative.”<sup>129</sup> Consistent with the military’s strategy, it was during this period that the number of overall casualties in the conflict peaked.

Most analysts agree that the anti-guerrilla strategy of the military significantly improved from 1986 on. Having experienced first-hand the importance of the cooperation or non-cooperation of the peasants, the military changed its approach. Instead of indiscriminate killing in the emergency zone, it resorted to only selective repression. Moreover, the new president Alan García also promised a socio-economic campaign to alleviate the tremendous poverty of the regions of the insurgency as well as respect for human rights.<sup>130</sup> Perhaps most importantly, however, between 1985 and 1989, the Peruvian government undertook a vast reorganization of its intelligence, including the creation of a special counter-terrorist intelligence unit, DIRCOTE. This groundwork in intelligence gathering in the late 1980s ultimately led to the capture of Guzmán in 1992.<sup>131</sup> However, even though vast improvements were made during this period, the number of SL attacks increased once again, topping 2000 in 1986.

In short, the increase in Sendero’s military activity followed Sendero’s consolidation of control of the Upper Huallaga Valley and its successful exploitation of the illicit economy, despite significant improvements in the military’s counterinsurgency

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<sup>129</sup> Ibid.: 46. Sendero, under these circumstances, was in the position to determine its own level of acceptable casualties. By expanding or contracting its scope of operations, it increased or decreased its attrition rate. Long before the military could hit the core of the organization, the SL would scale down the tempo of its operations.

<sup>130</sup> Much of the socio-economic aid to the afflicted regions never materialized. While the military accepted García’s emphasis on human rights, his investigation of the military’s human rights violations and his subsequent firing of three generals significantly complicated the relations between the president and the military. For details, see McClintock (1998): 141-49. For improvements in counterinsurgency policy in specific regions, such as in the Ucayali area, see, for example, George H. Franco, “Battling Narcoterrorism: The Peruvian Experience in the Ucayali,” *Orbis*, 48 (2), Summer 1994: 505-16. Based on the British experience in Malaya, the counterinsurgency efforts in Ucayali sought to provide material benefits, such as basic social services, to the population and protect it from reprisals by insurgents.

<sup>131</sup> McClintock (1998): 149.

policy. Although not the sole cause of conflict expansion, the access by the Shining Path to the gains from the illicit economy crucially contributed to conflict escalation and greatly increased the guerrilla's staying power.

## **VI. The Impact of Counternarcotics Policies on Counterinsurgency Objectives:**

### ***Testing the Effect of the Amplifier "Government Response to the Illicit Economy"***

The case of Peru illustrates the way in which a government's acquiescence to drug cultivation facilitates its efforts to defeat an armed insurgency and of the way in which a government's drug eradication efforts hamper the overall efficacy of its counterinsurgency policy. The following analysis will show how the five phases of the Peruvian government's drug policy covaried with the success or failure of the overall anti-guerrilla policies: When the Peruvian government did not attempt to eradicate coca, it scored success against the Shining Path; when it undertook aggressive eradication, the efficacy of its counterinsurgency policy was greatly reduced.

In the **First Phase** of the *military* counterinsurgency effort, the military did not attempt to interfere with the drug trade. The military command in the zone of emergency area concentrated on suppression of the guerrillas and largely ignored anti-drug operations. The military's hands-off policy coincided with CORAH's and UMOPAR's aggressive eradication campaign that, as shown above, had tremendously antagonized the population in the UHV. The military quickly learned that counternarcotics efforts thrust the population into the hands of Sendero. Between 1984-85, the military not only refused to participate in counternarcotics efforts, but also actively sabotaged them. Given that the

belligerents were mostly negatively involved in the illicit economy during this period,<sup>132</sup> the state of the overall economy was poor, the character of the illicit economy was labor-intensive, traffickers were present, and the military's<sup>133</sup> response to the narcotics economy was tacit acquiescence, the political capital of illicit economies theory predicts a substantial decrease in the belligerents' strength.

When placed in charged of the emergency zone in 1984, Army General Julio Carbajal D'Angelo did not consider drug trafficking to be a real problem. Carbajal maintained that the coca business was actually beneficial to the Peruvian economy since it provided thousands of peasants with a source of livelihood and generated large foreign exchange revenues for the country. Cocaine, he argued, was the gringos' problem.<sup>134</sup> He also maintained that involving the military in the fight against drugs could subject his officers and soldiers to the temptation of corruption.<sup>135</sup> Carbajal and his successor during 1985 actively paralyzed the counternarcotics efforts of CORAH and UMOPAR, by

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<sup>132</sup> The learning regarding the need to tolerate the narcotics economy of the various, largely independent Sendero columns in the UHV was not uniform. However, during this period, many prohibited the narcotics economy.

<sup>133</sup> I didn't use the term "government" response to the illicit economy because the government's policy was split between eradication by the police and tacit acquiescence on the part of the government. However, the military in the emergency zone became the governing entity and, at least during this period, controlled counternarcotics policy.

<sup>134</sup> William Montalbano, "Coca Valley: Peru Jungle Surrealism," *Los Angeles Times*, December 2, 1985.

<sup>135</sup> José E. Gonzales (1994): 125. Carbajal's supposition about the danger of corruption of the military and the anti-drug squads turned out correct. It is estimated that the *traquateros* ultimately paid as much money to the Peruvian military for protection as they did to Sendero. The wage differentials between the military's government's pay and the fees offered by the narcos reveal the difficulties of avoiding corruption. A Peruvian two-star general's salary in 1984 was \$3400 a year plus some perks, such as a car and a driver, while a lieutenant-colonel's yearly salary was \$3000. A facilitation fee provided by the traffickers for one airplane takeoff was \$15,000, a five-year salary earned by a lieutenant-colonel on a one time deal. Sometimes the lieutenant-colonel would have to give a share of the profits to other soldiers who turned a blind eye to the airplane takeoffs. Nonetheless, he was able to earn several times more on a single takeoff than was his yearly salary. For details, see Clutterbuck: 45-6. Corruption among the military became pervasive. In 1987, Carbajal himself and 32 of his officers faced charges for accepting money from the traffickers. Corruption among the military forces spread as the economic crisis of the latter 1980s forced drastic cuts in the military budget, and salaries were dramatically slashed. In 1989-90, top generals earned less than \$200 a month or \$24000 a year. Sometimes traffickers paid a facilitation fee twice for the same plane takeoff – one to the military and one to Sendero.

refusing to protect the police and counternarcotics units against attacks or provide them with intelligence on the location of fields and labs. In June 1985, for example, Peruvian soldiers stood by as the *cocaleros* organized strikes and attacked UMOPAR and CORAH, despite the police demands that the military break up the strike. The military also severely restrained the movement of the counternarcotics units, de facto temporarily confining UMOPAR to their barracks for five months from August 1984 to January 1985.<sup>136</sup> When the military authorized UMOPAR and CORAH to operate, it allowed them to do so only in areas where Sendero was not present or was weak. In effect, the counternarcotics teams were not able to eradicate even one single hectare of coca in 1985 (although counternarcotics interdiction continued and destroyed 44 labs.)<sup>137</sup> Carbajal made sure that the military's attitude toward counternarcotics was known among the population. In the Monzón district, for example, he publicly reassured the gathered peasants that: "We guarantee that you will be able to continue with your normal economic activities."

Carbajal's policy of keeping the antidrug squads from operating earned him significant support from the local peasants as well as the drug traffickers. In the six months of Carbajal's tenure, he managed to develop a rather positive relationship with the local population, and both the peasants and the traffickers provided Carbajal with intelligence that allowed him to drop platoons of soldiers along the SL's escape routes

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<sup>136</sup> See, Lee (1989): 89. Carbajal's attitude only worsened the already acute rivalry between the military and the police. Many times subsequently the police attempted to sabotage the military's counterinsurgency efforts, refusing to cooperate with the military's operations and denouncing members of the military as traffickers.

<sup>137</sup> McClintock and Vallas: 115.

and throughout the region of its operations.<sup>138</sup> Consequently, Carbajal was able to disperse the guerrillas' columns in 1984 and temporarily to push them out of the UHV.<sup>139</sup>

The significance of the tacit acquiescence policy for motivating the peasants to cooperate with the counterinsurgency effort is further enhanced by the fact that this period was one of the military's greatest brutality which, tremendously alienated the peasants. The fact that despite the military's brutality, the peasants were still willing to provide the military with intelligence when eradication was halted reveals the crucial role the government's anti-narcotics policy plays for the overall effectiveness of the counterinsurgency policy. The support of the local population for the army counterinsurgency efforts, including the provision intelligence to the army, is thus consistent with the prediction of my theory.

In **Phase Two**, the new president Alan García, under pressure from United States and to capitalize on a popular anticorruption drive, adopted stringent anti-drug operations. Both as a result of its success against Sendero and as a result of the new emphasis on counternarcotics at the highest levels of Peru's new government, the army was ordered to pull out from the UHV and the state of emergency was lifted. Surprisingly, the withdrawal was greeted in the UHV with dismay; local politicians lobbied the government to reinstitute the state of emergency and the population signed petitions to bring the army back. Nonetheless, the army was ordered to scale down its operations in the area, and the police resumed coca crop eradication. Thus, 355 hectares

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<sup>138</sup> *Andean Report*, "Counterinsurgency and Anti-narcotics Measures Become Intertwined in Upper Huallaga," 14 (6), June 1987: 102-106.

<sup>139</sup> José E. Gonzales: 125. The *narcos* also took advantage of the government's acquiescence and started a campaign of terror that frightened the local populace. They also started paying the *cocaleros* smaller prices.

of coca were eradicated in 1987; 5,130 in 1988, and 1,285 in 1989. The total area under cultivation during these years was 109,500, 115,630, and 115, 630 hectares respectively.

Since Sendero was positively involved in the illicit economy and the government response had changed to eradication (while the other amplifying factors remained the same), my theory predicts that Sendero's strength will significantly increase. Eradication will not limit the belligerents' group physical resources while the population will stop supporting the government and providing intelligence on the belligerents. The conventional view, on the other hand, predicts that eradication will deprive the belligerents of critical physical resources while the intelligence provision by the population to the army will be unaffected, thus increasing the effectiveness of the counterinsurgency effort.

In fact, despite the end of the dirty war, the animosity of the local population toward the police and its alienation from the government grew dramatically. The peasants stopped providing intelligence on Sendero. The belligerents were rapidly able to reestablish presence in the region, first infiltrating those regions that were hardest hit by CORAH's eradication. The police frequently found itself outgunned and outmanned by the insurgency.<sup>140</sup> Sendero also began controlling entire towns, such as Uchiza and Tocache. The strategy of provoking a split between the narcos and the SL failed. In fact, the more aggressively the government and the U.S. Drug Enforcement Agency went after the traffickers, the greater the protection the traffickers sought from the Sendero, and the closer the cooperation between the narcos and the SL grew.

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<sup>140</sup> Tarazona-Sevillano (1990): 129.

The aggressive eradication effort culminated in the Spike fiasco. In March 1989, a new controversial herbicide spray Tebuthiuron, known as Spike, was tested in the UHV. The coca growers were profoundly disturbed by this new threat to their livelihood, fearing vast potential damaging effects to their livelihoods and health as well as the overall ecology.<sup>141</sup> Sendero denounced the use of Spike, claiming that “the Yankee monopolies themselves say [Spike] is like a series of small atomic bombs.”<sup>142</sup> The Shining Path capitalized on the outrage of the *cocalero* farmers with the use of Spike and with their support launched a military attack against the Uchiza police post that resulted in one of the worst defeats the Peruvian government suffered in the Valley.<sup>143</sup> In this case, the peasants not only applauded the SL, but also actively joined the guerrillas (as did the narcos) in defeating the police. Significantly, this was one of the rare instances in which the peasants actively fought alongside Sendero. Sendero’s activity peaked, and entire swaths of the countryside came under Sendero’s control. The government’s anti-narcotics campaign was clearly counterproductive to the anti-guerrilla campaign in this second phase. Contrary to the predictions of the conventional view and consistent with the predictions of my theory, the effectiveness of the counterinsurgency effort declined,

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<sup>141</sup> The use of Spike was originally announced by U.S. Attorney General Edwin Meese during his official visit to Peru in April 1988. Under the U.S.-Peruvian agreement, an initial 100 to 250 hectares of coca fields were to be sprayed with Spike from airplanes in May 1988. At the same time, the sole manufacturer of the chemical, Eli Lilly and Company, refused to sell the herbicide to the U.S. Department of State for use in coca eradication programs. The company’s principal concerns were reprisals from drug lords against its South American operations and liability for damages to the people and ecology of the region. The EPA label on Spike indicated that the chemical was “intended for non-cropland vegetation control” and “should not be applied directly to water or wetlands.” Even the State Department-funded environmental report described the UHV area as containing several tropical wet evergreen forests. Thus, amid the controversy, the spraying with Spike was put on hold as President Garcia demanded more testing. For details, see McClintock (1988): 133-34. In March 1989, aerial spraying with Spike was nonetheless undertaken. It is important to note that severe ecological damage to the UHV also resulted from both the cultivation of coca that led to deforestation and the pollution caused by coca processing into cocaine. Processing polluted large areas of the region with millions of liters of kerosene, sulfuric acid, acetone, toluene, and a thousand metric tons of lime, carbide.

<sup>142</sup> Quoted in Rochlin: 62.

<sup>143</sup> Gonzalez (1994): 130.

Sendero's strength increased, and the population stopped providing intelligence on Sendero.

The countryside was in such turmoil that Guzmán finally came to believe that militarily he was gaining the upper hand. Many exposed army and police outposts were destroyed or overrun. Others were abandoned because of growing material shortages, because of high desertion rates, and because of inaccessibility as Sendero cut off access routes. In 1988, in a famous interview with a Lima newspaper *El Diario*, Sendero's mouthpiece, in which Guzmán analyzed the ideology, organization, strategy, and tactics of his movement, he declared that his original estimate of the fifty-year war was too pessimistic and that it was time to carry the war into the cities.<sup>144</sup> The guerrilla campaign thus expanded from the rural to the urban theater, including Lima, or in classic Maoist terms, from the first phase of protracted defense to the second phase of equilibrium.

Guzmán's decision to focus on Lima was highly controversial with the rest of Sendero's leadership. A devotee of Mao, Guzmán had anticipated and had preached about a fifty-year struggle. A faction led by Guzmán's wife argued that Guzmán's sudden change of mind contradicted Maoism and was premature.<sup>145</sup> Both she and top lieutenant Osmán Morote, Guzmán two closest associates, warned that the support in the countryside was insufficient and the risk of defeat in Lima too great.<sup>146</sup> While until then Sendero's operations were consistent with the long-term struggle thesis, Guzmán's

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<sup>144</sup> Sendero did engage in some proselytizing and some minor terrorist attacks in Lima before 1988, but the scale of its operations was limited.

<sup>145</sup> McClintock (1998): 66. Carlos Tapia, for example, carefully outlines the vast differences between Mao's equilibrium in China and the situation in Peru after 1988. See, Carlos Tapia, *Del "Equilibrio Estratégico" a la derrota de Sendero Luminoso* (Lima: Instituto de Estudios Peruanos, 1996). However, the vast and multiple gains from drugs enhanced Guzmán's false optimism that such a shift in strategy could be undertaken. Author's interviews in Lima, summer 2005.

<sup>146</sup> *Ibid.*: 92.

decision to escalate the conflict in 1988 and take it to the capital was seen as not consistent. Although security and economic conditions in Lima were not good, they were not critical in 1988 when Guzmán made his decision to undertake an escalation without sufficient material support. Enrique Obando argues that Guzmán decided to escalate because he became simply impatient.<sup>147</sup> Similarly, Carlos Iván Degregori maintains that over time Sendero's leadership succumbed to unjustified overconfidence.<sup>148</sup> It is very likely that Guzmán impatience and false optimism were stimulated by the vast and tempting gains Sendero obtained from its positive involvement in the illicit narcotics economy and the subsequent and unanticipated increase in Sendero's power. What Guzmán failed to realize, however, was that to a large extent, Sendero's political capital with the *cocaleros* was a function of the government's counternarcotics policies. When the government stopped eradicating, much of Sendero political capital was lost.

This is precisely what happened in **Phase Three**. The UHV area was again placed under a state of emergency with the military in charge, and the military once again adopted tacit acquiescence toward drug cultivation. Given the belligerents' continuing positive involvement in the illicit economy and no change in the values of the other amplifying factors, the conventional view predicts a significant increase in the strength of belligerents and a significant decrease in effectiveness of the counterinsurgency effort. The political capital of illicit economies theory predicts the opposite: a significant increase in the population's support for the counterinsurgency effort, including the

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<sup>147</sup> Enrique Obando, "La subversión: Situación interna y consecuencias internacionales," *Análisis Internacional*, (1), January-March 1993: 45-62.

<sup>148</sup> Carlos Iván Degregori, "After the Fallof Abimael Guzmán: The Limits of Sendero Luminoso," in *The Peruvian Labyrinth: Polity, Society, and Economy*, Maxwell A. Cameron and Philip Mauceri, eds. (University Park: Pennsylvania State University Press, 1997): 179-191.

provision of intelligence to the government, a decrease in Sendero's strength, and an increase in the effectiveness of the counterinsurgency effort.

In April 1989, Army Brigadier General Alberto Arciniega assumed control of the EMZ. From the outset, he made it clear that he would concentrate on defeating the guerrillas, and not on combating drug trafficking. He believed that gaining the cooperation of the local populace was crucial for winning the anti-guerrilla war.

Arciniega noted that it was necessary to fight the SL, but not just in any manner:

It is necessary to consider that any rebel group seeks to gain the people's support, and in the Huallaga Valley these are primarily cultivators of coca and are repressed. How can we win their support? By taking them out of their present precarious situation, that's how. The *cocalero* peasants were harassed by the police and by any other official organization that happened by because they were considered to be criminals. CORAH harassed them by eradicating their crops, the police by considering that they were engaged in criminal activities ... We are talking about 80 percent of the population! What we do then is to change the situation to keep the coca grower, the group which Sendero supports in order to accomplish its goals, from being subject to harassment. If we can persuade the people to join us, the war is won.<sup>149</sup>

To demonstrate his commitment not to interfere with coca production, Arciniega did not allow the police, whom the peasants resented for their coca suppression practices and human rights violations, to stay at his military base, and refused to cooperate with them. Arciniega also promised large economic aid to the region to promote alternative development. The general's acquiescence to coca cultivation was vastly applauded by the populace, and the General received an unprecedented level of popular support. When he asserted in the city of Uchizo in the UHV that the fight was against SL, not against the growing of coca, 30,000 *campesinos* cheered.<sup>150</sup> With intelligence provided by both the

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<sup>149</sup> Quoted by Raúl González, "Las armas de un general," *Quehacer*, (62), December 1989-January 1990: 38-43. Even under Arciniega rule, however, there were allegations that the army still carried out human rights abuses, harassed the peasants, and that the number of disappearances increased.

<sup>150</sup> José E. Gonzales (1994): 134-6.

peasants and the drug traffickers themselves, Arciniega was able to effectively attack Sendero in successive waves, and the military was gaining the upper hand. Tacit acquiescence toward drug cultivation and trade thus greatly facilitated the counterinsurgency effort.

The bad experience with Spike and the impact of counternarcotics efforts on the counterinsurgency campaign also translated into civilians questioning the wisdom of the anti-drug operations in light of the overall guerrilla effort. Eradication came to be seen as counterproductive not simply by the Peruvian military, but also by politicians and technocrats in the government. They feared that repressive enforcement measures would only lose the hearts and minds of the Peruvian peasants to the Shining Path. Said an APRA Congressman, Hector Vargas Haya, "What we need in this country are greenbacks, not Green Berets."<sup>151</sup> Primarily as a result of these concerns, the Bush Administration's \$35.9 million anti-drug aid, aimed at eradication and interdiction, was rejected by President García in April 1990 and subsequently by President Fujimori in September 1990.<sup>152</sup>

Sendero reacted to the losses in the countryside with increasing violence toward the peasants. Since the military's tacit acquiescence toward narcotics cost Sendero much of its political capital and Sendero was no longer capable of providing the population

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<sup>151</sup> *Christian Science Monitor*, 3 May 1990: 3. Many U.S. analysts had a similar reaction. One U.S. analyst, for example, commented that the U.S. request that Peru wage an all out war against drugs is like "asking a country that's fighting the Civil War and going through the Great Depression to take on Prohibition as well." Quoted in Peter Andreas, "Peru's Addiction to Coca Dollars," *Nation*, April 16, 1990: 515.

<sup>152</sup> After intense pressure from the United States, Fujimori subsequently accepted the counternarcotics aid package, but only after assurances that a greater budget would be allocated for alternative development and that peasants would not be labeled criminals. Finally, in April 1992, further U.S. counternarcotics aid was suspended by Fujimori's dissolution of the parliament and suspension of democracy in Peru, the so-called *autogolpe*. Ironically, it was the ending of democracy in Peru, which disqualified Peru from receiving U.S. aid, that allowed the country to suspend eradication against the wishes of and pressure from the United States since Peru no longer feared the effect of drug decertification.

with tangible benefits by protecting the illicit economy, it tried to obtain peasants' cooperation through coercion. Sendero's brutality toward the peasants only further antagonized them. Peasant self-defense units called *rondas campesinas*, promoted by the government, expanded throughout the countryside. The premise of *rondas* was that local peasants would be both more motivated to protect themselves against Sendero, and better capable of doing so because they would know who the Senderistas were. Unfamiliar with the territory, the military forces frequently were unable to tell Senderistas apart from the local population.<sup>153</sup> *Rondas* interacted with a variety of local organizations, such as parent-teacher associations, women's clubs, and irrigation committees.<sup>154</sup> In the coca-growing regions, *rondas* frequently overlapped with the *cocaleros'* defense organizations. Since the UMOPAR was no longer harassing these organizations, they could actively mobilize, and since Sendero was no longer useful as a protector of the peasants against CORAH and UMOPAR, these *cocaleros* self-defense units could manage to recapture the peasants' trust and fight against Sendero. Two such organizations, the Defense Front Against Coca Eradication in the Upper Huallaga (FEDECAH) and Agrarian Federation of the Selva Maestra (FASMA), in particular expanded greatly.<sup>155</sup> Moreover, because of their profits from the drug trade, these *rondas* were frequently well equipped and did not need to rely on the military's unreliable

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<sup>153</sup> For several years, the military opposed the use of *rondas*, arguing that weapons provided to the peasant self-defense units would turn up in the hands of Sendero. Others, such as human rights groups, criticized the concept by arguing, *rondas* would turn noncombatant peasants into cannon fodder for the counterinsurgency effort.

<sup>154</sup> Orin Starn, "Villagers at Arms: War and Counterrevolution in the Central-South Andes," in Steve J. Starn, ed., *Shining and Other Paths: War and Society in Peru, 1980-1995* (Durham: Duke University Press, 1998): 245.

<sup>155</sup> For details, see James Jones, "La Experiencia del PNUFID," in *Desarrollo Alternativo y Desallorjo Rural: Debate sobre sus Límites y Posibilidades*, Hugo Cabienses and Eduardo Musso (Lima: Centro Regional Andino and IICA, 1999).

supplies.<sup>156</sup> Sendero was thus trapped fighting not only the military, but now directly the peasants themselves. This effort not only depleted Sendero's energy and momentum, but also severed the link between the population and the guerrillas. Consistent with the prediction of my theory and contradicting the predictions of the conventional view, Sendero was significantly weakened, the population started supporting the military, and the effectiveness of the counterinsurgency effort was greatly increased.

Sendero's losses in the countryside coincided with its move into the cities and the launching of its urban campaign. As shown above, the decision to move to the cities took place in 1988, fueled by Sendero's optimism about how well the campaign in the countryside was proceeding. By 1990, the urban campaign became all the more vital for the success of Sendero's insurgency projects since the situation in the countryside was more and more unfavorable to Sendero.

Although effective in terms of the overall counterinsurgency effort, the tolerant narcotics approach of the Peruvian military soon came under threat. As a result of information provided to the United States government by the Peruvian police who strongly disliked the general, Arciniega was accused of receiving bribes from the narcos.<sup>157</sup> Arciniega vehemently denied the charges. A bitter public fight in the

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<sup>156</sup> Author's interviews in Peru, summer 2005.

<sup>157</sup> Melvyn Levitsky, *Testimony of the Director of the Bureau of International Narcotics Matters, US Department of State. Hearings of U.S. Senate, Committee on Governmental Affairs, Permanent Subcommittee on Investigation, 26-29 September. 101<sup>st</sup> Congress, 1<sup>st</sup> session.* (Washington, DC: U.S. Government Printing Office, 1989). Given Peru's economic crisis and the minimal resources the military had available, the military was forced to rely, to a significant extent, on the drug money to finance their military operations, pay salaries, buy equipment, and repair military installations. According to the Army's Inspector General's office cited by the Peruvian Truth and Reconciliation Commission, on occasion the traffickers even donated food to the troops. Author's interviews in Peru, summer 2005. See, for example, WOLA, "Drug War Paradoxes: The U.S. Government and Peru's Vladimiro Montesinos," *Drug War Monitor*, July 2004: 6; and Isaiás Rojas, "Peru: Drug Control Policy, Human Rights, and Democracy," in *Drugs and Democracy in Latin America: The Impact of U.S. Policy*, Coletta A. Youngers and Eileen Rosin, eds. (Boulder: Lynne Rienner, 2005): 194. See also, Pablo G. Dreyfus, "When All the Evils Come

newspapers between the general and the U.S. Assistant Secretary for International Narcotics Matters, Melvyn Levitsky, ensued. The new Peruvian president Alberto Fujimori exploited the drug-corruption charges to take control of the military and purge it of officers who were not his staunch supporters. Arciniega was thus removed from his post after having directed the counterinsurgency for seven months.<sup>158</sup>

Following Arciniega's removal and the subsequent investigations into the military's corruption (manipulated by Fujimori and his chief of intelligence services Vladimiro Montesinos to eliminate opposition), the generals in charge of the Upper Huallaga Valley became careful to avoid exposing themselves to drug-corruption charges. The military moved closer to the position of the police and the United States government: not interfering with drug suppression efforts. The counternarcotics efforts undertaken, however, were interdiction, not eradication. The theory of political capital would thus predict increased alienation of the peasants from the government and a weakening of the population's support for the counterinsurgency effort, but to a smaller degree than in the case of eradication.

As the Santa Lucía base became fully operational and the Peruvian military stopped interfering with interdiction operations, the DEA and Peruvian police put large pressure on the traffic. Since the traffickers were not able to transport the coca and cocaine out of the UHV, their demand for UHV's coca leaf dropped, resulting in a large overproduction of coca leaf in the Valley. Prices for coca leaf fell dramatically, from \$2

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Together: Cocaine, Corruption, and Shining Path in Peru's Upper Huallaga Valley, 1980 to 1995," *Journal of Contemporary Criminal Justice* 15 (4), 1999: 370-96. It is, in fact, hard to imagine that the military could have remained immune to the vast profits from the drug trade. However, it is also true that it was the standard practice in Peru to accuse one's political enemies of drug corruption, and the police frequently used this method in its turf wars with the military.

<sup>158</sup> Fujimori also denied Arciniega military protection, a move that de facto invited the Shining Path to assassinate the general, and Arciniega was forced to leave Peru for exile abroad.

per kilo of coca leaf in mid-1989 to \$0.3 in mid-1990, well below the cost of production.<sup>159</sup> The peasants saw a precipitant decline in their income.

Again, the public sentiment turned against the military. A coca grower from UHV (quoted by Gonzales) characterized the mood: “We are very disappointed, because we thought we had governmental and military support, but now we are thinking it was only Arciniega who understood us and had the courage to live among us.”<sup>160</sup> Disillusioned with the government, the peasants stopped providing intelligence on the guerrillas to the military. As an official of the Interior Ministry noted at that time, “with growing popular discontent, Sendero could recover as a major force in the valley, especially when the local growers continue not to receive the economic assistance that Arciniega promised.”<sup>161</sup> Or a coca grower in the Uchiza area (quoted by Gonzales) put it:

We really want to move out of coca production because we know that it is harmful and because of all the problems it causes us. We are harassed and persecuted because we grow coca, and we are victims of corruption and abuse as well. But if we can't count on help from our own government or from foreign aid, then our only recourse may be to get Sendero's support.<sup>162</sup>

Effective interdiction thus renewed the population's demand for Sendero's positive involvement in the illicit economy. Aware of the peasants' poor economic conditions, the Shining Path stepped in and once again provided its regulation services. It made the drug traffickers pay higher prices to the peasants for coca leaves. The peasants were grateful and again embraced Sendero. Thus, enhanced counternarcotics suppression measures once again hampered the success of the counterinsurgency policy.

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<sup>159</sup> José E. Gonzales (1994): 137.

<sup>160</sup> Quoted by José E. Gonzales (1994): 138.

<sup>161</sup> Ibid.

<sup>162</sup> Ibid.

Despite the glitch in the countryside as a result of aggressive and effective interdiction, Fujimori quickly learned that counternarcotics policy could easily hamper the counterinsurgency effort against Sendero. The new president insisted that the drug suppression efforts to be undertaken be interdiction, not eradication. In October 1990, Fujimori gave a major speech in which he explained why he rejected eradication:

In no way we are opposed to an effective program to eradicate illegal coca crops. ... But we wish to address repression in a larger context. ... An effective program of repression that leaves the peasants without other alternatives would sharply increase the number of those in extreme poverty and could unchain a civil war of unsuspected proportions. ... We will not repeat the errors of President Ngo Dinh Diem of Vietnam, who, during the 1950s, pitted himself against the informal, common law order of the peasants. ... We will not push peasants and their families into the arms of terrorists and drug traffickers.<sup>163</sup>

Fujimori was heavily influenced by the ideas of Hernando de Soto,<sup>164</sup> who for a while became his chief adviser for counternarcotics. De Soto advocated giving the coca farmers titles to land to facilitate their switching to legal crops, making them eligible for bank loans, and creating transportation networks to establish access to legal markets. Fujimori also recognized the counterproductiveness of eradication in the context of counterinsurgency. During a major counterdrug summit meeting among Latin American governments and the United States in San Antonio in February 1992, Fujimori rejected counternarcotics efforts unless more was done to help the farmers. During a meeting with President George Bush, in what a U.S. diplomat characterized as “an in-your-face

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<sup>163</sup> Quoted by Clawson and Lee: 218.

<sup>164</sup> De Soto also argued for multinational firms and international organizations to guarantee a set quantity of alternative crops to be purchased for a guaranteed price. He resigned in 1992, claiming that his plan for how to deal with the illicit economy was corrupted and sabotaged from within the government. Vladimiro Montesinos, the head of Peru's intelligence services and Fujimori's closest aide, managed to usurp control of counterdrug policy from de Soto, leaving him largely powerless.

outburst,” Fujimori argued that “No government may fight against an entire population.”<sup>165</sup>

The eradication of all mature coca was thus suspended in Peru until 1996. Eradication of coca seedbeds continued, but despite U.S. pressure, Peru insisted on eradicating only the 15,000 square meters per month target set in negotiations between the U.S. and Peru, and no more. These efforts made only a small dent in the overall cultivation and did not really complicate the lives of the peasants.

In 1991, the CIA and the Peruvian government, specifically Vladimiro Montesinos, began working out a policy alternative to eradication. Since the mid-1980s, the U.S. government had been considering the idea of shooting down planes suspected of carrying drugs from Peru to Colombia. Fearful of mistakenly shooting down civilians and exposing the government to potential lawsuits, the Reagan administration never undertook the program. However, in 1991, Montesinos and the CIA reopened conversations about the program and began setting up the infrastructure that in 1995 ultimately became Operation Air Bridge Denial.<sup>166</sup> Although the United States officially did not collaborate in the air interdiction program until 1995, air interdiction by the Peruvians began in 1991 and appeared to be effective. In 1991, the CIA and SOUTHCOM installed radar stations to facilitate the efforts of the Peruvian air force to

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<sup>165</sup> Quoted by Michael Isikoff, “Bush, Latin Leaders Agree to Stepped-Up Drug Fight,” *Washington Post*, February 28, 1992. At the summit, President Bush agreed that more had to be done to support alternative development. In practice, little aid for alternative development materialized in the subsequent U.S. aid packages for Peru’s counternarcotics effort.

<sup>166</sup> By then, Montesinos had established a counternarcotics office within national intelligence services he controlled and de facto controlled counternarcotics policy. The DEA and the Department of State objected to the CIA’s effort to manage counternarcotics efforts in Peru through Montesinos, citing his widespread and deep connections to Peruvian traffickers, and fearing that “the fox would be guarding the henhouse.” Cited by Gustavo Gorriti in “The Betrayal of Peru’s Democracy: Montesinos as Fujimori’s Svengali,” *Covert Action*, 49, Summer 1994: 55.

track drug planes. In 1991, ten trafficker's airplanes were seized, seven in 1992, and thirteen in 1993.<sup>167</sup>

It is important to note that the military's acceptance of interdiction was not altogether uniform across the country. The 1994 arrest of one of Peru's most prominent traffickers, Demetrio Chávez Peñaherrera known as El Vaticano, revealed that in the Campanilla region where he operated an airstrip for cocaine shipment to Colombia, he received protection from Vladimiro Montesinos,<sup>168</sup> as well as from the military leadership in Campanilla, such as General Nicolas Hermoza Ríos. Chávez claimed that his men cooperated with the military in keeping Sendero out of the region. And in fact, unlike in the Upper Huallaga Valley, Sendero was never able to establish significant presence in Campanilla or control the trade. Apart from revealing the corruption of Fujimori's counternarcotics efforts, this episode once again confirms the lack of an ideological alliance between criminal trafficking organizations and belligerent groups. It also shows that when and where tacit acquiescence to the illicit economy by the government was adopted, Sendero struggled to penetrate the illicit economy and even failed to do so.

Despite the peasants' resentment at the effects of interdiction, *rondas* continued to snowball throughout the country. By 1993, more than 4,200 self-defense organizations sprung up across the country, with a membership of almost 236,000.<sup>169</sup> Moreover, the Peruvian military – at least in specific areas such as the Ucayali region -- adopted an explicit hearts and minds approach, extending state presence and distributing material

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<sup>167</sup> McClintock and Vallas: 120-1.

<sup>168</sup> Montesinos came to be considered by the United States a close Peruvian ally and someone who could guarantee the success of counternarcotics operations in Peru.

<sup>169</sup> David Scott Palmer, "'Terror in the Name of Mao': Revolution and Response in Peru," *Democracy and Counterterrorism: Lessons from the Past*, Robert J. Art and Louise Richardson, eds. (Washington: United States Institute of Peace, 2006), forthcoming, author's copy.

benefits to the population, including road repair, medicines, and school supplies. Intelligence provision further improved, and Sendero's influence weakened. Thus, although interdiction did alienate the rural population from the government to some extent, this counterproductive effect of interdiction was considerably less pronounced than that of eradication, as predicted by my theory. Although interdiction suppressed prices and reduced the income of the farmers, it did not wipe out their livelihood to the same extent as eradication did, and Sendero was not able to secure the population's support to the same extent as it did during periods of eradication. While interdiction was in place since 1990, Sendero kept losing further and further territory in the countryside.

The importance of the urban theater grew as conditions in the countryside continued turning against Sendero. The expansion of the insurgency campaign to Lima, and the increases in number of casualties and attacks, created a real sense in both Peru and abroad that Sendero could topple the government. As Cynthia McClintock argues, one of Sendero's greatest strategic achievements was to create the impression in the minds of many Peruvians that its march to power was inexorable.<sup>170</sup>

Sendero's urban strategy sought to create such a degree of chaos in the cities that would allow it to bring down the government through a combination of a popular uprising and its own military effort. In preparation for this final onslaught, Sendero attacked banks and companies – foreign and domestic – to force them and their capital to leave the country. An exodus of Peru's economic and political elite was to follow. This drainage of the economic leadership would bring the economy to a standstill, resulting in the collapse of all social and public services and major economic deprivation for the

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<sup>170</sup> McClintock (1998): 293.

masses. The masses would resort to looting and strikes. The military would be dispatched to crush them, a move that Sendero believed would cause a schism in the military, which Sendero could exploit to take over the government.

By the end of 1990, Sendero took control over many shantytowns on Lima's outskirts. The economic crisis resulted in the state having to curtail even the most basic services among the urban poor, increasing their economic hardship, radicalizing them, and discrediting neighborhood leaders with less belligerent policies than Sendero.<sup>171</sup> Meanwhile, continuing with its policy of the 1980s, Sendero was distributing public services, such as free haircuts and health clinics, roofing for schools, soup kitchens, and organizing street trash cleanup.<sup>172</sup> Sendero also began detonating car and truck bombs inside the city, including in the very affluent neighborhoods, such as Miraflores. Between 1990 and 1992, with an unrelenting rate, Sendero was attacking police stations, factories, businesses, schools, and paralyzing the capital's roads to the interior. Political assassinations by Sendero became commonplace. Businessmen, doctors, and the professionals were leaving the country, and the military was experiencing high desertion rates. Sendero's predictions appeared to be materializing. The police were rapidly losing credibility for containing growing crime.<sup>173</sup> As Enrique Obando, Peru's prominent defense expert and defense official put it, "Sendero came very close to succeeding in its plan."<sup>174</sup>

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<sup>171</sup> Susan C. Stokes, *Cultures in Conflict: Social Movements and the State in Peru* (Berkeley: University of California Press, 1995): 61-83

<sup>172</sup> Palmer (2006), forthcoming, author's copy.

<sup>173</sup> Jo-Marie Burt, "Barriadas: The Case of Villa El Salvador," in *Shining and Other Paths: War and Society in Peru, 1980-1995* Steve J. Stern, ed. (Durham: Duke University Press, 1998): 271.

<sup>174</sup> Author's interview, Lima, June 2005.

The great downside of moving the campaign to the capital and posing such a direct threat to the political and economic elite of the country was the elite's intensified desire to eliminate Guzmán.<sup>175</sup> A major intelligence effort to capture the leader of the Shining Path was undertaken. Guzmán's move into Lima also greatly limited the area in which Guzmán could continue evading the intelligence services, and hence increased the chances of their apprehending him. Both dangers materialized. In 1990, supported by the CIA, GEIN (Grupo Especial de Inteligencia) a special intelligence unit with the sole purpose of capturing Guzmán was created within the antiterrorism police (Dirección Nacional Contra El Terrorism or DINCOTE). In 1992, GEIN, under the leadership of Col. Benedicto Jiménez, finally succeeded in capturing Guzmán. His capture turned out the critical blow to the insurgency. It shattered his image as invincible god. More importantly, it reduced the decision-making capacity of the remaining Sendero since the organization was strictly hierarchically organized around Guzmán. The capture also provided additional vital intelligence on the remaining top echelons of the Shining Path. To escape the death penalty, Guzmán struck a deal with the government and ordered to his troops to surrender. Taking advantage of Guzmán's call for the end to the conflict, the government announced a "repentance law" in 1993 – that is a modest penalties or amnesty, retraining and reintegration into society for the guerrillas who turned themselves in and provided intelligence.<sup>176</sup> By 1994, Sendero ceased to pose a threat to the Peruvian state and was largely defeated.

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<sup>175</sup> The threat Sendero posed in the urban theater also allowed Fujimori to justify the dismantling of democratic institutions under his autogolpe.

<sup>176</sup> The repentance law was based on the success of the Italian pentini laws against the Red Brigades. As it turned out, however, the guerrillas who turned themselves in frequently provided false intelligence.

In sum, Sendero Luminoso was ultimately defeated without the elimination of coca production and trafficking in Peru, and, in fact, without any eradication taking place at all. Sendero was not defeated as a result of either eradication or interdiction bankrupting the guerrilla group. Sendero was defeated as a result of a combination of an intelligence operation that led to the capture of Guzmán in 1992, which was completely independent of the counternarcotics efforts, and of a successful counterinsurgency policy in the countryside, which won the hearts and minds of the population by tolerating coca cultivation and which used effectively the peasant self-defense forces. In short, as predicted by the political capital of illicit economies theory, eradication hampered counterinsurgency efforts, and the government's tacit acquiescence to coca production was crucially instrumental in defeating the insurgency in the countryside.

## **VII. Hunkering Down in the Jungle and Hoping to Recapture the *Cocaleros***

The elements of the Shining Path that did not surrender and escaped the government were those that operated in the UHV and were closest to both the narcos and the peasants. Despite the increase in the numbers of *rondas* throughout the countryside, the strongest support for Sendero remained in the coca-growing regions. Outraged at Guzmán's concessions and plea bargain, hardcore *Cúpola* member Alberto Ramírez Durand ("Feliciano") created a new organization, Sendero Rojo (Red Sendero). Ramírez had close contacts with the drug trafficking group of Waldo Vargas, a.k.a., El Ministro. According to former Shining Path members, Ramírez had collected \$200 million from drug trafficking before 1994.<sup>177</sup> Although the armed members of Sendero Rojo number

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<sup>177</sup> Clawson and Lee: 181. Recounting a radio broadcast, Clawson and Lee do not provide any greater detail regarding Ramírez's role. It is unclear whether he collected this amount of money on behalf of the

less than 500 and operate almost exclusively in the coca-growing regions, they have recently increased their mobilization efforts.

As the following analysis will show, a counternarcotics policy based until the late 1990s on interdiction was not only effective in reducing the size of the illicit narcotics economy, but also in making it difficult for the remnants of Sendero to regenerate political capital from the illicit economy. The suspension of interdiction in 2002 and the subsequent increase in eradication, however, are presenting a new opening for the remnants of the Shining Path to exploit for acquiring political capital while once again radicalizing the rural coca-growing areas and increasing social instability.

### *The Success of Interdiction in Limiting Narcotics Production, with Help from a Fungus*

Until 1996, eradication of mature coca was suspended in Peru, and only coca seedbeds were being destroyed. Fujimori's insistence that eradication of mature crops not take place was unpopular in Washington, and until 1996, Peru barely eluded decertification by the Department of State and the resulting cutoff of economic aid. In 1995, the country did not receive full certification, but was instead issued a "national interest" waiver.<sup>178</sup>

By 1995, the United States and Fujimori nonetheless worked out an aerial interdiction program against the traffickers' planes. Named "Air Bridge Denial," the

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entire Shining Path, his faction, or himself personally. The latter two possibilities, however, do not appear likely as Ramírez continued struggling with a small number of guerrillas deep in the jungles during the 1990s. If he had such a large amount of money at his disposal he would have been able to field a more impressive looking band of belligerents, despite the counterinsurgency pressure from the Peruvian government.

<sup>178</sup> Ted Galen Carpenter, *Bad Neighbor Policy* (New York: Palgrave Macmillan, 2003): 142.

interdiction operation was premised on the idea that in the unpopulated region between the UHV and Colombia, it would be easy to locate and identify aircraft taking off from Peru for Colombia with coca paste and cocaine. A crucial reason why the United States felt it could officially collaborate with Peru in the aerial interdiction program was new legislation passed in 1994 authorizing the U.S. president to identify countries that posed an extraordinary threat from drug trafficking to the United States and exempting the U.S. from liability for civilian deaths during the shoot-downs of suspected planes, thus circumventing the Montreal Protocol which made the downing of civilian aircraft a criminal offense. And U.S. soldiers were not to fly the interdiction airplanes; the Peruvians would. U.S. agents at the Santa Lucía center, however, would provide the Peruvians with intelligence. As the program kept expanding through 2002, the CIA, the DOD, the DEA, the National Security Agency, and the U.S. Customs provided technical assistance, trained the Peruvian counternarcotics officers, and provided intelligence.

In 1995, some 22 aircraft were downed under the interdiction operations. The fee demanded by pilots operating drug trafficking planes increased from \$30,000 in 1994 to \$180,000 in 1997.<sup>179</sup> Coinciding with the interdiction campaign was a major drop in coca leaf prices that made the returns unattractive for the farmers and caused a major decline in the area cultivated. The price for coca leaf fell from \$2.5 per kilogram at the beginning of 1995 to \$.6 at the end of 1995.<sup>180</sup> Price remained under \$1 per kilogram, below the profit margin, until May 1998.<sup>181</sup> The area under cultivation decreased from 115,300

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<sup>179</sup> Anthony Faiola, "As Coca Market Goes, So Shall They Reap," *Washington Post*, November 18, 1997.

<sup>180</sup> McClintock and Vallas: 126. See also, Theo Ronken et. al., *The Drug War In the Skies: The U.S. "Air Bridge Denial" Strategy: The Success of a Failure* (Cochabamba: Acción Andina, Transnational Institute, 1999).

<sup>181</sup> Obando (2006), forthcoming, author's copy.

hectares in 1995 to 43,400 in 2000 and 46,700 in 2002.<sup>182</sup> Manual eradication on a small scale also began again in 1996. Fujimori felt that the threat posed by Sendero was minimal while the pressure from the United States on Peru to restart eradication was large. Thus in 1996, 1,259 hectares were eradicated; 7,825 in 1998; and 13,800 in 1999.<sup>183</sup>

A major debate exists among experts about the cause of the drop in coca leaf prices. The U.S. government and some counternarcotics experts attribute the drop in prices to the combination of interdiction and eradication. The Director of the Office on National Drug Control Policy at the time, Gen. Barry McCaffrey, for example, called the counternarcotics efforts in Peru “revolutionary,” “without historic precedent,” and “absolutely astounding.”<sup>184</sup> Other counternarcotics experts and human rights advocates point to the aging of coca plants, their reduced productivity and increased susceptibility to a fungus (*Fusarium exysporum*) that between 1991 and 1993 infected the coca plants in Peru.<sup>185</sup> Still others suggest the emergence of a new supply market in Colombia, which was driven by the destruction of the big Medellín and Cali cartels in Colombia. The new and considerably smaller cartels it is argued could not operate well across borders and

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<sup>182</sup> United Nations Office on Drugs and Crime, *Coca Cultivation in the Andean Region: A Survey of Bolivia, Colombia, and Peru*, June 2005, [http://www.unodc.org/pdf/andean/Part1\\_excutive\\_summary.pdf](http://www.unodc.org/pdf/andean/Part1_excutive_summary.pdf), downloaded on May 5, 2006. These numbers were disputed both by the United Nations Drug Control Program and some Peruvian scholars. Author's interviews, Lima, summer 2005.

<sup>183</sup> U.S. Department of State, *International Narcotics Control Strategy Report* (Washington, DC: U.S. Department of State), annual reports, 1997-2000.

<sup>184</sup> McClintock and Vallas: 125.

<sup>185</sup> Tullis: 98; Rojas: 205; and WOLA, July 2004: 8-9. Allegations have been made that the fungus, *Fusarium exysporum*, did not occur naturally, and was released by the CIA. See, for example, Jeremy Bigwood, “The Drug War's Fungal ‘Solution’ in Latin America,” Andean Seminar Lecture Series sponsored by GWU and WOLA, December 8, 2000, <http://jeremybigwood.net/Lectures/GWU-WOLA-JB/GWUNov2000.htm>, downloaded May 5, 2004. These allegations were denied by U.S. and Peruvian officials during the author's interviews in Washington, DC and Lima, Peru, in the summers of 2004 and 2005. The use of a fungus was under consideration for dealing with the opium poppy problem in Afghanistan. Author's interviews with U.S., U.K., and Afghan officials, summer 2004 and winter 2005.

had to stimulate new production in Colombia, thus displacing Peruvian supply of coca leaf.<sup>186</sup>

Although the presence of the fungus no doubt negatively affected the illicit economy, reduced the desirability of UHV's coca leaf, and hence contributed to the decline in prices, it would be wrong to altogether dismiss the importance of the interdiction operations. First, it is unlikely that although interdiction on a much smaller scale had been effective in disrupting traffic and lowering prices before the emergence of the fungus, e.g., between 1989 and mid-1990, it would have no effect at all after 1995 when adopted on a much larger scale. Second, the fact that old plants were not replaced with new ones is a result, not a cause, of the decline in demand for Peru's coca leaves. Had there been sufficient demand, farmers would have invested in replanting with new coca plants. Third, although the new boutique Colombian cartels were likely limited in their trafficking abilities across borders and found it easier to operate from a production base in Colombia, it is not at all obvious that such an inconvenience would have been sufficient to deter them from buying in Peru without the great inconveniences imposed by Air Bridge Denial. Expanding production is a costly and risky activity, and profit-maximizing and risk-minimizing organizations undertake it only if no better alternatives are available. Yet other trafficking organizations, smaller than the emergent Colombian boutique cartels, such as in Burma and Pakistan, and even individual traffickers, such as in Afghanistan, did manage to operate across borders very well. Rather, it is very likely that the considerable pressure that interdiction under Air Bridge Denial was putting on the Peruvian drug traffic was a key factor that motivated the new cartels to shift

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<sup>186</sup> Author's interviews in Lima, summer 2005. See also, McClintock and Vallas: 127; and Rojas: 211.

production to Colombia, despite the risks and costs involved. Without Air Bridge Denial, the new boutique cartels would likely have been able to continue operating from Peru. Fourth, the extent of eradication during that period, on the scale of less than 10,000 hectares a year, was much too small to bring production down by almost 60 percent as happened between 1995 and 1999.<sup>187</sup>

Although effective in keeping production down, interdiction was also manipulated by Vladimiro Montesinos to obtain money and increase his power over the drug trade in Peru and nationally. Montesinos ordered interdiction operations only against certain traffickers while, for considerable payoffs, shielding others. Yet he effectively manipulated control of interdiction to portray himself as a staunch U.S. ally in the war on drugs and to consolidate the control of both counternarcotics operations and drug trafficking in Peru in his own hands. In addition to collecting large protection fees, evidence emerged that Montesinos himself was involved in money laundering and cocaine trafficking, including using army helicopters to transport cocaine.<sup>188</sup> After Fujimori's departure from Peru in 2000 and the reestablishment of democracy in the country, Montesinos, along with 18 generals and more than 50 other high-ranking civilian and military officials were arrested on drug-corruption charges.

On April 20, 2001, the Peruvian air force accidentally shot down a plane belonging to the Association of Baptists for World Evangelization, causing the death of a

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<sup>187</sup> One part of the reason why eradication tends to be ineffective in reducing cultivation is that manual eradication is extraordinarily labor-intensive. It takes perhaps twenty man-days of effort to pull up one hectare of coca plants. See, Kevin Jack Riley, *Snow Job?* (New Brunswick: Transaction Publishers, 1996): 112. Moreover, coca production is easy to move. At its peak, 130,000 hectares (or less than 900 square miles) were planted with coca in Peru. Yet at least 20 million hectares (or 80,000 square miles) in Peru could support coca cultivation, making it extremely easy to move production and avoid detection.

<sup>188</sup> Montesinos was indicted on a variety of trafficking and laundering charges, including on selling AK-47s worth \$8 million to the FARC. He was also apparently directly connected to several Mexican cartels, including the Tijuana cartel. For a comprehensive list of the various charges, accusations, and evidence, see WOLA (July 2004).

U.S. missionary and her daughter. Despite the 1994 legislation exempting the U.S. government from liability under the Montreal Protocol, the Baptist Church sued for \$50 million, and ultimately received \$8 million. The U.S. suspended its financial and material support for aerial interdiction abroad. Although Washington instituted new procedures for monitoring anti-narcotics activities and placed additional restrictions on the “deadly-force phase” of aerial interceptions, aerial interdiction has not been reinstated in Peru. The Peruvian government does not have the means to carry out interdiction on its own, and even U.S. financial aid to Peru could make the United States liable for interdiction mishaps.

### ***Sendero’s New Mobilization: The Effect of Eradication***

In fact, at the time of this writing, eradication does constitute the bulk of the counternarcotics policy in Peru. The remnants of Sendero continue to militarily challenge the government, even if on a small scale. The conventional view predicts that eradication will deprive the remaining Shining Path of physical resources and finally completely eliminate the belligerent group. The political capital of illicit economies theory, on the other hand, predicts that given no change in the values of the other amplifying factors – poor state of the overall economy in the rural regions of Peru, labor-intensive illicit economy, and the presence of traffickers, the change in government response to the illicit economy toward eradication will generate new opportunities for Sendero to attempt to recapture its social base. My theory does not predict that Sendero will succeed in reestablishing a social base – much will depend on the ability of the *cocaleros* to find other representation as well as on the skills of Sendero’s current leadership to provide

effective protection to the illicit drug economy -- but it does predict that the rural population will be once again alienated from the government and that Sendero will be able to exploit this alienation for new mobilization efforts.

Indeed, eradication is generating widespread social strife in Peru. During the period that predominantly emphasized interdiction, the remnants of the Shining Path were not capable of effectively exploiting the coca economy: They were neither making a large amount of money on the drug trade nor deriving a large amount of political capital from sponsoring the illicit economy since they were not able to provide effective protection to the peasants or the traffickers. Their numbers and weapons were too limited to seriously threaten Air Bridge Denial, nor could they kill the fungus that was killing the coca.

Instead, the remnants of Shining Path have been deriving their finances from illicit logging of mahogany, cedar, oak, and other specialty hardwoods<sup>189</sup> along Peru's northern border. This has been the case of especially one armed faction called Proseguir (In Pursuit) under the leadership of commander "Alipio."<sup>190</sup> Illicit logging and the cultivation of coca are intimately linked. In order to plant coca, the land must first be stripped of trees. Conversely, in highly acidic tropical soils, deforestation frequently causes such soil degradation that few plants other than coca can be planted in cleared areas. Illicit logging is highly lucrative and labor-intensive. In the context of continuing

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<sup>189</sup> Illicit logging has been widespread in developing countries. Cambodia's Khmer Rouge, for example, was estimated to derive about \$10 million a month from its illicit trade with timber for Thailand in 1992. See, for example, Jamie Thomson and Ramzy Kaanan, "Conflict Timber: Dimensions of the Problem in Africa and Asia," A Report for the United States Agency for International Development, [http://www.usaid.gov/our\\_work/cross-cutting\\_programs/transition\\_initiatives/pubs/vol1synth.pdf](http://www.usaid.gov/our_work/cross-cutting_programs/transition_initiatives/pubs/vol1synth.pdf), downloaded December 10, 2005. As with all estimates of profits from illicit economies, such numbers should be taken with a grain of salt. In fact, they appear to be grossly overestimated. Nonetheless, even if overestimated ten times, the data indicate how highly lucrative illicit trade with timber is.

<sup>190</sup> Author's interviews in Peru, summer 2005. "Alipio" has taken over the leadership of the faction after the arrest of Feliciano in 1999. Proseguir has also obtained finances from extorting the gas company, Camisea.

large-scale and deep poverty in Peru, positive involvement in the illicit logging economy could thus potentially generate substantial political capital for the remnants of the Shining Path. Yet since the Peruvian government does not have the means to patrol the large Amazon jungles nor the motivation to substantially crack down on illicit logging – there is a high level of state corruption related to illicit logging -- and since the United States is also putting only minimal pressure on Peru to prevent illicit logging, a tacit acquiescence policy is de facto in place.<sup>191</sup> Consequently, the loggers do not need the Shining Path for protection and Sendero has not been able to translate its participation in the illicit economy into a new social base. The extent of the gains the remnants of the Shining Path are deriving from the illicit logging economy is thus limited and confined to gains they can obtain from direct smuggling, rather than large-scale provision of protection.

Instead, it is the increased emphasis on eradication as the principal counternarcotics approach since the late 1990s, and especially since the suspension of aerial interdiction in 2002, that is once again radicalizing the *cocaleros* and presenting a new mobilization opportunity for the remnants of Sendero. The United Nations Office on Drugs and Crime estimates that about 50,000 families are involved in coca cultivation in Peru today.<sup>192</sup> Peruvian experts believe that this number underestimates the scale of the problem, and put the number of people directly involved in the coca economy between

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<sup>191</sup> Meanwhile, the illicit economy is threatening a fragile and highly bio-diverse and rich ecosystem in the Peruvian Amazon. For details, see, for example, Chris Fagan and Diego Shoobridge, “An Investigation of Illegal Mahogany Logging in Peru’s AltoPúrus National Park and Its Surroundings,” *Parks Watch*, January 2005, [http://www.parkswatch.org/spec\\_reports/logging\\_apnp\\_eng.pdf](http://www.parkswatch.org/spec_reports/logging_apnp_eng.pdf), downloaded, September 15, 2005, and Kenneth R. Young, “Environment and Social Consequences of Coca/Cocaine in Peru: Policy Alternatives and Research Agenda,” in *Dangerous Harvest: Drug Plants and the Transformation of Indigenous Landscapes*, Michael K. Steinberg; Joseph J. Hobbs, and Kent Mathewson, eds. (Oxford: Oxford University Press, 2004): 249-273.

<sup>192</sup> United Nations Office on Drugs and Crime, *Peru Coca Cultivation Survey*, June 2004, [http://www.unodc.org/pdf/peru/peru\\_coca\\_survey\\_2003.pdf](http://www.unodc.org/pdf/peru/peru_coca_survey_2003.pdf), downloaded on May 5, 2005.

300,000 to 500,000.<sup>193</sup> As a result of aerial spraying in Colombia, the resulting suppression of cultivation in Colombia, and an increase in prices for coca leaf in Peru, the area under coca cultivation has increased in Peru from 44,200 hectares in 2003 to 48,200 hectares in 2005.<sup>194</sup> Coca cultivation has spread out of the Huallaga Valley to other areas. Although cultivation still continues in the UHV at high levels, other important cultivation areas now include the Apurímac-Ene Valleys, La Convención y Lares, San Gabán, Inambari Tambopata, and Marañón. Coca cultivation also appears to be increasing in the Napo river near the border with Colombia's Putumayo department. Moreover, cultivation of poppy is also emerging in the northern jungle areas.<sup>195</sup> Moreover, coca leaf prices in Peru have been climbing steadily since 1998, from US\$ 0.8 per kilogram of sun-dried coca leaf in 1997 to US\$ 2.9 in 2005.<sup>196</sup> At 2005 prices, a hectare of coca brought to a farmer an annual income of \$7,500, compared with \$600 from coffee and \$1,000 from cocoa.<sup>197</sup> The drug industry continues to be fragmented, essentially run as mom-and-pop

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<sup>193</sup> Author's interviews in Peru, summer 2005.

<sup>194</sup> UNODC (June 2005) and United Nations Office on Drugs and Crime, *Peru Coca Cultivation Survey for 2005*, June 2006, [http://www.unodc.org/pdf/andean/Peru\\_coca\\_survey\\_2005.pdf](http://www.unodc.org/pdf/andean/Peru_coca_survey_2005.pdf), downloaded September 08, 2006. Under the Peruvian counternarcotics law, Law 22095, 11,500 hectares are permitted to be planted with coca for traditional and legal purposes. However, a lack of clarity about who is entitled to legal cultivation complicates enforcement. Peru's ENACO and various social movements have tried to expand the legal market, both domestically and for exports, promoting products such as coca tea and coca wine. One such a recent undertaking in Peru has been the promotion of a power drink flavored with extracts from coca leaves but without the alkaloid cocaine, called Vortex. The United States opposes the exploration and promotion of legal uses, including Vortex, arguing that diversion into illicit uses would not be preventable, eradication would become more complicated, and such schemes would serve as money-laundering ventures for traffickers.

<sup>195</sup> Peruvian counternarcotics experts emphasize the lack of knowledge about the state and size of opium poppy cultivation in Peru or its origins. Some U.S. experts believe that opium was introduced in Peru by the Cali cartel. See, for example, Berry et al.

<sup>196</sup> Obando (2006), forthcoming, and UNODC (June 2006). The United States attributed the rise in prices to slow speed of eradication while the Peruvian government has attributed it to the suppression of production in Colombia and the suspension of interdiction in Peru. See, Isaiás Rojas, "The Push for Zero Coca: Democratic Transition and Counternarcotics Policy in Peru," *Drug War Monitor*, WOLA Briefing Series, February 2003.

<sup>197</sup> "Battles Won, A War Still Lost," *Economist*, 374 (8413), February 12, 2005: 35. The majority of coca farmers plant between 0.5 to 2 hectares of coca.

processing operations. However, increasingly the bulk of processing takes place in Peru itself. With the destruction of the big Colombian cartels, the influence of Colombian traffickers has waned, and Mexican cartels have become the dominant trading partners for Peruvian producers and traffickers. Peru has also been supplying a new cocaine market in Brazil, and Peruvian traffickers are dealing directly with emerging drug syndicates in Brazil.

Even stepped-up eradication is not sufficient to keep increases in cultivation down. Manual eradication has intensified, uprooting 6,206 hectares in 2000 and 12,232 hectares in 2005.<sup>198</sup> But as indicated above, cultivation has increased also, with more coca cultivation in 2005 than in 2000. Peasants have adapted in a variety of ways, among others by increasing the number of plants per hectare. While the average number of plants per hectare in the Apurímac Valley is 30,000 to 40,000, up to 300,000 per hectare have been observed.<sup>199</sup>

As efforts at alternative development have failed to substantially improve the economic conditions of the rural population in Peru, dependence on coca continues. Between 1995 and 2000, the United States spent about \$15 million on alternative livelihood programs in Peru.<sup>200</sup> With this money, about 600 km of roads and 17 bridges were repaired. Credit for legal crops was extended to several thousand families. Some alternative development funds have also been allocated to improvements in health and

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<sup>198</sup> United Nations Office on Drugs and Crime, *Peru Coca Cultivation Survey*, June 2005, [http://www.unodc.org/pdf/andean/Part4\\_Peru.pdf](http://www.unodc.org/pdf/andean/Part4_Peru.pdf), downloaded May 04, 2006, and UNODC (June 2006). Peruvian law prohibits aerial eradication. The use of biological and chemical defoliants has been prohibited in the Monzón area in 2000 after major strikes and protests. Since then the population has become so radicalized in the region that eradication had to be suspended altogether in the Monzón.

<sup>199</sup> International Crisis Group (March 3, 2005).

<sup>200</sup> McClintock and Vallas: 128.

education service.<sup>201</sup> But the majority of farmers found it difficult to obtain funds or otherwise benefit from the programs. Credit and technical assistance continue to be scarce. Critical infrastructure is still lacking. Most peasants were poorer in the late 1990s/early 2000s than in 1994. As Diego García-Sayan put it: “They were promised alternative development and instead, they got alternative poverty.”<sup>202</sup> Although alternative development experts in Peru believe that alternative livelihoods programs are helping to limit the increases in coca cultivation and that in their absence coca cultivation would be far greater, the programs yet have to make substantial improvements in the economic conditions of the majority of the *cocaleros*.<sup>203</sup> Having negative experience with alternative development programs in the early 1980s, the majority of peasants have come to distrust alternative development schemes, including those promoted by various NGOs, such as CARE and Chemonics. Unlike the European Union which prefers to undertake alternative livelihoods programs without requiring eradication, the United States insists that alternative development cannot be successful without eradication and frequently demands that eradication come first before alternative livelihoods aid is disbursed. The coca farmers, however, do not trust such proposals, worrying that they will eradicate, but the promised alternative livelihood programs will fail, and they will be unable to meet basic needs.

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<sup>201</sup> Based on annual reports by the U.S. Department of State, *International Narcotics Control Strategy Reports* (Washington, DC: U.S. Department of State), 1999-2005. An individual successful project was the building of a palm oil extraction facility in the Ucayali region, once a stronghold of Sendero. But such successes are not numerous and operate on a scale too low to make any overall difference in the economic situation of the *cocaleros* and to substantially reduce cultivation.

<sup>202</sup> Quoted by Nicole Bonnet, “Special Report – the Apurímac River Valley,” *The Peru Report and Peru Business Digest*, February 19, 1998: 29.

<sup>203</sup> Author’s interviews with alternative development experts, Peru, summer 2005.

Meanwhile, eradication is generating widespread social protest. Since 2000, several major strikes by the *cocaleros* have paralyzed parts of Peru for days or weeks, not only the countryside, but increasingly also major cities, such as Arequipa, Puno, and Cusco. In 2003, the peasants led a major march on Lima. Between January and September 2004, there were 8,956 protests against the government.<sup>204</sup> Repeated negotiations with the government have failed to achieve a satisfactory compromise between the government and the *cocaleros*, who are demanding suspension of forced eradication, withdrawal of NGOs from the coca regions, and increased rural development with money given directly to them. Under pressure from the *cocaleros*, the Peruvian government temporarily adopted “gradual and negotiated self-eradication” where the coca growers would destroy their own crops, in exchange for a payment of \$100 per every hectare eradicated, \$300 for every hectare reforested, plus food aid, emergency loans, and rural development.<sup>205</sup> Under this negotiated approach, however, eradication proceeded too slowly to satisfy the United States, which has demanded a return to forced and faster eradication. The United States also insists that any compensation be provided only after coca has been eradicated and the area certified as coca-free.

The seething social unrest in Peru is likely to grow since the coca farmers are becoming better organized.<sup>206</sup> Although they lack the cohesion, party organization, and leadership of their counterparts in Bolivia (Evo Morales’ Movimiento al Socialismo - MAS)<sup>207</sup>, they have formed institutional structures, such as the National Confederation of

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<sup>204</sup> International Crisis Group (March 3, 2005): 13

<sup>205</sup> See, Rojas (2003): 7.

<sup>206</sup> The following section draws on my article, “Trouble Ahead: The *Cocaleros* of Peru,” *Current History*, 105 (688), February 2006: 79-83.

<sup>207</sup> The membership of the MAS party has become considerably broader than simply *cocaleros*, but the coca farmers still represent an important and powerful faction of the membership.

Agricultural Producers in Peru's Coca Growing Valleys (CONPACCP). Such institutionalization gives the movement greater political power than unorganized spontaneous riots can achieve.

Lack of unity still undermines the effectiveness of the *cocaleros* since the various regions of coca production in Peru have competing interests. Cusco, which for years has had some legal cultivation of coca for traditional use in addition to illegal cultivation, never fully allied with its illegal counterparts in the other production areas. While Cusco has tried to straddle the boundaries of legality, the Monzón Valley not only protects its illegal economy with arms, but has also been trying to prevent even the minimal state presence the Peruvian government has attempted to field in that region. Police presence in the Monzón Valley is virtually nonexistent, while the power of drug traffickers is very strong.

The various drug-production regions would benefit from the collapse of their competition in the other regions. Their own coca leaf price could increase, and they could capture a greater share of the market. The Monzón Valley coca farmers, for example, did not join the CONPACCP, and created their independent organization, the Monzón Valley Association of Agricultural Producers (APAVM). In fact, the producers and coca-growing technical experts hired by the drug dealers in the various regions are in intense competition with one another over who can achieve greater coca productivity. So far, Monzón is winning, with up to six harvests of coca leaf a year. Ironically, it is the common threat of eradication that is pushing the separate groups together and cementing the bonds among organizations of otherwise competing interests.

Also in recent years, the *cocalero* movement has been trying to make alliances with other disgruntled protest groups, such as anti-mining groups, environmental groups, those who oppose free trade with the United States for fear of not being able to compete with U.S. businesses, and those who oppose increases in mandatory car insurance. Some of these groups have a strong urban base. Most importantly, the *cocalero* movement has increasingly good ties to many of the peasant self-defense groups that fought the Shining Path and that are still today armed. Some of these self-defense groups directly overlap with the *cocalero* groups. But even when there is not a direct overlap, the self-defense groups are frequently sympathetic to the cause of the *cocaleros*.

The United States has dismissed the *cocaleros* as valid interlocutors. It has disparaged their leaders, Nelson Palomino, Nancy Obregón, and Elsa Malpatrida as being on the payroll of the drug traffickers. The United States has also begun designating the peasants as criminals, calling them "narcofarmers."<sup>208</sup> When the department of Cusco legalized cultivation of coca in summer 2005, the United States strongly and successfully pressured the Peruvian government to reverse the decision. The United States insists that any weakening of counternarcotics policy and laws cannot be tolerated.

Meanwhile, however, the social movement is up for grabs by various political entrepreneurs. As the United States insists that the *cocaleros* cannot be treated as valid interlocutors, the only political entrepreneurs available to represent the movement and become its leaders are at the extremes of the political spectrum. The Humala brothers' Etno-Caceristas, an ultranationalist, fascist-like group, is openly defending coca

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<sup>208</sup> Rojas (2005): 217. It is very likely that at least some elements of the *cocalero* movement are receiving funding from the drug traffickers. But it would be wrong to assume that the entire movement has been captured by criminals or that the *cocaleros* genuinely do not believe in their cause. Author's fieldwork in Peru, summer 2005.

cultivation, and has tried to coopt the movement.<sup>209</sup> Although in the June 2006 presidential elections the ex-president Alan García managed to defeat Ollanta Humala came very close to winning and managed to capture the rural areas. Another competitor for the capture of the *cocaleros*' movement is Peru's far-left Patria Roja. Moreover, external actors, such as Evo Morales and Hugo Chávez, have tried to exploit or coopt the Peruvian *cocaleros* movement. Morales has been trying to forge a pan-American movement of indigenous people and coca peasants of the Andes.

Crucially, the remnants of the Shining Path are also among the aspirants to the leadership of the coca peasants. As of 2006, two armed factions of Sendero have been operating in the coca-growing regions. One group, led by "Artemio," professes loyalty to Guzmán, numbers 300 guerrillas, and operates primarily in the Upper Huallaga Valley. The other faction, Proseguir, numbers between 100 to 150 insurgents and is located primarily in the Apurímac-Ene area.<sup>210</sup> Senderistas have begun pledging to defend the *cocaleros* against eradication and counternarcotics agents.<sup>211</sup> Senderistas have also stepped up an agitation campaign at universities, with (by one account) 1,200 proselytizing at schools.<sup>212</sup> Increasingly, many rank-and-file Senderistas are being released from prison. Senderistas have participated in the *cocalero* strikes in Ayacucho during the summers of 2004 and 2005.<sup>213</sup> Shining Path has already apparently established

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<sup>209</sup> Michael Shifter, "Breakdown in the Andes," *Foreign Affairs*, 83 (5), September/October 2004: 126-139.

<sup>210</sup> Allegations have appeared that Proseguir does have some exchanges with Colombia's leftist guerrilla group, the FARC, and that FARC members have traveled to Peru to meet with Proseguir as well as Peruvian drug traffickers. Author's interviews in Peru, summer 2005.

<sup>211</sup> "New 'Ultimatum' from Sendero Leader," *Latin American Weekly Report*, 2004, (16), April 27, 2004: 5.

<sup>212</sup> Estimate by Carlos Tapia, a renown Peruvian Sendero expert, reproduced by McClintock (2005): 81.

<sup>213</sup> Author's interviews in Ayacucho during the 2005 strikes, July 2005. During the 2004 strikes, government offices were set afire and 10,000 court files – mainly on terrorism and drug trafficking – were

a working relationship with Federación de Cocaleros del Apurímac (The Apurímac Valley Coca Growers Federation) and Frente de Defensa de Ayacucho (The Ayacucho Defense Front).<sup>214</sup> But far from all *cocalero* groups have embraced Sendero, and the memory of Sendero's brutality still persists. Sendero today does not pose a strategic threat to the Peruvian state. However, a successful recapture of the *cocalero* movement would add substantial political capital, in addition to increased capabilities, to the guerrillas.

Moreover, traffickers' adaptation to threats posed by aerial interdiction also presents the remnants of the Shining Path with new opportunities for once again penetrating the trade and protecting traffic. Aerial interdiction first shifted traffic to river-boat transportation through the Amazon. As law enforcement caught up with this evasion mechanism on the part of the traffickers and started focusing on river interdiction, the traffickers shifted to land transportation. Instead of planes taking off from the jungles to Colombia, coca paste and increasingly cocaine are carried by people from the Peruvian jungle down to the coast and then smuggled by sea to Mexico and onward to the United States. Although hard to detect, such caravans, analogous to heroin traffic in Burma during the 1980s and 1990s, are also exceedingly vulnerable to capture once detected. The Shining Path appears to be protecting at least some of these trafficking routes and charging a protection fee for it.<sup>215</sup> The remnants of the Shining Path are thus already financially benefiting from several illicit economies, and are attempting to increase their political capital by offering themselves as protectors to the *cocaleros* threatened by

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destroyed at the attorney general's office. Drug traffickers, independent of Sendero, played an important role in that incident.

<sup>214</sup> Palmer (2006), forthcoming.

<sup>215</sup> Author's interviews with Peruvian officials and policy experts, Peru, summer 2005.

eradication. Instead of bankrupting the remnants of the belligerents, eradication has resulted in social strife and has allowed Sendero to once again adopt a tested mobilization strategy, thus confirming the predictions of my theory.

## **VIII. Conclusions**

A detailed examination of the case of Peru strongly supports the validity of my theory of political capital of illicit economies and critically undermines the validity of the conventional view. Although as predicted by both theories, the Shining Path derived large financial profits from its positive involvement in the illicit economy, it derived much more. The Shining Path also derived considerable freedom of action and, crucially, large political capital. Contrary to the conventional view, the defeat of the Shining Path took place without elimination of Sendero's income source.

The first data point supporting my theory, and also the conventional view, is the weakness of the Shining Path prior to its positive involvement in the drug economy. Until such positive involvement in the mid-1980s, the Shining Path's operations were confined to isolated attacks against military and police outposts to secure weapons, to robberies to secure immediate finances, and to selective killings and political assassinations to eliminate opponents and obtain some political capital. The Shining Path was clearly not able to pose a systematic threat to the state. The belligerents' noninvolvement in the illicit economy resulted in the stagnation of their power.

It was only after the Shining Path tapped into the drug economy in the mid-1980s that the guerrilla group was able to grow. First, as consistent with both theories, Sendero derived large financial benefits – between 30 to 100 million dollars annually – from

tapping into the drug trade. As a result, its procurement and logistics greatly improved. But Sendero's freedom of action also greatly increased, a fact ignored by the conventional wisdom. The Shining Path no longer had to concentrate on robbing banks and attacking isolated outposts and could undertake large engagements with military units.

Crucially, Sendero derived large political benefits from its positive involvement in the illicit economy, thus confirming my theory, and again showing the inadequacy of the conventional view. Consistently, the peasants condemned the government for eradication and praised Sendero for protecting them against eradication. Sendero actively exploited such sentiments by portraying the government as impoverishing the population and carrying out economic genocide against the population. Sendero also obtained nationalist legitimacy by stressing the role of the United States in demanding eradication. The Shining Path was consistently more popular and had greater support in the drug regions than elsewhere in the country. It also had to resort to less brutality to control the population than elsewhere in the country, thus avoiding antagonizing the population in the drug regions.

Both ideology and brutality fail as alternative explanations of Sendero's ability to obtain political capital. These two factors are favored explanations for legitimacy in the conventional view, which frequently assumes that once belligerent groups lose ideology, they lose legitimacy and become illegitimate criminals. Conversely, ideology is seen by the conventional wisdom as the dominant source of legitimacy. Yet the vast majority of the rural population never bought onto Sendero's ideology and found it too extreme and radical. Sendero derived strongest political capital when and where it could protect the

illicit economy and distribute immediate and vital material benefits obtained from the illicit economy to the population.

Nor is coercion – another favored explanation of the conventional view for popular allegiance – an adequate explanation for the peasants' allegiance and provision of information. Sendero was extremely coercive and brutal toward the population, yet this policy only antagonized the population. The more Sendero increased its brutality, the more the population became alienated and opposed Sendero. Moreover, it was especially when and where Sendero was not able to present itself as a necessary protector of the illicit economy that it had to resort to greatest brutality. It was also then that it encountered the greatest resistance.

In fact, it was the unsustainable political costs of prohibiting the illicit economy – Sendero's first ideological impulse – that motivated Sendero to reverse its earlier decision to suppress coca cultivation and trade. When Sendero prohibited the illicit economy in the early 1980s while the military adopted a tacit acquiescence policy toward coca cultivation and trafficking between 1984 and 1985, the population stopped supporting the belligerents, and Sendero was driven out of the UHV. It was only after Sendero reversed its policy toward drugs and embraced the illicit economy that it was able to recapture the coca-growing regions.

The significance of the political costs to Sendero is even more obvious in view of the fact that Sendero was extremely dogmatic and ideologically driven. It attempted to forcibly indoctrinate the rural population in Marxist ideology and insisted on brutal and unpopular policies, such as recruiting young children. Despite the unpopularity of these policies and the backlash they engendered, Sendero did not reverse them. Importantly, it

also prohibited many other legal peasant markets and insisted on the prohibition of such markets despite the peasants' hostile reaction. In these policies toward the rural population, Sendero was thus willing to ride out large political costs. But costs of maintaining its prohibitionist policy toward the illicit economy were too large for Sendero to absorb.

The Shining Path also observed the way drug eradication carried out in the UHV prior to 1984 antagonized the peasants from the government. In fact, government eradication and the inability of non-guerrilla representation – legitimate politicians and *cocaleros'* defense organizations -- to prevent eradication and satisfy the needs of the *cocaleros* played a crucial role in the ability of the belligerent group to capture the movement and penetrate the illicit economy. Eradication and the failure of alternative livelihood programs radicalized the population, but *cocaleros'* representation proved ineffective in protecting the peasants' interests. As the legitimacy of *cocaleros'* self-defense organizations and traditional politicians faded, Sendero was able to step in and offer itself as an effective defender of the peasants' interests. When eradication was at its most intense, such as during the trial use of herbicide Spike, Sendero's political capital was at its greatest. It was also at that time – the only time – that the peasants actively fought alongside the Shining Path. Sendero's ability to capture the allegiance of the peasants and derive large political capital from offering itself as a sponsor of the illicit economy clearly supports my theory of political capital of illicit economies. On the other hand, the ability of Sendero to capture the *cocaleros* as a result of eradication is clearly inconsistent with the conventional view. The prediction derived from the conventional view is that eradication, especially in a stepped up form of the early 1980s, would

eliminate the illicit economy and hence prevent Sendero from increasing its physical resources. This prediction clearly failed to materialize.

The relationship between the peasants, the traffickers, and Sendero also contradicts the conventional wisdom. Although Sendero protected the traffickers from government interdiction and the coca fields from eradication, Sendero never morphed into a unified entity with the traffickers nor did the two actors develop identical goals. In fact, since Sendero also protected the peasants against the traffickers and attempted to displace the traffickers from aspects of the illicit drug trade, the two groups had highly competitive interests and even fought each other. Crucially, when eradication and interdiction lessened up, such as under the leadership of generals Carbajal and Arciniega, and later early in Fujimori's administration in the Campanilla area prior to Air Bridge Denial, the traffickers were willing to provide key intelligence on Sendero to government units. Similarly, the traffickers fought against the MRTA, the other leftist guerilla group in Peru, when that group attempted to penetrate the drug trade. The MRTA's desire to obtain the multiple benefits from the drug trade was a product of Sendero's providing a successful example for the belligerent group to emulate with regard to narcotics.

The large and multidimensional increase in the strength of the Sendero, derived from its positive involvement in the illicit economy, crucially contributed to Sendero's ability to expand conflict, both in terms of the scale of attacks and in terms of the area and theater of operation.

The case of Peru also reveals the importance of government counternarcotics policies for the overall effectiveness of the counterinsurgency policy. Again, the evidence clearly supports my theory while fundamentally disconfirming the conventional view.

When eradication was undertaken, until 1984 and between 1985 and 1989, the military lost ground to Sendero. The belligerents were able to capture the peasants' allegiance and make major inroads in the countryside, fundamentally destabilizing the rural areas.

When, as under generals Carbajal and Arciniega, eradication was halted and the military did not allow the police to interfere with the peasants' livelihood, both the peasants and the traffickers were willing to provide vital intelligence to the military and the military scored key successes against the Shining Path. The importance of tacit acquiescence by the government in winning the hearts and minds of the rural population and the resulting improvements in military effectiveness against the insurgents is further underscored by the fact that Carbajal was able to secure intelligence from the population on Sendero and sufficient loyalty from the population to expel Sendero from the UHV even during the height of the military's brutality toward the peasants. This repression-en-masse approach tremendously antagonized the peasants, yet the tacit acquiescence policy toward the drug economy mitigated against the peasants' alienation from the military to such an extent that the peasants still provided the military with intelligence and Carbajal was able to score important victories against Sendero.

In fact, it was tacit acquiescence to the illicit economy after 1989 that allowed the military to ultimately and permanently win the countryside back. This outcome once again strongly supports my theory. Since the peasants no longer needed Sendero for vital protection of their livelihood, they were willing to provide the military with the necessary information on Sendero's movements and the government was able to effectively strike at Sendero. The role of peasants' self-defense units, *rondas campesinas*, was also important in reclaiming the countryside back from Sendero, but many *rondas* in the UHV directly

overlapped with the *cocaleros*' previous anti-eradication defense committees, and the strength and effectiveness of these units was crucially dependent on the military's anti-eradication posture.

The conventional view predicted that Sendero would be defeated through the suppression of the narcotics economy and the resulting drying up of the belligerents' finances. In fact, Sendero was defeated while eradication was not being undertaken and the illicit economy continued to flourish. Sendero was defeated as a result of a tacit acquiescence policy toward narcotics being adopted in the countryside (later supplemented by interdiction) and of an intelligence operation in the urban theater (unrelated to counternarcotics) that led to the capture of Guzmán. The demise of Sendero thus once again supports my theory and critically weakens the validity of the conventional view. Only after Sendero was defeated, the illicit economy was significantly diminished as a result of interdiction and the emergence of a fungus.

To some extent, interdiction too created opportunities for Sendero to obtain political capital, but to a considerably smaller degree than did eradication. Between 1989 and 1990, interdiction was effective in temporarily driving coca leaf prices in the Upper Huallaga Valley down, causing a substantial decline in the peasants' income. Interdiction thus antagonized the population from the government and increased the population's demand for Sendero's regulation of the illicit economy. Sendero was hence able to reintegrate itself into the drug economy and demand greater prices to be paid by the traffickers to the peasants. Nonetheless, the level of political alienation was not sufficient

to allow Sendero to obtain enough political capital to grown anew, and Sendero continued losing ground in the countryside.<sup>216</sup> By 1995, Sendero was defeated.

Meanwhile, the remnants of Sendero have been financing their activities through illicit logging. They have thus been able to avoid bankruptcy even when the major illicit economy – with drugs -- was declining and when the Senderistas were no longer able to participate in the drug economy to the same extent as they did during the 1980s. Government laxity in enforcing prohibitions against illicit logging, de facto tacit acquiescence to the illicit logging economy, as well as the small numbers of the remaining Senderistas have prevented the Shining Path from rebuilding its political capital, even though their positive involvement in illicit logging has kept them well funded.

The suspension of aerial interdiction in 2002 and a renewed strong focus on forced eradication, however, are once again creating opportunities for the Shining Path to attempt to rebuild its political capital. Sendero has offered itself as a defender of the *cocaleros* against eradication and as a protector of land traffic. Eradication is once again antagonizing and radicalizing the *cocaleros*.

Overall, the political capital of illicit economies theory performed significantly better than the conventional view. Although the conventional view was correct in its argument that belligerents obtain large financial resources from the drug trade –also consistent with my theory – it failed to predict the effects of belligerents' positive involvement in the illicit economy on their political capital as well as on their freedom of action. The conventional view's prediction that eradication will deprive belligerents of

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<sup>216</sup> A negative side-effect of interdiction, however, was that it allowed Vladimiro Montesinos, Peru's chief of intelligence services, to manipulate counternarcotics policy to eliminate drug trafficking opposition and increase his control over and profits from the illicit traffic.

their physical resources and thus significantly decrease their power never materialized, despite numerous periods of eradication. Instead, eradication increased the belligerents' political capital and greatly diminished the population's support for the government, including in terms of intelligence provision. During periods of interdiction and especially during periods of tacit acquiescence by the government to the illicit economy, Sendero's political capital decreased, and the population cooperated with the government counterinsurgency effort. Consequently, Sendero was dislodged from the rural regions, significantly weakened, and ultimately defeated. The case of Peru thus clearly shows how, contrary to the conventional view, eradication is counterproductive in the counterinsurgency effort.

The next chapter explores the relationship between illicit economies and military conflict in Colombia during the past forty years. According to the conventional view, no other case is supposed to epitomize so well the merger of belligerents with criminals and the need to attack the illicit economy in order to destroy the belligerents. Moreover, Colombia has experienced one of the most intense and sustained drug eradication campaigns in history. If eradication should work anywhere to bankrupt the belligerents, it should be there. Moreover, Colombia is a useful case, because it contains both labor-intensive and labor-non-intensive illicit economies and because these illicit economies interact with military conflict in both poor and rich areas, thus complementing the other principal cases examined in the study.





## CHAPTER FIVE – Colombia

### I. Introduction

For over twenty-five years, Colombia has had one of the largest illicit narcotics economies in the world as well as a host of other illicit economies. Colombia produces roughly 80 percent of global production and 90 percent of U.S. cocaine.<sup>1</sup> Since the mid-1990s, Colombia's cultivation of coca has been the largest in the world. It is also the Western Hemisphere's largest producer of heroin, supplying 50 percent of U.S. heroin. Returns from illicit drugs as percentage of GDP hover since the mid-1990s at about three percent.<sup>2</sup>

For decades now, Colombia has been torn by a civil war, pitting various leftist guerrillas, rightist paramilitaries, and the Colombian state against each other. The conflict has caused than 3,000 casualties per year, resulting in over 47,000 casualties over the past 15 years.<sup>3</sup> In addition, the conflict caused the internal displacement of almost 2 million people. Colombia also has one of highest homicide and kidnapping rates in the world.

Colombia is the poster case for the conventional view. In fact, the entire concept of narcoguerrilla and narcoterrorism was developed with reference to Colombia.<sup>4</sup> The former Colombian Ambassador to the United States, Luis Alberto Moreno, for example,

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<sup>1</sup> U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report (INCSR)* (Washington, DC, Government Printing Office: 2000).

<sup>2</sup> Roberto Steiner Sampedro, "Los Ingresos de Colombia Producto de la Exportacion de La Drogas Illicitas," *Coyuntura Económica*, 16 (4), December 1996: 73-106. Author's interviews with Colombian economists specializing in the illicit drug economy, Fall 2005.

<sup>3</sup> Jorge Restrepo, Michael Spagat, and Juan F. Vargas, "The Dynamics of the Colombian Civil Conflict: A New Data Set," 2004, forthcoming in *Homo Oeconomicus*, <http://www.rhul.ac.uk/economics/Research/WorkingPapers/pdf/dpe0410.pdf>, downloaded May 18, 2006. Colombia's income distribution is the world's ninth most unequal, with two thirds of Colombians living on less than \$3 a day. In the rural areas, poverty levels climb to over 85 percent. Contraloría General de la República de Colombia, *Evaluación de la política social 2003* (Bogotá: CGR, July 2004): 43, <http://www.contraloriagen.gov.co:8081/internet/html/publicaciones/detalles.jsp?id=81>, downloaded June 03, 2005.

<sup>4</sup> U.S. Ambassador to Colombia between 1983-1985, Lewis Tambs, is widely credited with coining the term narcoguerrilla.

characterized the conflict in Colombia in the following way: “Drugs are the root of almost all violence in Colombia. ... While they may hide behind a Marxist ideology, Colombia's leftist guerrillas have ceased to be a political insurgency. They have traded their ideals for drug profits.”<sup>5</sup> Similarly, President Álvaro Uribe declared in March 2004: “If Colombia would not have drugs, it would not have terrorists.”<sup>6</sup> Finally, Colombia’s Minister of Justice and Interior, Fernando Londoño highlighted eradication as the key tool to defeating the leftist guerrillas by eliminating the financial income they derive from the cultivation of coca and opium poppy: “It will be liquidated and nothing will be left. In order to maintain a guerrilla army of 15,000 they need a lot of coca and this will disappear.”<sup>7</sup>

Colombia represents a tough case for my theory and an easy case for the conventional view since unlike in Bolivia or Peru, where cultivation of coca had been part of the culture for centuries, cultivation of coca in Colombia is a relatively new phenomenon of the last thirty years, and not infused with special cultural significance.<sup>8</sup> Moreover, unlike in Bolivia or Peru, Colombia’s drug traffickers unleashed high levels of violence in the 1980s, thus revealing the threat of the trafficking organizations and the narcotics economy to the country’s society at large. The drug economy came to be seen by both the elite and the wider society as dangerous and in need of being restrained.

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<sup>5</sup> Luis Alberto Moreno, “Aiding Colombia’s War on Terrorism,” *New York Times*, May 2, 2003.

<sup>6</sup> From a speech to the Organization of American States Permanent Council, Washington, DC, March 25, 2004, cited in International Crisis Group, *War and Drugs in Colombia*, Latin America Report No. 11, January 27, 2005: 9, [http://www.crisisgroup.org/library/documents/latin\\_america/11\\_war\\_and\\_drugs\\_in\\_colombia.pdf](http://www.crisisgroup.org/library/documents/latin_america/11_war_and_drugs_in_colombia.pdf), downloaded February 10, 2005.

<sup>7</sup> Cited by Gabriel Marcella, *The United States and Colombia: The Journey from Ambiguity to Strategic Clarity* (Carlisle: U.S. Army War College 2003): 49.

<sup>8</sup> See, for example, Madeline Barbara Léons and Harry Sanabria, eds., *Coca, Cocaine, and the Bolivian Reality* (Albany: State University of New Press, 1997), and Francisco E. Thoumi, *Illegal Drugs, Economy, and Society in the Andes* (Washington, DC: Woodrow Wilson Center Press and Johns Hopkins University Press, 2003).

Furthermore, unlike in Peru, where the large cartels and prominent capos were never present, Colombia's drug dealers were ostentatious, visible, and threatening to Colombia's traditional elite. To a much larger extent than Peru, Bolivia, or Afghanistan, Colombia by the 1990s internalized the international norm against drug cultivation and trafficking.<sup>9</sup> Moreover, the belligerent groups connected to the drug trade have become increasingly brutal, thus losing large political capital. For these reasons, Colombia represents an ideal case for the conventional premise that eradication will neither alienate the population from the government, nor generate political capital for belligerents.

At the same time, Colombia also represents the ideal case to test the validity of the conventional view's central claim that eradication will bankrupt the belligerents. Although the case does not allow for a comparative evaluation of the various government responses to the illicit economy, since the government policy has been one of more or less intensive eradication since the late 1970s, if eradication should succeed anywhere in bankrupting the belligerents, it should do so in Colombia. If the central claims of the conventional view fail to materialize in this case, the validity of the conventional view is thrown seriously into doubt. On the other hand, if my theory performs better, the validity of my theory is substantially enhanced.

In addition to presenting a hard test for my theory regarding the effect of eradication, the case of Colombia also allows for the observation of two values of the amplifying factors that rarely occur: a rich overall economy in a region of military conflict and illicit economies (specifically an urban belligerent group's involvement in the drug trade); and the absence of traffickers (at various times, belligerent groups eliminated the traffickers from different parts of the country under their control).

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<sup>9</sup> Author's interviews in Peru, Colombia, and Afghanistan, Summer and Fall 2005.

Exploring the impact of these variables, I can mine this case freshly, with a different lens than applied so far in other analyses. Furthermore, in addition to containing the labor-intensive illicit crop cultivation, Colombia also contains labor-non-intensive illicit economies, such as extortion, kidnapping, and provision of protection to traffickers without the regulation of cultivation.

This chapter analyzes the interaction between these illicit economies and military conflict in Colombia from the late 1970s through the current period. I explore the dynamics with respect to several leftist insurgency groups -- *Fuerzas Armadas Revolucionarias de Colombia* (Armed Forces of the Colombian Revolution or FARC); *Movimiento 19 de Abril* (19<sup>th</sup> of April Movement or M-19); and *Ejército de Liberación Popular* (Popular Liberation Army or ELN) – and the rightist paramilitaries and their umbrella organization, *Autodefensas Unidas de Colombia* (the United Self-Defense Forces of Colombia or AUC). As part of this analysis, I also describe how the illicit narcotics economy is structured and how it operates in order to explicate how belligerent groups obtain a variety of gains from sponsoring illicit economies.

The case of Colombia also provides an opportunity to test the validity of two additional claims of the conventional view: a) that popular support disappears with the loss of ideology; and b) that belligerents and traffickers have merged into a conglomerate actors with harmonious joint goals. To assess these two claims, I analyze the ability of the two major drug cartels of the 1980s –Medellín and Cali - to obtain political capital as well as their relations with each other and the belligerent groups.

Examination of the whys, hows, and effects of the interactions of the variety of belligerent groups in Colombia with the variety of illicit economies will show that my

theory of political capital of illicit economies performs considerably better than the conventional view.

The analysis will show that until the late 1970s when the FARC was not involved in any substantial illicit economy, its strength was limited and the belligerent group was more an irritant than a fundamental threat to the government. Its physical resources and freedom of action were greatly constrained, and its political capital virtually nonexistent. The FARC further undermined its small political capital when it became negatively involved in the illicit narcotics economy. Once the FARC switched and became positively involved in illicit crop cultivation, however, its strength grew dramatically with respect to physical resources, freedom of action, and political capital.

I will show how the FARC was able to obtain political capital by protecting the population against the government effort to eradicate the drug fields and against the traffickers' abuse, thus providing a variety of regulation and protection services to the illicit economy. I will further demonstrate how the FARC's elimination of small and medium traffickers from the areas under its control from the mid-1990s on, thus resulting in the absence of traffickers, caused a substantial decline of the group's political capital. Similarly, I will show how the paramilitaries' political capital was always limited because they were frequently identical to or courting the traffickers, resulting in the absence-of-traffickers condition, which precluded the paramilitaries from providing the full panoply of protection and regulation services for the rural population.

The examination of the M-19's and the ELN's interactions with illicit economies will also support the validity of my theory regarding the importance of the amplifying factors the state of the overall economy and character of the illicit economy. In the case

of the M-19, its participation in the labor-non-intensive extortion of traffickers failed to generate political capital for the group, and (because of its bungled execution) even physical resources. M-19's later switch to providing protection to the traffickers -- another labor-non-intensive aspect of the drug economy -- in the context of the relatively rich state of the overall economy in Bogotá, where the group operated, not only failed to generate political capital for the group, but resulted in its losses.

Similarly, the analysis will show that the ELN's participation in the labor-non-intensive illicit extortion economy failed to generate much political capital for the group, even if it did generate vast physical resources. At the same time, the mixture of noninvolvement and negative involvement in the labor-intensive drug cultivation further compounded the group's lack of political capital.

My theory also performs better than the conventional view with respect to the criminal organizations' interactions with belligerents and among each other. The leftist belligerents and the traffickers have not merged into one unified actor. And even when the rightist paramilitaries and the traffickers did merge, their relations were frequently fraught with violence and the provision of intelligence to the government on one another. Moreover, I will show that even purely criminal organizations without political ideology, such as the cartels, were able to use the illicit economy to obtain political capital.

Finally, I will show that despite eradication being undertaken in Colombia on the largest, most intense, and most sustained scale anywhere in the world, eradication has failed to bankrupt the belligerents. But eradication generates large costs to the government in terms of limiting populations' provision of intelligence to the government and increasing the belligerents' political capital.

The following table summarizes how the Colombia case covers the variation of the amplifying factors and types of belligerents' involvement in the illicit economy as determinants of the strength of belligerents.

<b>DETERMINANTS OF STRENGTH OF BELLIGERENTS</b>				
<b>AMPLIFYING FACTORS</b>		<b>TYPE OF INVOLVEMENT</b>		
		<b>POSITIVE</b>	<b>NEGATIVE</b>	<b>NO INVOLVEMENT</b>
<b>STATE OF OVERALL ECON.</b>	<b>Poor</b>	<i>FARC (1981 --) paramilitaries ELN (from late 1990s --) M-19</i>	<i>FARC (1978-80) ELN (1996)</i>	<i>FARC (until 1978) ELN (drugs: until late 1998)</i>
	<b>Rich</b>	<i>M-19</i>		
<b>CHARACTER OF ILLICIT ECON.</b>	<b>Labor Intensive</b>	<i>FARC (1981 --) paramilitaries ELN (from late 1990s --)</i>	<i>FARC (1978-80) ELN (1996)</i>	<i>FARC (until 1978) ELN (drugs until late 1998)</i>
	<b>Labor-Non-Intensive</b>	<i>FARC paramilitaries M-19 ELN (from early 1980s)</i>		
<b>PRESENCE OF TRAFFICKERS</b>	<b>Present</b>	<i>FARC (1981- mid/late 1990s) paramilitaries (1981- mid-1990s) ELN M-19</i>	<i>FARC (1978-80)</i>	<i>FARC (until 1978) ELN (until 1998)</i>
	<b>Absent</b>	<i>FARC (mid/late 1990s --) paramilitaries (mid-1990s --) ELN (extortion)</i>		
<b>GOVERNMENT RESPONSE TO ILLICIT ECON.</b>	<b>Eradication</b>	<i>FARC paramilitaries ELN (from 1998)</i>	<i>FARC (1978-80) ELN (1996)</i>	<i>FARC (until 1980s) ELN (until late 1990s)</i>
	<b>Interdiction</b>	<i>FARC paramilitaries</i>	<i>FARC (1978-80) ELN (1996)</i>	<i>FARC (until 1980s) ELN (until late 1990s)</i>
	<b>Tacit Acquiescence</b>			
	<b>Licensing/ Legalization</b>			

## II. The FARC before Access to Drugs: Failing to Grow

The FARC, a powerful guerrilla group and one of the oldest still in existence, originated in *La Violencia*, the widespread civil war that swept over Colombia in the late 1940s and 1950s and killed between 200,000 and 300,000. Triggered by the assassination of Liberal Party leader Jorge Eliecer Gaitán in 1948, *La Violencia* was rooted in a profound socioeconomic crisis and the inability of existing political institutions to deal with these socioeconomic challenges. The state was widely absent from the rural areas where lawlessness was widespread. Land distribution was profoundly inequitable.<sup>10</sup> The nonelites had little access to political representation and participation. Members of the elite, aligned with either the Liberal or the Conservative Party, were engaged in an intense power struggle.

Pitting the partisans of the Liberal Party against partisans of the Conservative Party, the civil war failed to remedy the institutional failures and resolve the socioeconomic problems. After it ended in 1958, the peasants remained politically powerless, land concentration in the hands of the wealthy had increased, the same dominant classes retained control, the exclusionary biparty political system was resuscitated under a power-sharing arrangement known as the National Front,<sup>11</sup> and the political and economic inequity was not ameliorated.

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<sup>10</sup> About three-quarters of the population were peasants while 3 percent of landowners controlled more than half of the agricultural land, including the best land. See, Harvey F. Kline, *Colombia: Democracy Under Assault* (Boulder, Westview Press, 1995): 43.

<sup>11</sup> Jenny Pearce aptly characterized Colombia's political system as "democracy without people." See, Jenny Pearce, *Colombia: Inside the Labyrinth* (London: Latin American Bureau, 1990): 207. During the 1980s, the political system underwent a process of decentralization and political opening, culminating in the adoption of a new, more inclusive constitution in 1991. See, for example, Harvey F. Kline, *State Building and Conflict Resolution in Colombia, 1986-1994* (Tuscaloosa: University of Alabama Press, 1999). Nonetheless, the lack of representation that the party system still offers to the majority of the population and its steadily increasing delegitimation has continued. Its most recent manifestation has been the victory of Álvaro Uribe in presidential elections in 2006, by running as a candidate outside the two traditional

In the context of the continuing deep rifts in Colombian society and unresolved socioeconomic problems, several guerrilla movements emerged in the 1960s out of *La Violencia*'s peasants' self-defense organizations: the FARC, the ELN, the EPL<sup>12</sup>, and the M-19. The causes of the guerrillas' emergence and the causes of the subsequent and continuing modern-day violence replicated those of *La Violencia*: unresolved land conflict and the failure to build consensus behind laws and strengthen state's control;<sup>13</sup> a fundamentally exclusionary political system with only the veneer of democracy;<sup>14</sup> internal regional imbalance coupled with the corrosive coexistence of prosperity and poverty;<sup>15</sup> forcible expulsion of peasants and a persisting exclusionary system;<sup>16</sup> and the combination of inequity, poverty, and a lack of development in the countryside.<sup>17</sup> In other words, a profound distortion and underdevelopment of political and economic institutions and their consequent inability to adjudicate social struggle, including the agrarian question, have been the sources of conflict in Colombia.

Excessive elite control of the country core coupled with exploitation and neglect of the periphery and a traditionally weak state resulted in a serious underprovision of political and economic institutions and social services throughout major portions of the

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parties. Uribe's presentation of himself as an essentially independent candidate and with a new political party only as a temporary electoral vehicle replicates the trend toward a legitimacy crisis of traditional parties across Latin America in the 2000s.

<sup>12</sup> The EPL stands for Ejército de Liberación Popular or Popular Liberation Army.

<sup>13</sup> Nazih Richani, *Systems of Violence: The Political Economy of War and Peace in Colombia* (Albany: State University of New York Press, 2002).

<sup>14</sup> Pearce.

<sup>15</sup> Gonzalo Sánchez G., "Introduction: Problems of Violence, Prospects for Peace," in *Violence in Colombia 1990-2000: Waging War and Negotiating Peace*, Charles Berquist, Ricardo Penaranda, and Gonzalo Sánchez G., eds. (Wilmington: A Scholarly Resources Inc. Imprint, 2001).

<sup>16</sup> Ricardo Vargas Meza, "The Revolutionary Armed Forces of Colombia (FARC) and the Illicit Drug Trade," 1999, <http://www.tni.org/archives/vargas/farc.htm>, downloaded April 28, 2006.

<sup>17</sup> David Bushnell, *The Making of Modern Colombia: A Nation in Spite of Itself* (Berkeley: University of California Press, 1993).

country – what Guillermo O’Donnell has called “brown areas”<sup>18</sup> -- where a kind of lawlessness developed. These “brown areas” were the staging grounds for Colombia’s Marxist guerrillas. To a large extent, such profound state weakness continues to present day.<sup>19</sup>

The future FARC leader,<sup>20</sup> Pedro Antonio Marín, alias Manuel Marulanda Vélezor Tirofijo (“Sureshot”), began his guerrilla career in 1949 when he joined a Liberal guerrilla band in the epicenter of the sectarian violence to protect the land interests of the poor farmers from large landowners. The original FARC leaders and its rank-and-file members were both of predominantly peasant origins. FARC’s social base has not changed significantly since then, and by the late 1990s, 70% of FARC members were still peasants, while the working class, students, and teacher represented another 20%, and middle-class intellectuals the remaining 10%.<sup>21</sup> The FARC is hierarchically organized and highly cohesive.<sup>22</sup> Adapting Soviet Marxism, the FARC’s political agenda at the time

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<sup>18</sup> Guillermo O’Donnell, “Poverty and Inequality in Latin America: Some Political Reflections,” in Guillermo O’Donnell, ed. *Counterpoints* (Notre Dame: University of Notre Dame Press, 1999): 195-215.

<sup>19</sup> Colombia has, for example, a very low ratio of policemen to population as compared with other countries, the situation being especially acute as Colombia has been struggling with a protracted civil war for fifty years and has one of the largest crime rates in the world as well as multiple extensive illicit economies. See, Mauricio Rubio, *Crimen e Impunidad: Precisoines Sobre la Violencia* (Bogotá: Tercer Mundo Editores y Centro de Estudios sobre Desarrollo Económico, Universidad de Los Andes, 1999): 182. The state has a very weak tax collection system. At its peak, tax collection in 2003 amounted to 14.4% of GDP. See, Kate Calligaro and Adam Isacson, “Do Wealthy Colombians Pay Their Taxes?” <http://www.ciponline.org/colombia/040804cip.htm>, downloaded March 23, 2006. Crucially, the state is unable to provide an effective legal and judiciary system to protect property rights and resolve conflicts, in addition to failing to obtain a monopoly on violence.

<sup>20</sup> FARC’s other members include Jorge Briceño (a.k.a. Mono Jojoy), Raúl Reyes, and Alfonso Cano.

<sup>21</sup> Richani: 63. As much as 40% of FARC’s members are women, and perhaps one third are under eighteen. See, Adam Isacson, “Was Failure Avoidable? Learning From Colombia’s 1998-2002 Peace Process,” *The Dante B. Fascell North-South Center Working Paper Series*, Paper No. 14, March 2003, <http://www.miami.edu/nsc/publications/NSCPublicationsIndex.html#WP>, downloaded August 20, 2004.

<sup>22</sup> FARC members sign up for life, and there is little opportunity for exit. Individual desertions have been infrequent. FARC members can only rarely see their families, and women members need to argue hard to be allowed to have a child, and even then they must put the child under the care of relatives. See, for example, Francisco Gutiérrez Sanín, “Criminal Rebels? A Discussion of Civil War and Criminality from the Colombian Experience,” *Politics and Society*, 32 (2), June 2004: 268-271.

of its emergence included the establishment of socialism, empowerment of the lower classes, especially the peasantry, land redistribution, and the development of the countryside.<sup>23</sup>

Before becoming positively involved in the illicit narcotics economy in the late 1970s, the group spent the first fifteen years of its existence hanging on for life. Although it sought to expand its base and military capabilities, the lack physical resources, freedom of action, and political capital limited FARC's activities. By 1966, after suffering several large military defeats and the seizure of 70 percent of its weapons,<sup>24</sup> the FARC engaged mainly in isolated ambushes on small military units and raids on farms while occasionally offering protection to peasants against unscrupulous landowners. However, while this strategy generated some legitimacy among the rural population for the guerrillas, its effect was negated by the need to resort to extortion to obtain vital food and supplies, which the FARC directed not simply against large landowners, but also against the poor peasants.<sup>25</sup> This extortion economy – both labor-non-intensive and, in fact, to a large extent directed at the FARC's support base – thus not only failed to generate political capital for the FARC, but also antagonized the population against it.

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<sup>23</sup> After the demise of the Soviet Union, the FARC shed its Marxist-Leninist rhetoric and orthodoxy and replaced it with a new ideological concept, labeled Bolivarian. In addition to soft-paddling its socialist ideas, the new ideological package explicitly embraced nationalism. FARC's declarations during the 1990s thus included the following goals: the state's principal ownership of the energy, communications, public services, and natural resources sectors, but not total state ownership; land redistribution; confiscation of assets from or renegotiations of contracts with multinational companies in Colombia; guaranteed stable and profitable prices for agricultural products; and the distribution of national budget at 50 percent for social welfare and 10 percent for scientific research. Instead of altogether overthrowing the political system, FARC in essence advocated making the state more interventionist in and concerned with the poor sectors and regions. See, for example, Cecilia López Montaña and Arturo García Durán, "Hidden Costs of Peace in Colombia," in *Colombia: Essays on Conflict, Peace, and Development* (Washington, DC: World Bank, 2000): 152-3.

<sup>24</sup> Pearce: 167.

<sup>25</sup> See, Robin Kirk, *More Terrible Than Death* (New York: Public Affairs, 2003): 99-103.

The lack of access to a large and profitable illicit economy (and other sources of finance) thus critically limited the FARC's military capabilities, in terms of both physical resources and freedom of action, which in turn necessitated a choice of tactics that undermined potential political capital of the belligerents.

The lack of political capital was especially evident in FARC's experiment with so-called self-defense groups. These were fomented by the FARC to extend its presence, assure control of population centers in the countryside, spread guerrilla ideology, and consolidate FARC's social base in areas where the FARC was operating. However, not only did the self-defense groups fail to generate new political capital for the FARC, but the FARC lacked sufficient political capital even to control the self-defense groups it had created.<sup>26</sup> Increasingly autonomous, the groups began defending against the FARC itself, including against the FARC's effort to extort food from the peasants. By the end of the 1970s, the FARC attempted to dismantle the extant self-defense groups and stopped organizing new ones for fear of not being able to control them. Its support base failed to grow substantially despite the widespread alienation of the rural population from the state and the FARC's effort to offer itself as the main representative of the peasantry.

Between 1964 and 1980, the FARC's main objectives were capturing military equipment, securing food and supplies, capturing hostages for extortion, and settling scores with informers. As FARC's membership remained in the low hundreds, around 350,<sup>27</sup> its military campaign was of very low intensity. The FARC could not engage in major confrontations with the armed forces, incapable of fielding more than 50

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<sup>26</sup> Román D. Ortiz, "Insurgent Strategies in the Post-Cold War: The Case of the Revolutionary Armed Forces of Colombia," *Studies in Conflict and Terrorism*, 25, 2002: 133.

<sup>27</sup> Alfredo Rangel Suárez, *Colombia: guerra en el fin de siglo* (Bogotá: Tercer Mundo Editores, 1998): 12.

combatants in a single operation.<sup>28</sup> Any operation exceeding half a hundred not only taxed its operational capacity, but also threatened to wipe out a substantial portion of its membership. Instead of confronting the army, FARC's activities included mainly long walks in the jungles, trying to avoid detection by any present military units. As Walter Broderick put it, the guerrillas were essentially engaged in an "imaginary war."<sup>29</sup>

The FARC continued to struggle for survival throughout the 1970s. In 1969, the FARC had opened a second guerrilla front<sup>30</sup> in the Magdalena Valley. And in 1971, it established a third front in the Urabá area, in the Darien gap between Panama and Colombia. In 1974, the organization established a general staff and a secretariat to provide political direction.<sup>31</sup> Yet these arrangements were more organizational than reflective of the group's actual expansion, and its military activities remained limited. The group did not seriously threaten the government in Bogotá, nor could it take over parts of the country. Hardly more than a remote band of peasant fighters, the FARC could still operate only in areas where state presence was weak or nonexistent, such as in the intermontane regions and along the edge of the rainforest.<sup>32</sup> The 1960s and early 1970s were years of survival for the FARC, not expansion.

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<sup>28</sup> Ortiz: 136.

<sup>29</sup> Walter Broderick, *El guerrillero invisible* (Bogotá: Indermedio, 2000).

<sup>30</sup> The FARC refers to its military units operating in a particular region as fronts. A front includes both combat, support, and infrastructure components. The combat units per front vary from one to several companies, with between 50-55 fighters per company. See, Angel Rabasa and Peter Chalk, *Colombian Labyrinth: The Synergy of Drugs and Insurgency and Its Implications for Regional Stability* (Santa Monica: RAND, 2001): 25.

<sup>31</sup> Rabasa and Chalk: 24.

<sup>32</sup> Mark Chernick, "Economic Resources and Internal Armed Conflicts: Lessons from the Colombian Case," in *Rethinking the Economics of War: The Intersection of Need, Creed, and Greed*, Cynthia J. Arnson, and I. William Zartman, eds. (Washington, DC: Woodrow Wilson Center Press, 2005): 190.

### **III. Rise of the Drug Economy, Emergence of Cartels, and FARC's Negative Involvement in the Illicit Narcotics Economy**

In the late 1970s, the FARC encountered the illicit drug economy and decided to prohibit it. Since the state of the overall economy was poor, the illicit economy labor-intensive, traffickers present, and the government's policy was essentially one of tacit acquiescence,<sup>33</sup> my theory of political capital of illicit economies predicts that such a negative involvement in the illicit economy on the part of the belligerents will result in the inability of the belligerents to generate political capital and obtain support from the population, but will instead hamper the FARC's effort to develop a support base.

#### ***The Rise of the Drug Economy***

Low-scale drug production and trafficking had been present in Colombia since the 1950s. Labs in Medellín processed on a low-scale heroin, cocaine, and morphine, which were then transported to Cuba for distribution in Miami and through Mexico for distribution elsewhere in the United States.<sup>34</sup> By the early 1970s, marijuana cultivation also became well established on the slopes of Sierra Nevada de Santa Marta and the adjoining sections of the northeastern coastal region. The presence of the drug economy took place within the context of a long tradition of smuggling with various licit and illicit

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<sup>33</sup> As will be described below, the government had engaged in the eradication of marijuana fields in the department of La Guajira, but it essentially ignored the southern region where coca was grown. See, for example, LaMond Tullis, *Unintended Consequences: Illegal Drugs and Drug Policies in Nine Countries* (Boulder: Lynne-Rienner, 1995): 67-88.

<sup>34</sup> Andrés López Restrepo and Álvaro Camacho Guizado, "From Smugglers to Drug-Lords to "Traquetos": Changes in the Colombian Illicit Drug Organizations," University of Notre Dame Kellogg Institute, 2001, [www.nd.edu/~kellogg/pdfs/LopeCama.pdf](http://www.nd.edu/~kellogg/pdfs/LopeCama.pdf), downloaded October 28, 2005. Coca cultivation, sale, and consumption were banned in Colombia in 1947 by President Mariano Ospina. Nonetheless, perhaps as a result of a substantially smaller indigenous population than in Peru and Bolivia, traditional use and cultural significance of coca in Colombia were considerably smaller than elsewhere in the Andean region.

products, such as cigarettes, emeralds (mined mainly in the western part of the department of Boyacá), and domestic appliances.<sup>35</sup>

However, the early and mid-1970s brought about important changes in the international drug trade, which critically contributed to a vast expansion of narcotics production and a greater illicit crop cultivation in Colombia. First, the United States undertook two major drug suppression campaigns in the two main U.S. suppliers of marijuana: the Buccaneer Campaign in Jamaica in 1974 and, along with the Mexican government, the so-called “Permanent Campaign” that fumigated Mexico’s cannabis fields with paraquat. These campaigns were temporarily successful, and the resulting shortage in supply to the United States allowed Colombia to increase its own production of marijuana.<sup>36</sup>

Second, increasingly dissatisfied with their business partnership with the Cubans and the share of profits they received and seeing the potential for drug production expansion, the Colombian smugglers decided to eliminate their Cuban counterparts from the business. They sent gunmen to the United States who systematically eliminated the Cuban drug smugglers, and by the end of 1978, the Colombian crime organizations took control of wholesale distribution in the United States.<sup>37</sup>

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<sup>35</sup> Phillip McLean, “Colombia: Failed, Failing, or Just Weak?” *Washington Quarterly*, 25 (3), Summer 2002: 123-34. In fact, many drug experts argue that what gave Colombia comparative advantage in the drug trade was the widespread know-how in eluding border controls, widespread corruption of border officials, and a general view of smuggling as benevolent. See, for example, Mauricio Reina, “Drug Trafficking and the National Economy,” in Charles Berquist, Ricardo Peñaranda, and Gonzalo Sánchez G., eds. *Violence in Colombia 1990–2000: Waging War and Negotiating Peace* (Wilmington: A Scholarly Resources Inc. Imprint, 2001); and Thoumi (2003). Only very scant data is available on the illicit smuggling with licit goods in Colombia. Estimates of the size of this economy during the early 1990s ranged from \$1.59 billion to \$5.5 billion annually. See, Reina: 88-9.

<sup>36</sup> Marijuana production did not spread throughout the country, but it highlighted to Colombian traffickers the immense potential profits if production of drugs significantly increased.

<sup>37</sup> For details, see Howard Abadinsky, *Organized Crime* (Chicago: Nelson-Hall Publishers, 1997) and Elaine Shannon, *Desperados: Latin Drug Lords, U.S. Lawmen and the War America Can't Win* (New York: Viking Press, 1988).

Finally, encouraged by the success of drug suppression operations in Mexico and Jamaica, the United States pressured the Colombian government to undertake a similar marijuana eradication campaign.<sup>38</sup> In 1978, to divert suspicions that he himself was on the payroll of the traffickers, Colombian President Julio César Turbay Ayala finally agreed to eradicate while the United States undertook interdiction both at U.S. borders and on the seas. This pressure on marijuana, facilitated at the interdiction level by marijuana's great volume and characteristic smell, persuaded Colombian traffickers to switch their focus onto cocaine.

### *The Emergence of Cartels*

The emerging drug economy gave rise to the Medellín and Cali cartels,<sup>39</sup> two of the largest and most notorious criminal organizations in history. These two organizations contributed to and oversaw the spread of drug production and traffic in Colombia. Headed by six Medellín-based capos (Jorge Ochoa Vazquez and his brothers Fabio and Juan David, Pablo Escobar Gaviria, Carlos Lehder Rivas, and José Gonzalo Rodríguez Gacha) and two Cali-based drug lords (Gilberto Rodríguez Orejuela and José Santa Cruz Londoño), the cartels earned an estimated \$5 to 6 billion a year from cocaine sale.<sup>40</sup> The

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<sup>38</sup> One of the reasons why eradication was undertaken was the widespread perception that the Colombian police in charge of internal interdiction were too corrupt for interdiction to make any significant impact on production in Colombia. See, Richard B. Craig, "Illicit Drug Trade and U.S.-Latin American Relations," *Washington Quarterly*, 8 (4), Fall 1985: 105-24.

<sup>39</sup> Although the Cali and Medellín cartels have come to epitomize the quintessential criminal organization as tightly-controlled and hierarchically-organized, criminal organizations vary widely in their internal structure, formality and hierarchy of organization, durability of internal and external linkages, and other characteristics. Yet even the classic, hierarchically-organized Cali and Medellín cartels relied on layers of subcontractors and freelancers. See, for example, Patrick L. Clawson and Rensselaer W. Lee III. *The Andean Cocaine Industry* (New York: St. Martin's, 1996): 40-1.

<sup>40</sup> Rensselaer W. Lee III., *The White Labyrinth: Cocaine and Political Power* (New Brunswick: Transaction Publishers, 1989): 3. Many of the main Medellín capos had experience with other illicit economies and smuggling. Gonzalo Rodríguez Gacha, for example, trafficked in smuggled emeralds and enthusiastically participated in violence associated with that trade. Carlos Lehder stole cars and sold

traffickers integrated and subcontracted various logistical functions of the traffic, set up a transport insurance system to allow smaller traffickers to participate and thus distributed the effects of seizures,<sup>41</sup> established large-scale processing laboratories,<sup>42</sup> organized distribution in the United States,<sup>43</sup> acquired their own security forces and a system of informers, developed sophisticated money-laundering methods,<sup>44</sup> hired lawyers, economists, and financial experts, and diversified into poppy cultivation and heroin processing.<sup>45</sup> Finally, Carlos Lehder revolutionized the drug trade by conceiving the idea of deploying light aircraft to transport drugs.<sup>46</sup> In order to launder money and establish themselves as a new elite, the narcos began acquiring land, further contributing to inequitable land concentration.<sup>47</sup> Colombia's annual income from the drug trade in the

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marijuana in New York before becoming one of the narco chiefs. Beginning his criminal career in his teens, Pablo Escobar stole headstones from local graveyards, filing off the inscriptions and reselling them. See, Francisco Thoumi, *Political Economy and Illegal Drugs in Colombia* (Boulder: Lynne Rienner, 1994a), 153-4. Their Cali counterparts began their criminal careers in counterfeiting and kidnapping. See also, Paul B. Stares, *Global Habit: the Drug Problem in a Borderless World* (Washington, DC: Brookings Institution Press, 1996): 33; and Andrés López Restrepo, "Conflicto interno y narcotráfico entre 1970 y 2005," in Alfredo Rangel Suárez, ed., *Narcotráfico en Colombia: Economía y Violencia* (Bogotá: Fundación Seguridad y Democracia: 2005): 87-144.

<sup>41</sup> Francisco Thoumi, *Economía, Política y Narcotráfico* (Bogotá: Tercer Mundo, 1994b): 148-9.

<sup>42</sup> The most notorious of these labs was Escobar's immense complex Tranquilandia, the largest cocaine lab ever found. When the Colombian police raided it in 1984, it found 13.8 metric tons of cocaine, worth at least \$34 million. For colorful details on Tranquilandia and Escobar's other ventures, see, Kirk: 71-91.

<sup>43</sup> See, for example, Guy Gugliotta and Jeff Leen, *Kings of Cocaine* (New York: Harper, 1990).

<sup>44</sup> The Cali cartel, for example, reportedly owned parts of several prominent Colombian banks to facilitate money laundering. See, Stares: 59. Such direct capture of the financial institutions by the traffickers was aided by Colombia's lax money laundering laws during the 1980s.

<sup>45</sup> This diversification decision was made by the Cali cartel at the end of the 1980s. Facing saturation of the U.S. market for cocaine, the Cali cartel also decided to diversify distribution to Europe, engaging in a business partnership with the Italian Cosa Nostra and other criminal organizations.

<sup>46</sup> At one point, Lehder bought an entire Bahamian island and converted it into a drug shipment center, equipped with storage facilities, loading docks, and refueling equipment.

<sup>47</sup> In the 1980s and 1990s, drug traffickers acquired about 4.4 million hectares of land, frequently of the best land, worth \$2.4 billion, and set off major land speculation. See, Richani: 34, and Reina: 77-8. According to another study, in the 1980s and early 1990s the drug traffickers acquired between 5 and 6 million hectares from Colombia's traditional rural elite. See, Alejandro Reyes, "Compra de tierras por narcotraficantes," in *Drogas ilícitas en Colombia*, Francisco Thoumi et. al., eds. (Bogotá: Ariel, UNPD, Ministerio de Justicia, Dirección Nacional de Estupefécantes, 1997): 279-346. Other major investments by the drug lords went into construction, one of the most convenient methods to launder money. In the early 1990s, drug money accounted for about 30% of construction. See, Stares: 98.

early 1980s and mid-1980s was estimated to be \$2.6 and 4.2 billions,<sup>48</sup> representing about 8.7% of Colombia's GDP in 1985.<sup>49</sup> Colombian traffickers had accumulated between \$39 billion and \$60 billion by the late 1980s, operating with as much capital to invest in Colombia as the entire private sector.<sup>50</sup>

Coupled with the decline of the agrarian sector, the rise of the drug cartels and the scale at which they were able to process and transport cocaine contributed to the spread of coca cultivation in Colombia. Although throughout the 1980s, the Colombian cartels obtained coca paste to a large extent from Peru and Bolivia, Colombia's domestic cultivation steadily grew from the late 1970s on. Large-scale cultivation of coca took place in the southeastern and southern plains and jungles of Colombia, in the departments of Putumayo, Caquetá, and Guaviare. As in Peru, cultivation of coca was economically greatly superior to other crops. In those regions, roads were essentially nonexistent. Thus it cost more for farmers to transport traditional licit crops, such as rice, corn, yucca, and bananas, to markets than they received for their sale. Consequently, the bulk of licit cultivation took place only for consumption.<sup>51</sup> Coca was the first product that allowed peasants to make profits, even if small ones, on their crops, with returns surpassing the costs of transport.<sup>52</sup> Coca also did not require transportation since traffickers picked it up right at the farm. In addition, the coca plant grew easily in an acidic poor quality soil where other crops struggled and did not require special irrigation and fertilizers. Finally,

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<sup>48</sup> See, Roberto Steiner, "Colombia's Income from the Drug Trade," *World Development*, 26 (6), 1998: 1013-1031.

<sup>49</sup> Thoumi (1994b): ch 5. Other estimates put the returns from illicit drugs as a percentage of GDP at 10.9 percent in 1984. See, Steiner.

<sup>50</sup> Francisco Thoumi, "The Economic Impact of Narcotics in Colombia," in Peter Smith, ed., *Drug Policy in the Americas* (Boulder: Westview Press, 1992): 68-70.

<sup>51</sup> Jaime Jaramillo, Leonidada Mora, and Fernando Cubides, eds., *Coca, Colonización y Guerrilla* (Bogotá: Universidad Nacional de Colombia, 1986): 107.

<sup>52</sup> In the mid-1990s, a hectare of coca (converted to cocaine base at the farm) netted about \$4,000, while a hectare of poppy converted in to morphine base netted about \$13,000-\$14,000. See, Clawson and Lee: 17.

coca leaves were easy to process into coca paste, thus becoming largely nonperishable where licit crops required either expensive canning or immediate consumption. Unlike coca, licit crops thus did not allow farmers to build up any stocks or retain profits. Not surprisingly, the *bonanza cocalera* attracted a large migration into the regions. What in the early 1980s might have been 25,000 peasants participating in coca cultivation grew to 300,000 to 500,000 by the late 1990s.<sup>53</sup> Progressively, many parts of the south were transformed into a pure coca economy. Between 1978 and 1998, the area cultivated with coca in Colombia increase by 400%, reaching in 1998 100,600 hectares.<sup>54</sup>

### ***FARC's Negative Involvement in the Illicit Narcotics Economy***

FARC first encountered the drug economy in the middle and lower regions of the Caguán River in the Department of Caquetá in about 1978. Seeing drugs and the unrestrained capitalism, anarchy, enrichment of the traffickers, and social violence that drugs brought to the region as counterrevolutionary, the Marxist group's original reaction was to oppose the cultivation of illicit crops. This policy, however, proved vastly unpopular with the local population, and the peasants actively resisted the policy.<sup>55</sup> Instead of allowing the FARC to secure control of the region and build up support bases by ending the latest manifestation of capitalism, FARC's decision to prohibit the

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<sup>53</sup> Vargas Meza (1999): 5. Ricardo Rocha estimates that between 1988 and 1993, the second coca boom (described in detail below) attracted 578,000 people into the southeast. See, Ricardo Rocha, *La Economía Colombiana tras 25 Años de Narcotráfico* (Bogotá: United States Drug Control Program and Siglo de Hombre Editores, 2000): 150; and Lee (1989): 43.

<sup>54</sup> Richani: 96.

<sup>55</sup> Author's interviews, Bogotá, Fall 2005. See, Henry Salgado, "Conflicto agrario y expansión de los cultivos de uso ilícito en Colombia," *Controversia* (182), Junio de 2004; Juan Guillermo Ferro, "Las FARC y su relación con la economía de la coca en el sur de Colombia: Testimonios de Colonos y Guerrilleros," in *Violencias y estrategias colectivas en la región andina*, Gonzalo Sánchez G. and Eric Lair, eds., (Bogotá, Editorial Norma, 2004); José Jairo González, "Cultivos ilícitos, colonización y revuelta de raspachines," *Revista Foro*, September 1998; and Juan Guillermo Ferro and Graciela Uribe, *El orden de la guerra: LAS FARC-EP: entre la organización y la política* (Bogotá: CEJA, 2002).

cultivation of coca severely undermined its legitimacy and led to the population opposing FARC's presence in the region. Suddenly, even the traffickers and their security forces looked more appealing to the peasants than the guerrillas.<sup>56</sup> The FARC's prohibition of coca cultivation did not lead to the peasants' greater cooperation with the government and its military forces since the state was largely absent from the region. Nonetheless, as predicted by my theory, it hampered FARC's ability to build up a support base and threatened to consolidate the population's allegiance to the traffickers.

#### **IV. Embracing the Illicit Economy: *Testing the Effect of FARC's Positive***

##### ***Involvement***

Fearing the loss of its social base, the FARC recognized that it needed to tolerate coca production. By 1982, the FARC thus embraced the illicit economy. The policy of protecting coca production, taxing the narcos, and recruiting people in the lower end of the drug business was laid out formally in the unpublished "Conclusions" of the FARC's Seventh Conference.<sup>57</sup> In its public statements since then, the FARC has acknowledged that drugs represent a serious problem, but has stressed that the drug traffic is not the cause of the conflict in Colombia and is the result of government's corrupt practices. As is to be expected, the FARC has stressed crop substitution, not eradication, as the appropriate response to the drug problem, even though acknowledging that once alternative crops can guarantee survival for the peasants, eradication may be

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<sup>56</sup> Presentation by José Olarte (mayor of Calamar, Guaviare) at Georgetown University and National Endowment for Democracy Conference on "Local Government Amidst the Armed Conflict: The Experience of Colombian Mayors," Georgetown University, Washington, DC, September 27, 2000. Quoted in Rabasa and Chalk: 26.

<sup>57</sup> Rabasa and Chalk: 26.

appropriate.<sup>58</sup> Meanwhile, it has become positively involved in various stages of the illicit economy.

Given the FARC's positive involvement in the illicit economy, both the conventional view and the theory of political capital of illicit economies predict that the group would be able to significantly increase its strength. However, while the conventional view only predicts an increase in the group's physical resources, the theory of political capital of illicit economies also predicts an important increase in its freedom of action and political capital. Because the state of the overall economy was poor, the character of the illicit economy labor-intensive, traffickers present, and government policy quickly became eradication, the theory of political capital of illicit economies predicts a substantial increase in the FARC's power, and significantly, a substantial increase in the FARC's political capital. Thus, while the conventional view predicts the same level of popular support for the FARC in both drug-producing and non-producing regions, my theory predicts a significantly greater support for the group in drug-producing regions.

### *Learning Curve*

At first, the FARC tapped only into the most basic component of drug production, by taxing the coca farmers with a standard "revolutionary tax" of 15 percent on coca all transactions.<sup>59</sup> Progressively, however, the guerrillas sought to participate in other aspects of drug production. They levied new tariffs on other illegal transactions, from importing

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<sup>58</sup> See, *Letter from FARC to the U.S. Congress*, March 14, 2000, <http://www.ciponline.org/colombia/031407.htm>, downloaded March 13, 2004.

<sup>59</sup> Mark Chernick, "Negotiating Peace Amid Multiple Forms of Violence," in *Comparative Peace Processes in Latin America*, Cynthia J. Arson, ed. (Washington, DC: Woodrow Wilson Center Press, 1999): 166. The FARC's overall taxation system is progressive, and the poorest peasants are exempted from at least some taxation. See, Richani: 70.

precursor agents to refining cocaine. The FARC collects about 20% of the shipment's value for trafficking use of the territory under its control, such as for river transport. The guerrillas also demand rents from the narcos for coca paste, protection of labs, and the provision of airstrips.<sup>60</sup> In the 1990s, the FARC standardized its fees, charging \$15.7 for every kilo of coca paste and \$52.6 for every kilo of cocaine that the traffickers produced in its territory. FARC's protection fees for a domestic drug flight from one of its airstrips is \$2,631, and for an international flight \$5,263.<sup>61</sup> After his arrest, a Brazilian top trafficker who was one of the FARC's international connections claimed that considerably higher fees were charged by the FARC: \$500 per each kilo of cocaine to be shipped and \$15,000 per each flight.<sup>62</sup> In the early 1990s, the FARC also began acquiring coca plots and processing coca leaf into cocaine. The FARC has further diversified its portfolio by taxing the production of heroin and reemerging marijuana.<sup>63</sup> The leftist guerrillas are believed to control approximately 70 percent of the opium poppy producing municipalities.<sup>64</sup>

Until the late 1990s, there was no evidence that the FARC has managed to participate in international smuggling operations or distribution in source countries. According to the DEA's testimonies in the U.S. Congress, "To date, there is little to indicate the insurgent groups are trafficking in cocaine themselves, either by producing cocaine HCL and selling it to Mexican syndicates or by establishing their own

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<sup>60</sup> Vargas (1999): 1, 5.

<sup>61</sup> Mark S. Steinitz, "The Terrorism and Drug Connection in Latin America's Andean Region," CSIS, Policy Papers on the Americas (XIII), Study 5 (Washington, DC), July 2002.

<sup>62</sup> Gabriel Marcella, *The United States and Colombia: The Journey from Ambiguity to Strategic Clarity* (Carlisle: U.S. Army War College 2003): 27.

<sup>63</sup> Although poppy plants are rather fragile and fairly easy to destroy, they are frequently located high on Colombia's mountains in the so-called cloud forest, escaping detection and making it frequently impossible to deploy spraying planes.

<sup>64</sup> Camilo Echandía Castilla, "La Amapola en el Marco de las Económicas del ciclo Corto," *Análisis Político*, (27), January-April 1996.

distribution networks in the United States.”<sup>65</sup> Evidence obtained in the early 2000s, however, has revealed that the FARC has developed contacts with international smuggling networks, indicating that it could potentially bypass Colombian middlemen.<sup>66</sup> Nonetheless, the operational demands for developing an international smuggling network are very high and not easily accomplished by a local belligerents group. All in all, 23 FARC’s fronts, or slightly more than 50 percent, were active in drug-rent collections in coca-growing regions and six in opium zones by 2000.<sup>67</sup>

### ***Military Capabilities I: Physical Resources***

Its positive involvement in the illicit narcotics economy and other illicit economies allowed for a major expansion of the FARC’s military capabilities. Although the exact figures of Colombian insurgents’ financial gains from drugs are not known, the overall FARC’s income is estimated to be hundreds of millions of dollars annually. Most credible estimates of FARC’s income from taxing the illicit economy fluctuate between \$60 and \$100 million per year.<sup>68</sup> According to some estimates, the protection rents

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<sup>65</sup> Donnie Marshall, Chief of Operations, the Drug Enforcement Agency, “*Cooperative Efforts of the Colombian National Police and Military in Anti-narcotics Efforts, and Current DEA Initiatives in Colombia*,” *Testimony before the Subcommittee on National Security, International Affairs, and Criminal Justice, July 9, 1997* (Washington, DC: U.S. Government Printing Office: 1997): 6.

<sup>66</sup> See, for example, Alexandra Guáqueta, “The Colombian Conflict: Political and Economic Dimensions,” in Karen Ballentine and Jake Sherman, (eds.), *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 80-1, and *War and Drugs in Colombia*, Latin America Report No. 11, January 27, 2005, [http://www.crisisgroup.org/library/documents/latin\\_america/11\\_war\\_and\\_drugs\\_in\\_colombia.pdf](http://www.crisisgroup.org/library/documents/latin_america/11_war_and_drugs_in_colombia.pdf), downloaded February 10, 2005: 9. The extent of FARC’s penetration of international smuggling network and its distribution capacity in source countries continues to be hotly debated among experts on the FARC and drugs. Having contacts with smuggling organizations is, of course, not the same as having the know-how and the will to carry such activities on its own. In March 2002, U.S. courts indicted FARC members for the first time on drug trafficking charges and requested their extradition. In March 2006, a federal grand jury in Washington DC indicted 50 top FARC commanders. Simón Trinidad, one of the top leaders, has been extradited to the United States.

<sup>67</sup> Author’s interviews in Bogotá, Fall 2005. See, International Crisis Group, (January 27, 2005): 9.

<sup>68</sup> Author’s interviews in Bogotá, Fall 2005.

extracted by guerrillas from narcotraffickers in 1996 amounted to \$600 million, and less than \$200 million annually in 1997 and 1998.<sup>69</sup> Already in the early 1980s, the FARC was believed to obtain about \$3.8 million per month from the coca economy.<sup>70</sup>

It is crucial to realize that despite the FARC's enormous income from the drug trade, drug rents represent only about 48 percent of FARC overall income. The rest comes from other illicit economies, labor non-intensive ones, and other criminal activities. Extortion of oil companies and other large businesses generates additional 36 percent. Kidnapping brings in another 8 percent of FARC's total resources,<sup>71</sup> and cattle rustling another 6 percent. The rest comes from bank robberies and other illegal activities.<sup>72</sup> As mentioned above, these other illicit economic activities played a prominent role for generating finances all along,<sup>73</sup> serving as a financial survival mechanism for the guerrillas even though failing to generate political capital for the insurgents before the FARC was able to tap into the drug trade.

The FARC has also imposed "revolutionary" taxes on other political and economic transactions. For example, in the regions they control, the guerrillas frequently

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<sup>69</sup> Richani: 75. A study by the Colombian police put FARC's and the AUC's income at a high \$105 million per month. Colombia National Police Internal Document A-4523, Government of Colombia, December 2000, cited in Edgardo Buscaglia and William Ratliff, *War and Lack of Governance in Colombia: Narcos, Guerrillas, and U.S. Policy* (Stanford: Hoover Institution on War, Revolution, and Peace, 2001): 26. Other intelligence sources placed the total income of the guerrilla in 1995 as high as \$800 million. See, Mark Chernick, "Colombia's Escalating Violence," *Strategic Comments*, 3 (4), May 1997. However, given the size of the Colombian economy and its known difficulties in absorbing illicit monies, this figure is likely inflated.

<sup>70</sup> Mark S. Steinitz, "Insurgents, Terrorists and the Drug Trade," *Washington Quarterly*, 8 (4), Fall 1985: 142.

<sup>71</sup> The Colombian government estimates that kidnapping brought \$1.2 billion to the FARC and the ELN between 1991 and 1998. See, Pax Christi Netherlands, *The Kidnapping Industry in Colombia* (Utrecht: Pax Christi Netherlands, 2001): 35. The majority of kidnapping today is carried out by the leftist guerrillas, especially the FARC. Currently, guerrillas take an average of 1,500 people per year. Colombia has one of the highest kidnapping rates in the world.

<sup>72</sup> Alfredo Rangel Suárez, "Parasites and Predators: Guerrillas and the Insurrection Economy of Colombia," *Journal of International Affairs*, 53 (2), Spring 2000: 585.

<sup>73</sup> See, for example, Restrepo, Spagat, and Vargas (forthcoming).

“recommend” individuals for jobs in local bureaucracy, and collect a “facilitation fee” from their earnings, demand payments for the award of public work contracts, and collect a cut of public expenditures.<sup>74</sup>

The FARC was able to convert these profits from the various illicit economies into a major increase in its fighting capacity, growing both in numbers of combatants and the quality of weapons at its disposal. In 1979, the FARC had nine fronts. By the end of 1983, this number grew to 27.<sup>75</sup> By 1986 the FARC had approximately 3600 fighters in 32 fronts, and as resources from drugs continued flowing in, the number of fighters continued to grow to 7000 in 60 fronts in 1995.<sup>76</sup> The continuing income from the drug trade and an opportunity to organize and regroup in the so-called demilitarized zone (*zona de despeje*) of 42,000 square kilometers in the south-central part of Colombia, which was granted to the FARC under President Pastrana’s peace plan in the late 1990s, allowed the FARC to further expand its numbers to 15,000-20,000 in over 70 fronts by 2000.<sup>77</sup>

The following table and graph summarize the FARC’s dramatic expansion after its positive involvement with the drug economy.

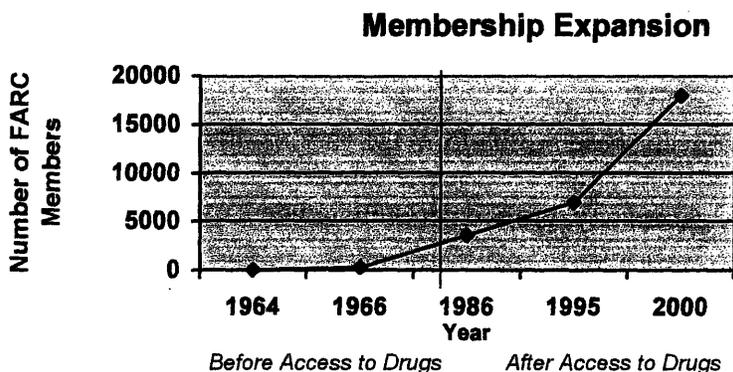
<b>Number of FARC Members</b>				
<b>1964</b>	<b>1966</b>	<b>1986</b>	<b>1995</b>	<b>2000</b>
44	350	3600	7000	18,000

<sup>74</sup> Presentation by Gilberto Toro, Executive Secretary, *Federación Colombiana de Municipios*, at Georgetown University and National Endowment for Democracy, Conference on Government Amidst the Armed Conflict: The Experience of Colombian Mayors,” Georgetown University, Washington, DC, September 27, 2000, cited in Rabasa and Chalk: 50.

<sup>75</sup> Pearce: 173.

<sup>76</sup> In 1989, the FARC estimated that it needed about \$56 million to increase the number of combatants from 13,200 at the time to 18,000. See, Richani: 76.

<sup>77</sup> Rangel Suárez (1998): 12. President Uribe’s military operations against the FARC since 2002, described below, resulted in the capture of several thousand guerrillas.



*Data: Based on sources quoted above. 1982 marks the beginning of FARC's positive involvement with the drug economy.*

The FARC has not only expanded in terms of numbers of guerrillas, but also geographically. In 1979, the FARC had some presence in the departments of Huila, Cauca, Tolima, Putumayo, Caquetá, Antioquia, and Córdoba, and in the Magdalena Medio region.<sup>78</sup> In 1983, the guerrillas controlled only 173 municipalities, 13 percent of the country's total. By the mid-1980s, guerrilla influence spread to the departments of Guaviare, Meta and key regions of Sierra Nevada de Santa Marta, Serranía de San Lucas, and Bota Caucana.<sup>79</sup> By 1998, the guerrillas expanded their control to 622 municipalities, 61 percent of the total. In most of the municipalities with illicit substances, the guerrillas established military presence or control.<sup>80</sup> The group thus managed to operate in 40 to 60 percent of the country, much of which comprises sparsely populated jungles and plains east and south of the Andes. At least prior to President Uribe's Plan Patriota (a major military campaign against the FARC described below), the FARC leadership's long-term

<sup>78</sup> Eduardo Pizarro Leongómez, *Insurgencia sin revolución* (Bogotá: Tercer Mundo 1996): 99.

<sup>79</sup> *Ibid*: 126-7.

<sup>80</sup> Richani: 96.

goal was to build a force of 30,000 to enable it to engage in large-scale offensive operations against the Colombian military.<sup>81</sup> By the end of the 1990s, the FARC was larger and more entrenched than ever before.

In early 2002, following the ceasefire breakdown between the government and the FARC, a serious level of violence erupted once again, and the FARC expanded its military attacks to cities. This expansion to the urban theater was not a reaction to its weakness in the country, but rather the opposite. Expansion into the cities and, crucially, encircling of the capital, had been an important part of the FARC's grand strategy, consisting of four steps: 1) to consolidate its control of the coca-growing regions in the southern and eastern parts of Colombia and of poppy-growing regions on the eastern slope of the Andes to build up their military capabilities; 2) to expand its theater of operations into the entire country so as to disperse the government's forces and reduce its ability to regain the military initiative; 3) to isolate the capital Bogotá and other major cities by interdicting roads of land communication; and 4) to move to large-scale offensive operations that would culminate in a general uprising.<sup>82</sup> Throughout the 1990s, the FARC was drawing closer to the cities and managing to control infrastructure in certain territories. During the late 1990s, the FARC used its demilitarized zone to increase coca cultivation, regroup, and begin building up an urban branch.<sup>83</sup> As of 2004, some analysts estimated the strength of the urban branch as high as 12,000 men and

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<sup>81</sup> Karl Penhaul, "Colombian Rebels Map Out Plan to Topple Government," *News Agency Colombia*, January 14, 1999.

<sup>82</sup> For details, see Rabasa & Chalk: 40.

<sup>83</sup> Julia E. Sweig, "What Kind of War for Colombia?" *Foreign Affairs*, 81 (5), September/October 2002: 127-131.

women with access to explosives and arms drawn from the urban poor,<sup>84</sup> though others generally put it in the lower thousands, a more likely number.<sup>85</sup> Apart from several bomb attacks in 2002, including of a disco in Bogotá, the FARC has generally been reluctant to pursue terrorist operations in the cities, fearing a substantial decline in legitimacy as a result of such operations, but Bogotá's electrical grid became a routine target until President's Uribe counteroffensive in 2003.

The FARC's military equipment also underwent a major improvement. Prior to the positive involvement in the illicit economy, the belligerent group had at its disposal old rifles, frequently dating back to *La Violencia*. Since its positive involvement in the illicit narcotics economy, it has acquired M60 machine guns, M16 rifles, AK-47 assault rifles, mortars, RPG-7 rocket-propelled grenades, M79 grenade launchers, land mines, explosives, and detonators. In May 2000, Colombian officials intercepted anti-aircraft and anti-tank rockets specifically destined for the FARC. In addition, there have been reports that in the past, the FARC received SA-14, SA-16 and RPG-7s from Russia, as well as 'Redeye' and 'Stinger' missiles from Syria,<sup>86</sup> even though the FARC has not yet used surface-to-air-missiles in the conflict. The FARC has upgraded its communications equipment with Japanese and European voice scramblers and encryption technology.<sup>87</sup>

The FARC also possessed boats. In 1989, the leadership of the group contemplated

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<sup>84</sup> Alejandro Reyes, "La Violencia Política," in Marc Chernick, ed., *Prevención de conflictos y alerta temprana: El caso de Colombia* (Washington DC and Bogotá: United Nations Development Program, Georgetown University, and Universidad de los Andes, 2005).

<sup>85</sup> Author's interview in Bogotá, Fall 2005.

<sup>86</sup> See, LaVerle Berry, Glenn E. Curtis, Rex A. Hudson, and Nina A. Kollars, *A Global Overview of Narcotics-Funded Terrorist and Other Extremist Groups*, A Report Prepared by the Federal Research Division, Library of Congress, May 2002, [http://www.loc.gov/rr/frd/pdffiles/NarcsFundedTerrs\\_Extrems.pdf](http://www.loc.gov/rr/frd/pdffiles/NarcsFundedTerrs_Extrems.pdf), downloaded August 05, 2004.

<sup>87</sup> Douglas Farah, "Colombia Rebels' Arsenal Grows as Cocaine Sales Increase in E. Europe," *Washington Post*, November 4, 1999.

acquiring 6 small airplanes, 10 speedboats, and 2 ships.<sup>88</sup> It is not clear whether this goal was accomplished.

Participation in the narcotics economy exposed the FARC to international smuggling arms organizations. The FARC was able to use drug smuggling routes and contacts for weapons procurement. In 2000, for example, the Peruvian ex-chief of intelligence, Vladimiro Montesinos, helped facilitate a cocaine-for-arms swap between the Russian mafia and the FARC with the FARC purchasing 10,000 AK-47s and 3 million cartridges in a single shipment. Although this particular shipment was intercepted in October 1999, a single airdrop delivered \$50 million worth of AK-47s deep in FARC's territory, according to U.S. intelligence officials. Positive engagement in the illicit economy thus not only gave the FARC the necessary financial means to acquire sophisticated weapons, it also greatly simplified procurement mechanisms and logistics. Other illicit activities, such as extortion and kidnapping that the belligerents had engaged in prior to their tapping into the drug trade, generated some financial resources, but their effect on procurement and logistics improvement was limited. Unlike the drug trade, such highly localized criminal activities did not put the guerrillas in contact with major international weapons-smuggling organizations.

### ***Military Capabilities II: Freedom of Action***

Positive involvement in the illicit narcotics economy also gave the FARC a greater freedom of action. Both the growth of the number of its combatants and the solving of procurement and logistics gave the FARC the flexibility to develop highly specialized military units and to concentrate on strategic targets. The FARC, for example,

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<sup>88</sup> Richani: 76.

has used sapper units in assault and demolition operations<sup>89</sup> as well as at least four other mobile blocks.<sup>90</sup> According to the Colombian army officials, “the combination of armed struggle with drug trafficking makes [guerrilla] squads more stable to a certain extent. [...] [S]quads located in coca and poppy growing areas are the ‘strongest qualitatively and quantitatively.’”<sup>91</sup> It also should be noted that an important part of the FARC’s freedom of action comes from its having bases in neighboring countries, including Ecuador, Venezuela, and Panama, where it can retreat when under pressure from the Colombian military.

Proponents of the conventional view have objected that participation in the illicit economy limited the mobility and freedom of action of the FARC by forcing it to defend the illicit economy from government actions, namely government squads eradicating coca fields.<sup>92</sup> According to such analysts, FARC’s ability to retreat from a drug-cultivation territory as a strategic maneuver was compromised by its need to defend the coca plantations from spraying planes, thus undermining one of the imperatives of guerrilla warfare -- mobility.

However, the decision to retreat or not to retreat can be a matter of choice for the belligerent group. If in order to protect the fields, it does not retreat, it does so because it chooses such a strategy, not because it does not have the capacity to adopt another strategy. In fact, as will be described below, the FARC did at times choose not to defend the coca fields and simply retreated, albeit at great cost to its political capital. Running away or defending a particular territory became options for the FARC after it tapped into

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<sup>89</sup> Ortiz: 136.

<sup>90</sup> Guáqueta: 77.

<sup>91</sup> Col. Fernando Milan Pérez, Col. Eduardo Santos Quinones, “La Guerrilla en Colombia a la Ideología y la Política,” in *Revista Fuerzas Armadas*, LI (160), July-September 1996.

<sup>92</sup> Author’s interviews with U.S. government officials, summer 2004.

the drug economy, whereas prior to embracing the illicit economy, it had no option but to run. Overall, the FARC's positive involvement in the illicit economy greatly strengthened its military capabilities, both in terms of physical resources as predicted by the conventional view, but also in terms of its freedom of action, as predicted by my theory of political capital of illicit economies.

### *Political Capital*

Crucially, however, positive involvement in the illicit economy also increased the FARC's political capital. One important mechanism by which the illicit economy has generated political capital for the belligerents has been their provision of protection and regulation services to the population in the illicit crop regions. As described earlier, during the FARC's negative involvement in the illicit economy, the FARC was barely able to hold onto the Caguán region, facing an imminent displacement of its authority by the drug traffickers and their security services. The negative reaction of the peasants toward FARC's prohibition of the illicit economy led the FARC both to reverse its policy and also to form "self-defense groups" among the population to preserve order and prevent the domination of the region by the narcos. However, the self-defense groups exhibited little interest in protecting the peasants from abuses of the traffickers and, in fact, came to abuse the farmers themselves.<sup>93</sup>

By the late 1980s, the community petitioned the FARC to assert greater control of the region,<sup>94</sup> to which the group responded. First, the FARC established more security for the peasants, making sure that they would not be robbed when receiving payments for

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<sup>93</sup> The self-defense groups also showed no interest in moderating the rise in burglary, homicides, and prostitution. See, Chernick (2005): 198; Ferro (2004): 10.

<sup>94</sup> Chernick (2005): 198.

their coca crops. It also established local policing. Second, the guerrillas began dispensing justice and promulgating and enforcing laws regarding the carrying of arms, fishing, hunting, working hours, liquor consumption, prostitution, drug abuse, and cutting of trees.<sup>95</sup> The guerrillas thus provided protection from a proxy, which got out of control.

Moreover, the guerrillas came to provide protection from the drug traffickers. The guerrillas limited the abuses of the traffickers and their intermediaries. They forced the traders to pay the farmers in cash, not *basuco* (crack) and demanded that the traffickers pay better wages to the *cocaleros*, imposing price controls on coca leaf and paste.<sup>96</sup> In areas in which the guerrillas' presence was weak or nonexistent, the price of labor paid by the *narcos* is lower than in areas in which the guerrillas have strong military presence.<sup>97</sup> The FARC also established quotas on the amount of land to be seeded with coca, encouraging farmers to dedicate a part of their plot to food crops, centralized purchases of coca leaf, and limited who, including which traffickers, entered the region.<sup>98</sup> Furthermore, the FARC also limited the expansion of landholding by the drug traffickers, large landowners, and cattle ranchers at the expense of the coca peasants.<sup>99</sup> Similarly, in the marijuana regions in the early 1990s, the guerrillas provided a regulatory framework for the illicit economy, making sure that buyers did not take advantage of the peasants.<sup>100</sup>

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<sup>95</sup> Richani: 89.

<sup>96</sup> Pearce: 173. See also, Ricardo Vargas Meza, "Cultivos ilícitos en Colombia: elementos para un balance," in Alfredo Rangel Suárez, ed., *Narcotráfico en Colombia: Economía y Violencia* (Bogotá: Fundación Seguridad y Democracia, 2005): 87-144.

<sup>97</sup> Richani: 110. See also, Thoumi (2003): 228.

<sup>98</sup> Ferro (2004). Author's interviews in Colombia, Fall 2005. See, also, Camilo Echandía Castilla, *El Conflicto Armado y las Manifestaciones de la Violencia en las Regiones de Colombia* (Bogotá: Presidencia de la República de Colombia, Oficina del Alto Comisionado para la Paz, 2000): 79.

<sup>99</sup> Author's interviews in Colombia, Fall 2005. See, also Richani: 70-1.

<sup>100</sup> Sergio Uribe, "Los Cultivos Ilícitos en Colombia: Evaluación-Extensión, Técnicas y Tecnologías para la Producción y Rendimientos y Magnitud de la Industria," in Francisco Thoumi, ed. *Drogas Ilícitas en Colombia: Su Impacto Económico, Político y Social* (Bogotá: Editorial Planeta, 1997).

The guerrillas thus came to provide complex protection and regulation services for the illicit economy and the coca peasants.

The FARC also provides protection against the government's efforts to eradicate the illicit crops. The effects of eradication on popular support for the FARC and cooperation with the government will be discussed in detail below in the sections on eradication during the mid-1990s and since the launch of Plan Colombia. Suffice to say at this point, that since the 1980s, the FARC has systematically attempted to prevent eradication, shooting at spraying planes and attacking ground eradication teams. Colombia began spraying coca fields experimentally in late 1984, and by the end of 1985, 2000 hectares (or 10-15% of Colombia's crop at the time) were eradicated both by aerial spraying and manual eradication.<sup>101</sup> In response, the FARC capitalized on the growing resentment and mobilization of the peasants, organizing resistance and acquiring stronger bases of support. A U.S. counternarcotics official operating in the town of San José del Guaviare, characterized the situation in an internal memorandum (reprinted by Lee) in early 1986 as the following:

The civilian population in San José is more hostile than ever. Many campesinos are threatening legal action and scream about losing their livelihood and against police abuses at every opportunity. ... [Large] scale demonstrations and other problems could be on the horizon. Intelligence sources also claim an increase in guerrilla activity in the San José area.<sup>102</sup>

Since then, eradication has generated widespread resentment among the rural population, and FARC's interference with eradication has received cheers from the

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<sup>101</sup> Bureau of International Narcotics Matters, U.S. Department of State, *International Narcotics Control Strategy Report (INCSR)* (Washington, DC, Government Printing Office: 1986): 90.

<sup>102</sup> Reprinted in Lee (1989): 211. Challenged as illegal under Colombian laws during the 1980s, aerial fumigation was suspended in early 1986. It was restarted again in the mid-1990s. Manual eradication has continued since the 1980s, though the policy has varied in intensity.

population, translating into the major source of the FARC's legitimacy and support.<sup>103</sup> The FARC's operations against the government's military deployments and units have frequently been justified as counter–counternarcotics operations, including its destruction of the army base at Las Delicias in Putumayo.<sup>104</sup> Moreover, given the high degree of corruption of the Colombian military and police, the peasants were frequently forced to pay drug rents to the law enforcement officials whose treatment of the peasants was often more arbitrary and threatening than that of the guerrillas.<sup>105</sup> The FARC efforts to prevent the presence of counternarcotics forces thus resulted not only in smaller destruction of the peasants' illicit crops, but also in smaller and less arbitrary protection rents and less abuse. The FARC has also provided protection against the government interdiction efforts to destroy processing labs, thus providing protection to the drug traffickers, in addition to the rural population.

Interestingly, overall the FARC has encouraged alternative development, even if occasionally threatening alternative development workers and specific projects. Even in the Caguán region, for example, where it first learned how to exploit the illicit economy to increase its strength, the FARC cooperated with local community groups and Colombian government organizations in the mid-1980s to implement an ambitious \$25 million regional development plan, which included technical assistance for growing new crops, infrastructure development, telecommunications system, new sewage and portable water system, and legalization of peasants landholdings.<sup>106</sup>

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<sup>103</sup> See, for example, Vargas Meza (1999); Rabasa and Chalk: 66; Ortiz: 137; Gutierrez 2004.

<sup>104</sup> Vargas Meza (1999).

<sup>105</sup> Pearce: 173. Revelations of widespread corruption among Colombian air force command officers in 1998, for example, gave rise to the expression “the Blue Cartel,” referring to the color of the air force uniforms.

<sup>106</sup> Jaramillo, Mora, and Cubides (1986): 135-57.

Although the FARC's advocacy of alternative development as the appropriate counternarcotics policy is easily understood – it allows the FARC to oppose eradication and stress the plight of the peasants – its actual cooperation with alternative development projects is less obvious. The success of alternative development would undermine the strength of the illicit economy in a particular region, thus limiting both the FARC's financial income and its political capital. Perhaps the FARC has learned that alternative development projects frequently fail and rarely manage to provide alternative subsistence to the farmers. This allows the FARC to embrace alternative development without facing the diminishment of its strength as a result of alternative development reducing the size of the illicit economy. Equally important, the FARC is also taking its clues from the rural population. Unlike in Peru where alternative development has been largely discredited with the *cocaleros*, who frequently oppose any state presence, including that of alternative development project managers, alternative development in Colombia is still popular with the rural population in Colombia and is an important part of the *cocaleros* negotiating demands. The FARC understands that its opposition to alternative development projects would antagonize the local population.<sup>107</sup>

The FARC has also used the drug money to provide for otherwise absent social services. It has established local clinics and vocational schools and organized public works, such as construction of infrastructure, paving of roads, and provision of means of transportation. Indeed, in many municipalities, the FARC has been the sole provider of essential public services.<sup>108</sup> According to a survey by Edgardo Buscaglia of 1,500

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<sup>107</sup> Based on author's interviews in Peru, summer 2005 and Colombia, Fall 2005.

<sup>108</sup> In addition to exploiting the illicit narcotics economy, the FARC also has supplied the provision of social services through other illicit economic activities, such as blackmailing major international companies and forcing them to invest in local schools, vocational training, etc. See, Ricardo Vargas Meza, ed.,

individuals concerning informal institutions in Colombia's war zones, 68 percent of the sample population used health services established by the FARC and many also used mediation services provided by the FARC. At the same time, 91 percent of the population perceived municipal authorities as corrupt and 67 percent viewed local officials as incompetent in the provision of public services.<sup>109</sup> In the marijuana-growing regions of the early 1990s, for example, the FARC charged a fairly high tax (up to one third of the buyers' payments) for the provision of various regulations and protection functions, but it returned a portion of the profits for community development projects.<sup>110</sup> Although the guerrillas probably would be able to provide some social services even without their positive involvement in the illicit economy, the scale of social services provided is critically dependent on the belligerents' positive involvement in the illicit economy. Positive involvement in the illicit economy thus enlarges the scale and scope of the protostate functions the belligerents can take on.

Another important mechanism by which positive involvement in the illicit economy generates political capital for the FARC is the exploitation of nationalism. The FARC frequently plays the nationalism card by comparing the U.S.-sponsored drug eradication campaign to the U.S. intervention in Vietnam. In the areas the FARC controls, it put up billboards which read: "Plan Colombia: los gringos ponen las armas Colombia pone los muertos" (Plan Colombia: The gringos supply the arms, Colombia

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*Drogas, Poder y Region en Colombia* (Bogotá: CINEP, 1994). It has also sought to control who runs local administrations, both by nominating its candidates for elections and physically threatening their opponents. The FARC places great importance on infiltrating local politics and exercising power at the local level.

<sup>109</sup> Buscaglia & Ratliff: 8-9. See also, James Dao, "The War on Terrorism Takes Aim at Crime," *New York Times*, April 7, 2002.

<sup>110</sup> Uribe (1997).

supplies the dead).<sup>111</sup> FARC's shooting at Colombian and DynCorp's fumigation planes is cheered by the rural population as not only protection of their livelihood, but also as a nationalist cause. The FARC has intensified the nationalist message since 2002 when U.S. policy toward Colombia changed, allowing U.S. aid to Colombia -- including arms sales and training provision to Colombian military and police units -- be used not solely for counternarcotics purposes, but also directly for fighting the FARC.<sup>112</sup> The nationalism aspect is further enhanced by the controversial nature of the substance used for coca spraying, glyphosate, known under its trademark name Roundup. Produced in the United States, glyphosate is frequently alleged to have a vast negative environmental impact, and be potentially harmful to humans.<sup>113</sup> The FARC thus alleges that the gringos are conducting chemical warfare in Colombia.<sup>114</sup>

The FARC's positive involvement in the illicit economy consequently resulted in its acquisition of political capital. In areas where the FARC had previously no foothold and where the population resented its presence, the FARC was welcomed once it embraced the illicit economy. Since then, it has consistently had the highest level of political capital in the drug-producing regions. The major coca-growing departments of

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<sup>111</sup> Daniel Lazare, "A Battle Against Reason, Democracy and Drugs: The Drug War Deciphered," *NACLA's Report on the Americas*, XXXV (1), July/August 2001: 17.

<sup>112</sup> Juan Forero, "Shifting Colombia's Aid: U.S. Focuses on Rebels," *New York Times*, August 08, 2002.

<sup>113</sup> See, for example, World Wildlife Fund, "Comments on Glyphosate," October 30, 1999, <http://www.ciponline.org/colombia/103001.htm>, downloaded May 01, 2003; and "Report on Verification Mission 'Impacts in Ecuador of fumigations in Putumayo as part of Plan Colombia,'" October 2002, <http://www.ciponline.org/colombia/02121301.htm>, downloaded May 01, 2003. The United States government denies that glyphosate has any negative effects, and several U.S. government-sponsored studies have failed to find any negative side-effects of using glyphosate. Environmental groups point out, however, that because of FARC's shooting at spraying planes, spraying is frequently conducted from a height at which dispersion of the chemicals to non-coca areas cannot be controlled, that the substance is mixed with other chemicals in order to assure that it sticks to coca leaves for as long as possible and hence becomes dangerous to both humans and the environment, and that according to the label, it is not supposed to be used near water sources, which obviously cannot be avoided in the southern and southeastern jungles of Colombia where coca is grown.

<sup>114</sup> Author's interviews in Colombia, Fall 2005.

Guaviare, Caquetá, and Putumayo, and Meta have also been the areas of the FARC's greatest political support. Similarly, since the early 1980s, the FARC's most loyal supporters have been the coca farmers in the south.<sup>115</sup>

In short, the sponsorship of the illicit economy allowed the FARC to vastly increase its strength. Contrary to the predictions of the conventional view and consistent with the predictions of the theory of political capital of illicit economies, the FARC's positive involvement in the illicit economy increased its strength not only in terms of physical resources, but also in terms of freedom of action, and political capital. Moreover, contrary to the predictions of the conventional view, but consistent with the predictions of my theory, FARC's political capital has consistently been strongest in the coca growing regions and among the coca peasants, ever since the FARC became positively involved in the illicit economy. The increase in the multiple dimensions of its strength allowed the FARC to pose a serious challenge to the state and greatly increase its staying power.

### ***Conflict Expansion***

The increase in the FARC's military capabilities and political capital allowed the belligerents to intensify conflict. One indicator of conflict expansion is the number of guerrilla-military confrontations. As mentioned above, prior to the 1980s, the guerrillas spent most of their time hiding in the jungles, trying to avoid encounters with the military. There were virtually no large military encounters between the FARC and the armed forces prior to 1980. Since then, the guerrillas' willingness to attack targets and

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<sup>115</sup> Author's interviews in Colombia, Fall 2005. See also, James F. Rochlin, *Vanguard Revolutionaries in Latin America* (Boulder: Lynne Rienner, 2003): 100.

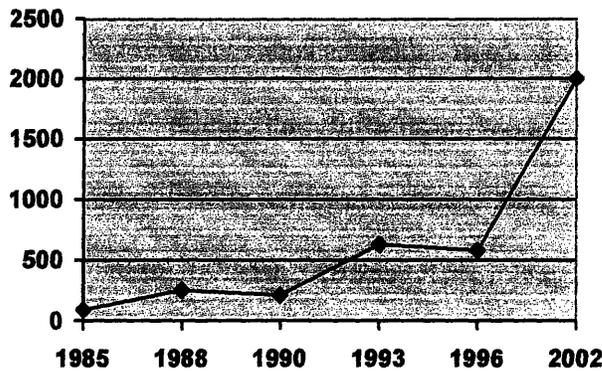
even face confrontations with the military has substantially increased, at least until President Uribe's military offensive against the FARC. Clashes between the guerrillas and the government forces, i.e. military actions not purposefully initiated by the guerrillas, were near an all time high during 2004, but attacks by the guerrillas against undefended or weakly defended targets dropped from a peak of 2001-2002 to their long-term averages.<sup>116</sup>

The table and graph below again illustrate the dramatic and steady expansion of FARC's military activity since the beginning of its positive involvement in the drug economy. Over that period, the number of combat engagements between guerilla units and the Colombian military escalated from under 100 to over 500 a year by the mid-1990s, and, as President Álvaro Uribe Vélez embarked on a strong counteroffensive, to well over 2000 in 2003.<sup>117</sup>

<b>Number of Guerrilla-Military Combats in Colombia</b>					
<b>1985</b>	<b>1988</b>	<b>1990</b>	<b>1993</b>	<b>1996</b>	<b>2002</b>
94	254	216	632	584	2000+

<sup>116</sup> For details, see Restrepo, Spagat, and Vargas; and Jorge Restrepo and Michael Spagat, "The Colombian Conflict: Uribe's First 17 Months," April 2004, <http://www.rhul.ac.uk/economics/Research/WorkingPapers/pdf/dpe0409.pdf>, downloaded May 08, 2004.

<sup>117</sup> Richani: 49; and "You Do the Maths," *The Economist*, January 10, 2004: 30.



Source: Nazih Richani, *Systems of Violence* (Albany: State University of New York Press, 2002): 49, and "You Do the Maths," *The Economist*, January 10, 2004: 30.

Between 1996 and 1998, the guerrillas were able to inflict several major defeats on the Colombian army. In August 1996, for example, the FARC launched a surprised attack on the military base at Las Delicias, Putumayo, and after fifteen hours of fighting, destroyed it. In March 1998, FARC annihilated an elite army unit, the 52<sup>nd</sup> counterguerrilla battalion of the Colombian army's 3<sup>rd</sup> Mobile Brigade.<sup>118</sup> The increase in guerrilla strength is also reflected in the increase in the army/guerrilla ratio of fatalities between 1980s and late 1990s (again, until Uribe's military offensive against the FARC in 2002), favoring the guerrillas. While this ratio was 1:1.52 in 1984 it showed an increase to 1:1.21 in 1999.<sup>119</sup> Positive involvement in the illicit economy by the belligerents thus led to a vast escalation of the military conflict.

<sup>118</sup> For details, see Rabasa and Chalk: 42.

<sup>119</sup> Richani: 45.

*Relations Between the FARC and the Traffickers: Testing the Unity Hypothesis of the Conventional Wisdom*

The nature of FARC's participation in the illicit economy offers little to support the "narco-guerrilla thesis" of the conventional view that argues that the drug dealers and guerrillas have morphed into a unified actor and predicts that violence among the groups would be rare. My theory of political capital of illicit economies, on the other hand, predicts substantial tensions and frequent violence between the two actors.

The drug dealers initially benefited from FARC's presence in the drug-growing regions. The guerrillas established law and order in areas of their control, and ensured that the peasants delivered on promised quotas.<sup>120</sup> As described above, the FARC also protected the fields from the Colombian and U.S. anti-narcotics squads.<sup>121</sup> The Medellín cartel, for example, gave arms to the FARC "to protect airstrips and drug processing plants in the southwestern plains from the army."<sup>122</sup> Yet progressively, the relationship deteriorated as the FARC demanded greater rents for its protection services from the traffickers and greater wages for the peasants. The FARC also controlled traffickers' access to the peasants.

Crucially, the FARC interfered with the traffickers' effort to launder money and buy themselves positions of power and respect through the acquisition of large tracks of

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<sup>120</sup> See, for example, Vargas Meza (1999): 7.

<sup>121</sup> It is important to note that the Colombian drug dealers have an intimate relationship not only with the insurgents and paramilitaries, but also with many Colombian politicians and members of the armed forces. Corruption of the political system and the military is very high in Colombia. In its most notorious example, the presidential campaign of Ernesto Samper Pizano received a large contribution from the Cali cartel, resulting in a U.S. decertification of Colombia as a partner in the war on drugs in March 1996 and the revoking of U.S. visas for President Samper. For details, see Mauricio Vargas, Jorge Lesmes, and Edgar Téllez, *El Presidente que se Iba a Caer* (Bogotá: Editorial Planeta: 1996), and Ted Galen Carpenter, *Bad Neighbor Policy* (New York: Palgrave Macmillan, 2003): 125-130.

<sup>122</sup> Daniel García-Peña Jaramillo, "Light Weapons and Internal Conflict in Colombia," in Jeffrey Boutwell, Michael T. Klare, and Laura W. Reed, eds., *Lethal Commerce: The Global Trade in Small Arms and Light Weapons* (Cambridge: American Academy of Arts and Sciences, 1995): 100.

land. As the traffickers began buying land in the middle Magdalena Valley and northwestern plains, the guerrillas tried to both limit the traffickers' encroachment on peasant holdings and demanded high extortion rents from the traffickers.

Violent confrontations between the FARC and the traffickers took place once the FARC became positively involved in the illicit economy. Among the first such confrontations was a fight between the FARC and the security forces and assassins, known as the *sicarios*, of Gonzalo Rodríguez Gacha. By 1984, the 100 top Colombian traffickers issued a manifesto denouncing any affinity to the guerrillas and opened a war on the guerrillas. The drug traffickers hired private security forces, thus contributing to the rise of the paramilitaries (described in detail below), to eliminate guerrilla presence in the regions where they owned land and had processing labs or where the cultivation of illicit crops took place.

In short, the FARC-narcos relationship has been extremely problematic, and the competitive interests of the two groups led to antagonism and large and frequent violence among the two actors, thus supporting my theory of political capital of illicit economies while contradicting the predictions of the conventional view.

#### **V. The M-19 Guerrillas and Illicit Economies: *Testing the Amplifying Factors “State of the Overall Economy in the Region” and “Character of the Illicit Economy” and the Unity Hypothesis***

The analysis of another Colombian belligerent group, the Movimiento 19 de Abril (or M-19) is not only useful for a further exploration of the validity of the unity hypothesis of the conventional view, but also for testing the effect of the amplifying

factors of state of the overall economy in the country/region and character of the illicit economy. The M-19 operated in the urban theater, with a strong presence mainly in Bogotá, where the overall economy was considerably better off than elsewhere in the country. At first, the M-19 operated not only in the rich city centers but also in its slums, but, nonetheless, the economy was in a much better shape in the urban areas than in the rural areas. Moreover, over time, the M-19 became an essentially Bogotá affair, and the state of the overall economy in the area of its operation could be classified as rich. The M-19 became involved with a labor-non-intensive aspect of the illicit narcotics economy, namely the extortion of drug traffickers. In this urban theater, the government policy toward the illicit economy was not eradication, but interdiction and arrest of traffickers. My theory of political capital of illicit economies thus predicts that the M-19 would not be able to obtain significant political capital from its positive involvement in the illicit economy.

The M-19 emerged in the 1970s as a political-military organization presenting itself as an alternative to the traditional Conservative and Liberal Parties. It took its name from the date of presidential elections in 1970, which it believed were stolen by the Conservatives. M-19 espoused a national agenda, opposed political fraud and corruption, but never embraced any left-wing tradition or Marxist orthodoxy. It opened its military campaign by stealing the sword of Simon Bolívar from a Bogotá museum, proclaiming that it took up Bolívar's fight against the exploiters of the people.<sup>123</sup> Led by Jaime Bateman Cajón, its members were union leaders and students, frequently sons and daughters of the country's elite.

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<sup>123</sup> For a general overview of the group's origins and goals, see Kline (1999): 19-21.

In addition to its middle-class student background and support base, the group built up a following in the slums of Cali and other cities by providing services that the state had failed to provide and engaging in Robin Hood tactics. Thus, in the early 1970s, it gave out food, seized milk lorries and distributed the milk among the poor.<sup>124</sup> But by far the strongest support base of the group was in Bogotá.<sup>125</sup>

The group did not seek to challenge state authority by holding onto a territory, but instead, in the classic way of urban guerrillas, engaged in attention-drawing operations in the urban centers. Not only were such tactics consistent with its ideology and its origins, but the group was physically unable to carry out other operations. Although training in Cuba for “an invasion” of Colombia, the M-19 lacked weapons and other equipment as well as food. The weapons that it had at its disposal came from occasional robberies of military arsenals. The military actions of the M-19 were thus limited to audacious, but isolated, acts such as the M-19’s takeover of the Dominican Republic’s embassy in Bogotá in 1980. Moreover, by the late 1970s, during the highly repressive government of President Turbay Ayala, M-19 was under tremendous pressure from the Colombian army. Many M-19 members were arrested, and the group was stagnating at best and, as Robin Kirk put it, “waging war mainly through advertising campaigns.”<sup>126</sup>

Used to acquiring its finances from kidnapping, the M-19 decided in 1979 to begin extorting the major drug capos. According to Bateman, extorting the major drug traffickers had two advantages: they were rich and they could not appeal to law

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<sup>124</sup> Pearce: 171.

<sup>125</sup> Jaime Zuluaga Nieto, “De guerrillas a movimientos políticos,” in Ricardo Peñarada and Javier Guerrero, eds., *De la armas a la política* (Bogotá: Tercer Mundo, 1999): 11-39. See, also, Chernick (1999): 163-5.

<sup>126</sup> Kirk: 104.

enforcement for protection.<sup>127</sup> The first target was none other than Carlos Lehder. But although the group managed to seize him, he escaped. The M-19 then changed its target list to relatives of the capos instead of the traffickers themselves, and abducted the three children of Carlos Jader Álvarez, one of the prominent capos. Five weeks later, the group also kidnapped Martha Nieves Ochoa, the sister of Juan David Ochoa.

The traffickers, apparently under Escobar's leadership, convened a meeting, pledging support and money for the establishment of a security group, called *Muerte a Secuestradores* (Death to Kidnappers) or MAS. MAS's purpose was to provide protection to the traffickers and eliminate the bothersome guerrillas. The MAS started a systematic campaign to hunt down, torture, and kill M-19 members and supporters. Without ever receiving any money, the M-19 finally agreed to free Martha Ochoa in February 1982, having meanwhile executed Álvarez's children.<sup>128</sup> By that time, MAS's campaign against the M-19's had halved the guerrilla group membership.<sup>129</sup> Its freedom of action became tremendously constricted. Unable to conduct offensive or demonstrative operations, the group was on the run and had to go to hiding to avoid being completely destroyed by MAS.

But not only did the extortion scheme fail to generate financial resources for the M-19 (and in fact, tremendously hurt the group's physical resources), it also failed to generate any political support for the M-19. Labor-non-intensive, and outright dangerous, the illicit extortion activity did not bring any material benefits to M-19's supporters or the

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<sup>127</sup> Ibid.

<sup>128</sup> María Jimena Duzán, *Death Beat: A Colombian Journalist's Life inside the Cocaine Wars*, Peter Eisner, trans. (New York: Harper Collins Publishers, 1994): 4. On the payroll of the traffickers, some police officers also apparently caught M-19 members and handed them over to MAS to be tortured, actively cooperating with the cleansing campaign.

<sup>129</sup> Kirk: 107.

wider population. Since the MAS felt no need to be discriminate in their actions against the M-19, frequently killing and torturing mere acquaintances of M-19 members and since the M-19 was powerless to protect them, the M-19's participation in the illicit extortion economy, in fact, jeopardized the lives of M-19 supporters, scaring people off from associating with the group. The involvement in the illicit economy thus did not bring any material benefits to M-19 supporters, but in fact jeopardized their lives.

The lack of new political capital turned into actual losses of political capital as the M-19 switched its involvement in the illicit economy from extorting the traffickers to providing protection services for them. Although the M-19 never became the traffickers' full-fledged hitmen, like the *sicarios* or MAS, it nonetheless helped the narcos by destroying crucial evidence against them.

To avoid being completely wiped out by the MAS, the M-19 guerrillas eventually struck a cooperative deal with the traffickers.<sup>130</sup> At the time, the narcos were involved in a terrorist campaign against the state to deter the government from extraditing them to the United States, murdering judges and policemen, offering the justice and law enforcement officials the choice of *plata y plomo* (bribe or bullet), and effectively paralyzing the justice system. After the traffickers ordered the assassination of Rodrigo Lara Bonilla, the Justice Minister, the state crackdown against the traffickers especially intensified. Lara Bonilla had helped end Escobar's political career by revealing Escobar's prominent role in the drug trade.

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<sup>130</sup> The M-19 agreed to the deal not only in reaction to its own experience with MAS, but also to the systematic and effective effort of the MAS to eliminate the FARC's political party, Unión Patriótica (UP), during the guerrillas' peace negotiations with the administration of President Belisario Betancur. See, Alonso Salazar, J., *La Parábola de Pablo: Auge y Caída de Un Gran Capo del Narcotráfico* (Bogotá: Planeta, 2001): 102-105, 135-145, 160-61.

In November 1985, the day that Colombia's Supreme Court was supposed to rule on the extradition of a number of prominent drug traffickers to the United States, the M-19 stormed the Supreme Court's building in Bogotá, the Palace of Justice, taking almost 400 people hostage, including the President of the Supreme Court, Alfonso Reyes Echandía, and nine Supreme Court Justices. The Colombian government replied with heavy force and after a 28-hour siege defeated the guerrillas. Approximately one hundred people, however, died, including nine of the Supreme Court justices and most of the 60 M-19 guerrillas. During its siege, the M-19 burned up incriminating materials on the traffickers.<sup>131</sup> The M-19 denied that it undertook the action as a pay job for the Medellín cartel, claiming instead that it sought to denounce the government of Belisario Betancur, which it blamed for the failure of the peace negotiations between various leftist guerrillas (including the FARC and the M-19) and the government.<sup>132</sup> Whether the attack was simply a pay job ordered by the Medellín cartel or had larger political goals, the M-19 clearly went out of its way to destroy the incriminating evidence against the traffickers, in addition to publicly denouncing the extradition policy.<sup>133</sup> Moreover, former M-19 members subsequently admitted to receiving general assistance later on from Escobar,<sup>134</sup> and in 1988, the group was reportedly hired by the Medellín cartel to murder Attorney General Carlos Mauro Hoyos.<sup>135</sup>

Whatever the M-19's motivation in taking over the Justice Palace, its protection services for the drug traffickers failed to generate political capital for the group. Such

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<sup>131</sup> Rex A. Hudson, "Colombia's Palace of Justice Tragedy Revisited: A Critique of the Conspiracy Theory," *Terrorism and Political Violence*, 7 (3), Summer 1995: 100-121.

<sup>132</sup> Scott B. MacDonald, *Mountain High, White Avalanche* (New York: Praeger, 1989): 42-3.

<sup>133</sup> The M-19 was not unique in denouncing extradition. Apart from many political leaders, other guerrilla groups, including the FARC and its political branch, the UP, also denounced extradition.

<sup>134</sup> See, Salazar.

<sup>135</sup> Scott B. MacDonald, *Dancing on a Volcano: The Latin American Drug Trade* (New Praeger, 1988): 35.

involvement in the illicit economy failed to generate any tangible benefits for the wider population, and, in fact, appalled the group's audience in Bogotá and elsewhere. Its actions received widespread condemnations.<sup>136</sup> One of Colombia's leading newspapers, (quoted by Kline) opined: "If there is in national public opinion a universally accepted opinion, it is the absolute lack of justification for that guerrilla operation."<sup>137</sup> In the context of wealthy Bogotá and the group's audience in other large cities, such labor-non-intensive illicit economic activity did not resonate with the larger population, and, discredited the group.

The M-19 had tried to become involved in the labor-intensive aspects of the illicit narcotics economy, but beyond taking a rhetorical stance did not succeed. In 1984, the government undertook a large-scale aerial eradication of marijuana fields, within two years destroying about 60-80 percent, or 8,000 hectares.<sup>138</sup> The eradication campaign generated large protests, and the M-19 denounced the policy, threatening to fire on government helicopters that came to spray the marijuana fields.<sup>139</sup> Yet M-19's stand failed to generate a substantial increase in the group's political capital. The belligerent group could threaten, but it could not deliver. Its presence in the rural areas was minimal, its urban audience was less concerned with the spraying issue, and other belligerent and civil society groups espoused the same position. Moreover, in the rural areas, especially as the campaign was extended to also spray coca fields, the FARC had begun making life

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<sup>136</sup> Author's interviews in Bogotá, Fall 2005.

<sup>137</sup> Quoted in Kline (1999): 36.

<sup>138</sup> Lee (1989): 208-9. The fumigation campaign was suspended in 1986, amidst widespread protests and complaints about the harmful effects of glyphosate.

<sup>139</sup> Ibid.

difficult for the eradication teams.<sup>140</sup> The FARC was thus able to deliver while the M-19 could only promise.

In sum, the M-19 failed to penetrate the labor-intensive aspects of the illicit narcotics economy, and its participation in the labor-non-intensive aspects actually backfired. As predicted by my theory, because the M-19 operated in the relatively wealthy urban environment and its target audience was to a large extent the middle class, and because it became involved only in labor-non-intensive aspects of the illicit narcotics economy, its positive involvement in the illicit narcotics economy failed to generate political capital for the group. Moreover, the group's incompetence in penetrating the drug trade also hurt the group's military capabilities, decimating a half of its membership and putting the MAS on its tail.

It might appear at first glance that the M-19's relationship with the drug traffickers supports the unity hypothesis of the conventional view. In other words, in the case of M-19 there was no more meaningful difference between the criminals and the belligerents. After the initial war between the two groups, the M-19 and the cartels signed a truce, and the M-19 provided protection and possibly assassination services for the traffickers.

But this interpretation is too simplistic. Even as the Medellín cartel launched a second major wave of terror to deter the government from extraditing the capos to the United States in 1989, the M-19 struck a deal with the government and demobilized. It returned the sword of Bolívar, disarmed, and ended whatever was left of its efforts to participate in the illicit economy. It subsequently transformed itself into a political party,

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<sup>140</sup> Ibid.

the Democratic Alliance M-19. Clearly, it remained a separate entity from the drug traffickers, with independent interests and goals.

Moreover, the M-19 did not feel assured that the drug traffickers and their paramilitaries would not attempt to liquidate the now demobilized M-19, just like they tried to liquidate the M-19 in the early 1980s and continued killing the remaining members of the FARC's political party, the Unión Patriótica (UP). To demobilize and survive, the M-19 had to negotiate another truce with MAS. A deal was struck where the M-19 promised to support a ban on extradition and amnesty for the paramilitaries, and MAS promised not to kill out the M-19, or at minimum give the M-19 a 24-hour warning first before any M-19 member was assassinated, thus allowing the person to get out of the country within the 24-hour period.<sup>141</sup> Despite the fact that the M-19's presidential candidate Carlos Pizarro Leongómez was assassinated by the paramilitaries in 1991, the truce largely held, and between 1991 and 1994 the Democratic Alliance M-19 became the third largest political party in Colombia. Had the two groups merged into a unified actor, they would not need to sign a truce. In short, even the M-19 case does not support the conventional view's unity hypothesis.

## **VI. The Rise of the Paramilitaries & Their Positive Involvement in the Illicit**

### ***Economy: Testing the Effect of the Amplifying Factor "Presence of Traffickers"***

The paramilitaries experience with the drug economy provides a useful test of the amplifying factor presence or absence of traffickers. Since some of the paramilitary groups originated as security forces for the traffickers while elsewhere traffickers and their protection forces bought themselves positions in the paramilitary umbrella

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<sup>141</sup> Kirk: 138.

organization, the AUC, as commanders of various regional “blocks,” the boundary between the belligerent group and the traffickers has been extraordinary fluid. In many cases, the traffickers became paramilitaries while the paramilitaries eliminated independent traffickers, resulting in the absence of independent traffickers in many areas under the paramilitaries’ control. Given that the other factors are the poor state of the overall economy, labor-intensive of character of the illicit economy,<sup>142</sup> and eradication as government response to the illicit economy, the paramilitaries positive involvement in the illicit economy will result in an increase in both their military strength and political capital. However, since traffickers are absent in many areas, this increase will not be very large or consistent. The conventional view predicts an increase in physical resources, but not in political capital.

The state’s inability to protect legitimate businesses, such as plantations and cattle ranches from the guerrilla threat, coupled with the guerrillas’ threat to the interests of the illicit business elites, created a need for private security providers and gave rise to one of the most powerful belligerent group in Colombia, the paramilitaries. Private armies and militias have existed in Colombia for decades if not centuries. Many current organizations of this type originated as private protection units for cattle-ranchers, coffee plantation owners, and other large landowners (usually referred to as *autodefensas*),<sup>143</sup> for

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<sup>142</sup> In addition to participating in taxing the labor-intensive coca cultivation, the paramilitaries have also participated in labor-non-intensive smuggling of drugs and other labor-non-intensive illicit economies, such as smuggling with gasoline. Importantly, however, they have always also participated in the labor-intensive illicit crop cultivation.

<sup>143</sup> The term “self-defense groups” is also used for community-based militias, as distinct from the mobile hit squads for hire by drug dealers and large landowners. In practice, the two groups frequently overlapped, and after 1989, all the remaining self-defense groups became paramilitaries. Some of the groups were legal, some were not. Almost all were tolerated by the government. The state itself promoted the creation of some of these groups, such as the creation of CONVIVIR during the government of Ernesto Samper (1994-98). Under the command of the Directorate of Security and Surveillance of the Ministry of Defense, these vigilante groups were to provide logistical support and intelligence to the military forces. Even after the

emerald mafias,<sup>144</sup> and for peasant communities tired of the guerrillas. And since the early 1980s, as the traffickers and guerrillas interests increasingly clashed, the drug traffickers also hired private security groups, such as the MAS, to protect them against the guerrillas.

Frequently fighting in support of the regular military services and brutalizing both the rural and urban population suspected of sympathizing with the guerrillas, the various paramilitary groups<sup>145</sup> provided protection to their patrons against leftist guerrilla kidnappings, extortions, cattle rustling, and land seizure. Largely avoiding encounters with the guerrillas, their strategy was to intimidate the local population into not supporting the guerrillas or force it out of the region. By the late 1980s, the narcos had used the paramilitaries to protect their business interests in the departments of Santander, Antioquia, Norte de Santander, Cesar, Meta, Cauca, Casanare, Huila, Boyacá, Caquetá, Putumayo, and Córdoba.<sup>146</sup> Since then, the areas of most intense conflict between the

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CONVIVIR was legally banned in 1999, some of them continued functioning as protection groups for land owners and drug traffickers -- some independently, others by joining the umbrella paramilitary organization, the AUC (described in detail below). For details, see Fernando Cubides C., "From Private to Public Violence: The Paramilitaries," in Charles Berquist, Ricardo Penaranda, and Gonzalo Sánchez G., eds. *Violence in Colombia 1990-2000: Waging War and Negotiating Peace* (Wilmington: A Scholarly Resources Inc. Imprint, 2001: 127-150; and Gustavo Duncan, "Narcotraficantes, mafiosos y guerreros. Historia de una subordinación," in Alfredo Rangel Suárez, ed., *Narcotráfico en Colombia: Economía y Violencia* (Bogotá: Fundación Seguridad y Democracia: 2005): 19-87. See also, Carlos Medina Gallego, *La Violencia parainstitucional, paramilitaria y parapolitical en Colombia* (Bogotá: Rodríguez Quito Editores, 1994).

<sup>144</sup> For a good overview of the semi-illicit trade with emeralds, see María Victoria Uribe Alarcon, *Limpiar La Tierra: Gerra y Poder entre Esmeralderos* (Bogotá: CINEP, 1992).

<sup>145</sup> Many of the self-defense groups were organized geographically, having control of their local fiefdom. Examples of paramilitary groups include Peasant Self-Defense Group of Córdoba and Urabá (ACCU), headed by Carlos and Fidel Castaño, Middle Magdalena Self-Defense Group, Pacific Bloc, Southern Bloc, etc. Others included the Colombian Anti-Communist Alliance (AAC) and Death to Kidnappers and Communists (MASCO).

<sup>146</sup> Richani: 90. Author's interviews in Colombia, Fall 2005.

FARC and the paramilitaries have remained the major areas of coca production: Guaviare, Putumayo, and Caquetá, which both movements seek to dominate.<sup>147</sup>

But as the 1980s progressed, the paramilitaries developed a desire for autonomous power, not simply as protectors of the business elite – legitimate and criminal – but as an independent actor. This transformation process was crucially prodded along by Carlos Castaño, a prominent commander in charge of one of the most successful paramilitary groups, Peasant Self-Defense Group of Córdoba and Urabá (ACCU). Under his leadership, many of the independent paramilitary groups became unified in 1997, creating an umbrella organization, *Autodefensas Unidas de Colombia* (the United Self-Defense Forces of Colombia or AUC) and acquiring a national mission.

The AUC's goals included acquiring land through seizure (at which the paramilitaries have been very successful, contributing to the dispositions and displacement of hundreds of thousands),<sup>148</sup> generating rents from drugs and other illicit economies, and eliminating the leftist guerrillas. In addition, its declared conservative agenda included support for the state, especially against the leftist guerrillas, a land reform that would not include a fundamental redistribution of land, and opposition to extradition of traffickers.<sup>149</sup> The paramilitaries stressed tradition, property, and order. Increasingly, their social discourse included populist advocacy for the poor.<sup>150</sup>

Nonetheless, given that many paramilitary groups were only loosely affiliated with the

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<sup>147</sup> Rangel Suárez (1998): 50. The short-term stated goal of the paramilitaries is to wrestle the coca-producing regions from guerrilla control. See, Sánchez G., 2000: 24. In December 2002, after the election of President Uribe, the paramilitaries have declared an open-ended ceasefire.

<sup>148</sup> The paramilitaries are estimated to have caused the displacement of one third of Colombia's internal refugees.

<sup>149</sup> See, López Montañó and García Durán: 153-4; and Bergquist, Peñaranda, and Sánchez G. eds., : 243-55.

<sup>150</sup> Adam Isacson, "Peace or Paramilitarization?" July 2005, <http://ciponline.org/colombia/0507ipr.pdf>, downloaded August 4, 2005.

umbrella AUC organization, many never fully or at all bought onto the national agenda and continued functioning as pure protection armies for various legal and illegal elites.

### *Learning Curve*

As the 1980s and 1990s went on, the paramilitary groups learned that their participation in the illicit narcotics economy did not need to be limited simply to collecting protection rents from the drug dealers. In addition to providing protection to the narco-elite against the guerrillas and also against the government counternarcotics forces for processing labs, the paramilitary groups taxed the coca farmers, and at least some of them became directly involved in cocaine production and actual trafficking.<sup>151</sup> The demise of the Medellín and Cali cartels in the 1990s (described in detail below) allowed the paramilitaries to diversify their operations into other aspects of drug production and trade. Due in part to its control of Urabá and other areas close to the border with Panama, a main contraband route, the AUC was able to inherit the trafficking network and contracts in the interior of the country and in international markets.<sup>152</sup> According to U.S. Ambassador to Colombia, William Wood, the AUC controls 40 percent of Colombia's drug trafficking.<sup>153</sup> Together, the FARC, the paramilitaries, and the leftist ELN are involved in more than 70-75 percent of coca-grown in Colombia and

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<sup>151</sup> For details, see Donnie Marshall, Chief of Operations, the Drug Enforcement Agency, *Cooperative Efforts of the Colombian National Police and Military in Anti-narcotics Efforts, and Current DEA Initiatives in Colombia*, Testimony before the Subcommittee on National Security, International Affairs, and Criminal Justice, July 9, 1997.

<sup>152</sup> Author's interviews in Colombia, Fall 2005. See, Richani: 124.

<sup>153</sup> Ambassador William Wood quoted in International Crisis Group (January 27, 2005): 16.

at least 40-42 percent of coca production.<sup>154</sup> The right-wing paramilitaries are estimated to control about 26 percent of heroin-producing municipalities.<sup>155</sup>

By the early 2000s, the AUC (like, increasingly, the FARC too) was selling drugs to cartels – the remaining Colombian boutique cartels as well as Mexican<sup>156</sup> and increasingly Brazilian trafficking organizations<sup>157</sup> -- for distribution in consumer countries. The AUC has been clearly more involved with trafficking outside of Colombia than the FARC and, at least prior to its demobilization in 2005-06, has been possibly trying to establish its own drug distribution networks.<sup>158</sup> This increased involvement beyond the borders of Colombia is facilitated by the AUC's continuing transformation, with many prominent traffickers, such as Diego Fernando Murillo a.k.a. Don Berna (a long-time Medellín drug cartel capo), Victor Manuel Mejía Múnera (a ranking figure in the Norte Del Valle drug cartel), Francisco Javier Zuluaga, and Guillermo Pérez Alzate a.k.a. "Pablo Sevillano" buying themselves leadership position in the AUC to take advantage of AUC peace negotiations with the Colombian government (described below) and avoid extradition to the United States under the resulting lenient treatment of the paramilitaries.<sup>159</sup>

Because of its close connections to Colombia's trafficking organizations, the AUC has also been able to diversify its involvement into secondary illicit economies surrounding the drug trade. It now also controls the illicit trade in gasoline, a key

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<sup>154</sup> Buscaglia and Ratliff: 5.

<sup>155</sup> Echandía.

<sup>156</sup> Steven W. Casteel, Assistant Administrator for Intelligence, "Narco-Terrorism: International Drug Trafficking and Terrorism – a Dangerous Mix," Testimony before the Senate Committee on the Judiciary, May 20, 2003, [http://www.google.com/search?sourceid=navclient-ff&ie=UTF-8&rlz=1B2GGGL\\_enUS177&q=Casteel+%22Narco-Terrorism%22](http://www.google.com/search?sourceid=navclient-ff&ie=UTF-8&rlz=1B2GGGL_enUS177&q=Casteel+%22Narco-Terrorism%22), downloaded August 13, 2004.

<sup>157</sup> Author's interviews with U.S. government officials, Washington, DC, summer and fall 2004.

<sup>158</sup> International Crisis Group (January 27, 2005): 10.

<sup>159</sup> Isacson (July 2005). See, also "Lording It over Colombia: Colombia's Paramilitaries and Drug Lords," *Economist*, October 23, 2004.

ingredient in processing coca leaves into cocaine paste, which is mainly siphoned off from Colombia's pipelines.<sup>160</sup> Additionally, the paramilitaries now control a big share of counterfeiting, prostitution, and gang activity.<sup>161</sup>

### *Military Capabilities*

The AUC's annual income from the drug economy is believed to be around \$75 million annually, which is approximately 70 percent of the group's total income.<sup>162</sup> This income is supplemented by protection rents from big business, oil companies, cattle ranchers who hire the paramilitaries for protection from the guerrillas, and the AUC's participation in illicit trade with gasoline and other precursor agents.

The paramilitaries' positive involvement in the illicit economy resulted in a large expansion of their military capabilities. While in 1986, ACCU (the predecessor of the AUC) counted only 93 members, there were between 4,000 and 5,000 paramilitaries in 1995,<sup>163</sup> 12,000 under AUC umbrella by 2000, and between 27,000 and 29,000 in 2006.<sup>164</sup> The paramilitaries have spread throughout the country, having a presence in 26 of the country's 32 departments and 382 of its 1,098 municipalities.<sup>165</sup>

Although at first dependent on the army for weapons, after tapping into the drug money, the AUC independently acquired 30 aircraft (11 of which are Cessna), 4 shipping

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<sup>160</sup> International Crisis Group (January 27, 2005): 15.

<sup>161</sup> Isacson (July 2005).

<sup>162</sup> According to police estimates, as cited by Richani: 109. Carlos Castaño gave the 70 percent portion in a televised interview in 2000. These numbers may have by now, however, become substantial underestimates. As the AUC's portfolio came to include the 98% of the illicit trade with gasoline in Colombia (which Colombian newspapers report is estimated to be \$75 million annually) by the early 2000s, its income could have increased to over \$150 million annually.

<sup>163</sup> Richani: 123.

<sup>164</sup> Adam Isacson, *Peace talks with paramilitaries: four conditions for U.S. support*, December 10, 2002, <http://www.ciponline.org/colombia/02121001.htm>, downloaded August 04, 2003. Author's interviews in Colombia, Fall 2005.

<sup>165</sup> Isacson (July 2005): 4.

planes, 14 helicopters with military equipment, and several speedboats.<sup>166</sup> Unlike the leftist guerrilla groups that do not pay regular salaries to their fighters and instead offer only irregular special compensation,<sup>167</sup> the AUC pays regular salaries to its soldiers that range between \$250 and \$1000, depending on rank, as well as a \$10 bonus per each guerrilla killed.<sup>168</sup> Similarly, in the 1980s, the paramilitaries were dependent on the army for logistical support and training. Since then, they have used the illicit narcotics economy to build up an independent supply system and have hired private security companies to train them.<sup>169</sup>

The paramilitaries' military strategy has been to extend local control through the intimidation of local officials and local population. Through the use of demonstrative massacres<sup>170</sup> and other intimidation techniques, the paramilitaries have either forced the local population into compliance or into leaving the area.<sup>171</sup> The paramilitaries have thus adopted the coercion school of counterinsurgency. Instead of seeking to win the peasants' hearts and minds, they have sought to deprive the belligerents' of popular support and resources by destroying the resource base, burning down the homes of the peasants, and forcing them to leave. In many areas, they succeeded in their objective, with the leftist guerrillas finding it hard to operate in regions where the paramilitaries displaced the bulk

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<sup>166</sup> Richani: 124.

<sup>167</sup> Gutiérrez Sanín (2004): 268.

<sup>168</sup> Richani: 148, and Kirk: 276.

<sup>169</sup> In a frequently cited episode in the 1980s, some of the paramilitary groups hired private Israeli and British security firms for training.

<sup>170</sup> Much has been written about the paramilitaries' human right abuses. See, for example, Human Rights Watch, *Colombia's Killer Networks: The Military-Paramilitary Partnership and the United States* (New York: 1996), and Kirk. Massacres committed by the paramilitaries peaked in the period of 1997-2002. See, Jorge Restrepo and Michael Spagat, "Civilian Casualties in the Colombian Conflict: A New Approach to Human Security," CERP Davidson Institute, October 27, 2004, <http://personal.rhul.ac.uk/uhte/014/HS%20in%20Colombia%20Civil%20Conflict.pdf>, downloaded December 02, 2004. The leftist guerrillas have been also complicit in major human rights abuses, with the brutality of the FARC increasing throughout the 1990s.

<sup>171</sup> For an excellent discussion of the paramilitaries as "entrepreneurs of coercion," see Mauricio Romero, *Paramilitares y autodefensas 1982-2003* (Bogotá: IEPRI, 2003).

of the population. Once they “cleansed” the area of guerrilla sympathizers, the paramilitaries would substantially decrease the level of violence against the local population. The paramilitaries have also preferred avoiding direct military encounters with the guerrillas, preferring attacks against villages and without armed opponents.<sup>172</sup>

### *Political Capital*

While the FARC has been primarily courting the peasant population, the paramilitaries traditionally courted mainly the drug dealers. In the bidding war over the coca trade, the paramilitaries pandered to the narcos’ interests by charging smaller protection fees,<sup>173</sup> not interfering with the traffickers’ land acquisition, providing less physical protection to the peasants, and in general not supporting peasant efforts to increase prices for their products. The decline in coca prices in south Bolivar demonstrates the paramilitaries’ strategy. Before the takeover by paramilitaries in May 1999, coca paste was selling at about 2,200,000 pesos per kilo (about \$1,100 at the time). Once the paramilitaries had taken over, the price of coca paste declined sharply to 1,400,000 pesos (\$700) per kilo or more than 60 percent.<sup>174</sup> Moreover, the paramilitaries have not attempted to enforce the contracts between the drug dealers and the peasants to the same extent that the guerrillas did, hence rendering the peasants vulnerable to price fluctuation and abuse.<sup>175</sup> The failure to perform these regulation roles for the illicit economy has been especially prominent in areas where drug traffickers bought

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<sup>172</sup> Jorge Restrepo and Michael Spagat, “The Colombian Conflict: Uribe’s First 17 Months,” Royal Holloway University of London Discussion Series: 11, September 2004: 11, 24-26, <http://www.rhul.ac.uk/economics/Research/WorkingPapers/pdf/dpe0409.pdf>, downloaded October 14, 2004.

<sup>173</sup> The paramilitaries have also charged smaller protection fees to landowners and cattle ranchers.

<sup>174</sup> Richani: 112.

<sup>175</sup> Ibid.

themselves leadership positions and where there is no more distinction between the paramilitaries and the traffickers.<sup>176</sup>

However, as the paramilitaries became an independent actor and expanded into guerrillas' traditional areas, they have become more concerned with generating political capital. Thus in contested regions, they have offered higher prices for the peasants for coca paste than the FARC and reduced peasant taxes. In Mapiripán, for example, when the paramilitaries took over, Castaño dropped the tax from 10% charged by the FARC to 6 percent. Similarly, when the paramilitaries entered the FARC and ELN strongholds in southern Bolívar they offered to eliminate the peasants' debt to the FARC.<sup>177</sup> This has been an especially effective technique for the paramilitaries for generating popular support and sympathy from the local population.<sup>178</sup>

Similarly, in domains where competition with the guerrillas over the support of the drug traffickers was not in question, such as in the provision of social services, the paramilitaries have tried to exploit their positive involvement in the illicit economy for obtaining political capital. Thus, in Puerto Boyacá, which in the late 1980s became a kind of independent paramilitary republic, the ACDEGAM (Association of Peasants and Ranchers of the Magdalena Medio), a paramilitary group bankrolled by the notorious drug baron Pablo Escobar, ran its own clinics and schools, organized health brigades to visit surrounding villages, helped build and repair roads, and even constructed a communication center.<sup>179</sup> In a joint social service venture, the paramilitaries and the

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<sup>176</sup> Author's interviews in Colombia, Fall 2005.

<sup>177</sup> International Crisis Group (January 27, 2005): 13. See also, Carlos Castaño memoirs, Alberto Aranguren, *Mi confesión* (Bogotá: Oveja Negra, 2002).

<sup>178</sup> Guáqueta: 82.

<sup>179</sup> Pearce: 247. See also, Carlos Medina Gallego, *Autodefensas, paramilitares y narcotráfico en Colombia: Origen, desarrollo y consolidación: El Caso de Puerto Boyacá* (Bogotá: Documentos Periodísticos, 1990).

traffickers thus took on the functions of a protostate. The paramilitaries have continued with the provision of social services since, especially in much of northern Colombia where they have a strong base.<sup>180</sup>

The paramilitaries have indeed been able to exploit the illicit economy to generate political capital. The AUC's political capital has been strongest in the drug regions: According to the AUC's public assessment, provided by its leaders "Javier Montañez" and Ernesto Baez of Bloque Central Bolívar, the most successful and most established paramilitary groups were blocs operating in the drug cultivation areas or controlling strategic corridors.<sup>181</sup>

Expectedly, the paramilitaries support has been strongest in areas where they charge smaller prices than the guerrillas and where they provide social services. In fact, as the FARC's legitimacy declined as a result of the elimination of drug trade intermediaries in the coca regions and the group's increasing brutality (described in detail below), the population in smaller rural towns has voluntarily turned to the paramilitaries for various protostate services, thus acknowledging the legitimacy of the group. While in the past, the local population approached the FARC for mitigating personal disputes related to property, debt, and political rivalry, in the late 1990s and early 2000s, it has increasingly turned to the paramilitaries.<sup>182</sup> Also as the AUC demobilization became under way, many local inhabitants of AUC-dominated areas chose to leave for fear that

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<sup>180</sup> The paramilitaries have also apparently used the provision of social services, such as health clinics known as ARS, to launder money. Presentation by Rep. Luis Fernando Velasco Chávez from Cauca at a WOLA conference in Washington, DC on April 19, 2005, summarized in Kimberly Stanton, "The Colombian Conflict: Regional Impact and Policy Responses," WOLA Conference Report, August 2005: 13.

<sup>181</sup> Cited in International Crisis Group (January 27, 2005): 16.

<sup>182</sup> Guáqueta: 78.

the FARC would return.<sup>183</sup> The political capital obtained from the paramilitaries' positive involvement in the illicit economy was thus partially able to mitigate the resentment generated by their brutality. However, overall the popular reaction to the AUC has been one of passive tolerance rather than of active support.<sup>184</sup>

As predicted by my theory of political capital and by the conventional view, AUC's positive involvement in the illicit economy resulted in a dramatic increase in the paramilitaries' military resources. However, contrary to the conventional view, the paramilitaries were also able to derive some political capital from their positive involvement in the illicit economy. As predicted by my theory, this level of political capital has been crucially limited by the fact that the paramilitaries and traffickers merged in various areas into a conglomerate actor, with the paramilitaries not providing protection services against the traffickers. In fact, even in areas where traffickers were present, the paramilitaries frequently did not perform these functions and thus failed to augment their political capital. This outcome was not predicted by my theory, but is not inconsistent with it, given that the paramilitaries primary target of support has frequently not been the rural population, but the regional elites – both legitimate cattle ranchers and landowners and drug traffickers. Only since the mid-1990s, some paramilitary groups became interested in obtaining political capital, and to some extent were able to do so, especially as the FARC's own political capital declined (described below).

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<sup>183</sup> International Crisis Group, *Colombia: Presidential Politics and Peace Prospects*, Latin America Report No. 14, June 16, 2005: 19, [http://www.crisisgroup.org/library/documents/latin\\_america/14\\_colombia\\_presidential\\_politics\\_and\\_political\\_prospects.pdf](http://www.crisisgroup.org/library/documents/latin_america/14_colombia_presidential_politics_and_political_prospects.pdf), downloaded September 27, 2005.

<sup>184</sup> Author's interviews in Colombia, Fall 2005. See also, Romero (2003), and Duncan (2005).

### *Unity Hypothesis*

The relationship between the AUC and the traffickers also sheds light on the unity hypothesis of the conventional view. While the conventional view argues that the belligerents and criminals have merged into a unified actor and predicts that there will be close cooperation and rare violence between them, my theory argues and predicts the opposite. Because of their inherently contradictory interests and multiple audiences, my theory argues, fighting among the two actors will be frequent.

In many respects, the case of Colombia's paramilitaries provides some of the strongest evidence for the conventional view. As described above, many drug traffickers bought themselves leadership positions in the paramilitaries to take advantage of President Uribe's peace process with the paramilitaries and the distinction between politically-motivated belligerent actors and profit-oriented criminals cannot easily be sustained in the case of the paramilitaries. Clearly, there is much more evidence for the notion that the belligerents and the criminals cannot be distinguished from one another in the case of the paramilitaries and the drug traffickers than there is in the relationship between the FARC and the drug cartels.

However, to end the analysis there would be too simplistic. Even though the paramilitaries and some of the traffickers have become a conglomerate actor, with the AUC since 2002 having both a drug cartel mafia section with considerable influence over large cities, and a military branch, the grouping is far from monolithic.<sup>185</sup> Great tensions and infighting exist among its various factions, and there is no unity of goals or interests.

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<sup>185</sup> Isacson (July 2005), and International Crisis Group, "Demobilising the Paramilitaries in Colombia: An Achievable Goal?" Latin America Report No. 8, August 5, 2004, [http://www.crisisgroup.org/library/documents/latin\\_america/08\\_demobilising\\_the\\_paramilitaries\\_in\\_colombia\\_an\\_achievable\\_goal.pdf](http://www.crisisgroup.org/library/documents/latin_america/08_demobilising_the_paramilitaries_in_colombia_an_achievable_goal.pdf), downloaded August 27, 2004.

Discord has been the norm. Turf wars between the two (increasingly merged) actors and among their various factions have been intense. The relationship between the Norte Del Valle cartel and AUC former leader Carlos Castaño is perhaps the most well-known. In March 2003, Castaño apparently suggested to members of the cartel and other traffickers that they should strike a deal with the United States to stop the drug business in exchange for immunity from extradition. Some kingpins seemed amenable, but others, such as Don Berna, and Castaño's own brother, Vincente, were vehemently opposed. A bitter struggle exploded inside the cartel, and the faction that wanted to continue with the drug trade is believed to have killed Castaño.<sup>186</sup> A top pro-drug figure in the AUC, Salvatore Mancuso, took over the leadership of the group. Infighting between various factions within and among the various AUC blocs has also been common since the group's emergence.

Furthermore, many boutique cartels still exist in Colombia that have not been incorporated into the AUC. The number of these small cartels that emerged after the destruction of the Medellín and Cali cartels in the early 1990s is estimated at 400. Less hierarchical than their two notorious predecessors, they are not interested in or capable of controlling the entire drug chain within Colombia. They frequently specialize in a particular component of the drug traffic while subcontracting other services to other criminal business groups or individuals.

Great tensions and internal fighting between the paramilitaries and the cartels existed already before the destruction of the cartels. In fact, a faction of paramilitaries headed by Fidel Castaño was greatly instrumental in the destruction of the Medellín cartel. After Pablo Escobar escaped from his specially-constructed and luxurious prison, La Catedral near Medellín, in 1992, Fidel Castaño, nicknamed Rambo, organized a

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<sup>186</sup> Castaño has not been seen since. International Crisis Group (January 27, 2005): 17.

paramilitary group with the task of eliminating Escobar and his close associates, the PEPES (*Los Perseguidos por Pablo Escobar* or People Prosecuted by Pablo Escobar). The Cali cartel also contributed an estimated \$50 million to the PEPES to pay informers and assassins and buy weapons to hunt down Escobar.<sup>187</sup> The PEPES did kill forty of Escobar's people, gave evidence on about six of the Medellín cartel members, and destroyed several of Escobar's properties, including his car park worth \$5 million.<sup>188</sup> Far from having morphed into a unified actor with identical goals, some paramilitary groups and some of the traffickers fought each other. Ironically, Escobar made a temporary alliance with the leftist guerrilla, *Ejército de Liberación Popular* (Popular Liberation Army or EPL), and hired them for his protection.

In short, even when the power of the paramilitaries was considerably smaller and they were not an actor fully independent from the drug traffickers, there was discord, disunity, and major infighting between the paramilitaries and the traffickers. Even then, the unity thesis of the conventional view did not accurately describe the nature of the relationship. Since then, the infighting and factionalization has only increased.

## **VII. Destruction of the Medellín and Cali Cartels: *Political Capital Without Ideology***

In addition to enabling the expansion of the paramilitaries and shedding light on the unity hypothesis of the conventional view, the destruction of the two notorious drug cartels of Cali and Medellín illuminates how, in the context of poverty, the illicit economy does generate political capital for those who become positively involved in it

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<sup>187</sup> Kirk: 156.

<sup>188</sup> Kline (1999): 137.

even if they do not hold a clear political ideology. One frequent claim of the conventional view is that belligerent groups lose popular legitimacy and support when they abandon their ideology or the ideology becomes unappealing. Consequently, the theory would predict that criminal elements without a clear ideology, such as the drug traffickers, would not have any political capital. My theory, on the other hand, predicts that even actors that lack a political ideology will be able to derive political capital from clever positive involvement in illicit economies.

First, the cocaine boom of the 1980s -- although ultimately having negative repercussions on the Colombian economy by driving exchange rate lower, increasing inflation, encouraging real estate speculation, and undermining trust of legal investors<sup>189</sup> --- cushioned the impact of the economic crisis in Colombia for many of the poor. In the early 1980s, Medellín's textile economy collapsed because of competition from Asia, the unemployment rate surpassed those of other cities, many businesses went bankrupt, and poverty was widespread. But the cocaine economy brought hundreds of millions of dollars into Medellín, stimulating a new miniboom in construction and other sectors, and considerably reduced Medellín's unemployment rate, generating 28,000 in Medellín in 1987 alone.<sup>190</sup>

Second, participating in the illicit industry became a means of advancing through a closed social system and achieving social mobility. Many of the capos came from poor backgrounds, and they became a symbol of how to make quick money as well as become

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<sup>189</sup> For the negative impact of large illicit economies on the licit economy, see, for example, Reina, and Thoumi (2003).

<sup>190</sup> Lee (1989): 36.

cultural icons.<sup>191</sup> As Mary Roldán put it, the drug trade became a vehicle for Medellín's least powerful to contest the distribution of power and economic privilege in an otherwise exclusionary system.<sup>192</sup>

Third, many of the major traffickers, especially those associated with the Medellín cartel, systematically tried to build up their political capital by investing in various social projects and organizing social services. Pablo Escobar and Rodríguez Gacha sponsored public projects in poor neighborhoods, such as building sports facilities, hospitals, and schools, planting trees, and organizing sewer repairs. Under his slogan "Medellín Without Slums," Escobar built 450 to 500 two-bedroom cement-block houses in a Medellín slum that became known as "Barrio Pablo Escobar." Escobar also reputedly donated a church to the town of Doradal in the Middle Magdalena Valley. Escobar made sure that his services to the community were well advertised in the newspaper he owned, *Medellín Civico*. Its articles contrasted Escobar's generosity with the selfishness of Colombia's traditional elite. Similarly, when spending his thirteen months in his prison *La Catedral* in his hometown of Envigado, Escobar donated large sums of money for public education, school transportation, and the most extensive water and sewer system services in the country.<sup>193</sup> Gonzalo Rodríguez Gacha donated an outdoor basketball court to his hometown of Pacho and repaired the city-hall's façade. Carlos Lehder organized and funded a major earthquake relief effort in the city of Popayan and built a housing project for the poor in his native city of Armenia.<sup>194</sup> Moreover, as noted earlier, the

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<sup>191</sup> For an excellent discussion of the socio-economic and cultural dimensions of the cocaine trade in Medellín during the 1980s and early 1990s, see Mary Roldán, "Colombia: Cocaine and the 'Miracle' of Modernity," in Paul Gootenberg, ed., *Cocaine: Global Histories* (London: Routledge, 1999): 165-182.

<sup>192</sup> *Ibid.*: 174.

<sup>193</sup> Lee and Clawson: 112. See also, Bruce M. Bagley, "Dateline Drug Wars: Colombia: The Wrong Strategy," *Foreign Policy*, 77, Winter 1989: 160-1.

<sup>194</sup> *Ibid.*: 5.

Medellín cartel traffickers underwrote the paramilitaries' social services in Puerto Boyacá's paramilitary stronghold of ACDEGAM. All these handouts, of course, came at the price of extraordinary violence, with Medellín having the highest murder rate of any city in the world in 1988, with a homicide committed every three hours.<sup>195</sup>

Several of the traffickers also attempted to capitalize on their political capital and generate further political power by getting elected to various government positions and creating their own political parties. In 1982, Escobar ran on the Liberal Party ticket for the Colombian House of Representatives. On a joint ticket with Jairo Ortega, Escobar was elected as alternate representative for the Antioquia seat. Lara Bonilla, whom Escobar arranged to have assassinated in 1984, blocked Escobar's further political ambitions within the Liberal Party.

Similarly, after earlier unsuccessful attempts to win a seat in the national senate and Bogotá municipal council, Lehder created a neofascist political party, Movimiento Cívico Latino Nacional (MCLN).<sup>196</sup> In addition to promoting a Nazi agenda and opposing communism, Zionism, neoimperialism, and neocolonialism, the party vehemently opposed extradition of traffickers to the United States (in fact, Lehder admitted that was the main purpose of creating the party) and advocated the legalization of marijuana for personal use, and the protection of Colombia's natural resources.<sup>197</sup> Lehder's campaign style consisted of trucking people from villages to his rallies, blasting disco music, and handing out money to attendees. In 1984, his party managed to win 12 percent of the regional electorate in Quindío, which translated into 2 out of 13 deputy

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<sup>195</sup> Clutterbuck: 60.

<sup>196</sup> See, also, Craig.

<sup>197</sup> Lee (1989): 136-7. See also, Jorge Eliecer Orozco, *Lehder ... El Hombre* (Bogotá: Plaza y Janes, 1987): 57-60, 162-85.

seats in the departmental assembly, as well as 11 seats in various city councils.<sup>198</sup> The success of the party was enhanced by the collapse of the coffee economy in Quindío, which made the thousands of unemployed people more susceptible to Lehder's cash handouts. MCLN's two deputies managed to persuade Quindío's assembly to pass a resolution condemning extradition. When coffee harvest rebounded, Lehder was on the run and his party lost in the March 1986 elections, not winning any representation in the departmental assembly.

Finally, Gonzalo Rodríguez Gacha was apparently the brain behind the creation of MORENA, a political branch of the paramilitary's ACDEGAM group. MORENA attempted to win votes in the Middle Magdalena Valley regional elections to promote the paramilitaries' and traffickers' conservative agenda and oppose concessions to the guerrillas. The party disappeared after Rodríguez Gacha's death in 1989.

The creation of the illicit narcotics economy and its use by the traffickers to provide social service did result in their obtaining political capital. Escobar and others were widely praised for their generosity by the poor.<sup>199</sup> To Medellín urban destitute, the traffickers were benefactors and employers, whose criminal background could be overlooked. Especially during the period of economic downturn, Lehder's party did reasonably well. At the same time, however, the new drug business elite was very threatening to the traditional Colombian elite. The traffickers did not share the values of the old guard to whom the traffickers were vulgar thugs. And now the thugs were also attempting to acquire legitimate political power.

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<sup>198</sup> Lee (1989): 137.

<sup>199</sup> Ibid.: 116.

In the late 1980s, the Colombian government once again authorized a policy of extradition of drug traffickers.<sup>200</sup> The Medellín cartel traffickers unleashed extraordinary levels of violence.<sup>201</sup> Under indictment, the traffickers created an association, *Los Extraditables*, and initiated what Escobar called an all-out war against the Colombian states. Scores of journalists and judges were assassinated or threatened, paralyzing the judicial system.<sup>202</sup> Politicians, especially those embracing extradition, were equally targeted. The Medellín cartel assassinated the Liberal Party presidential candidate Luis Carlos Galán, a strong supporter of extradition and the man who disqualified Escobar from participating in the 1990 presidential elections, along with four other presidential candidates.<sup>203</sup> The traffickers also resorted to indiscriminate violence, placing bombs in Bogotá and other cities, and attacking hotels, banks, and political offices. One bomb destroyed the building of the Department of Administrative Security (DAS), killing 100 people. A bomb aboard an Avianca flight between Bogotá and Cali killed 119.<sup>204</sup>

In response, the Colombian government extradited more than twenty suspected drug traffickers to the United States between August 1989 and December 1990 and

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<sup>200</sup> The traffickers' confrontation over Colombia's 1979 extradition treaty first came to a head in the mid-1980s, when the traffickers offered in exchange for amnesty from prosecution to pay Colombia's external debt, dismantle their cocaine factories and trafficking networks, and repatriate their off-shore assets, and thus to inject \$3 billion into the Colombian economy a year. Their proposal was rejected by the Colombian government, resulting in the traffickers' unleashing the first wave of terror. For details, see, MacDonald (1989): 40-3; and Craig (1985): 117. Lehder was the first to be extradited to the United States.

<sup>201</sup> The Cali cartel was considerably more restrained in its use of violence or its effort to achieve visible political power. Its kingpin Gilberto Rodríguez Orejuela remarked that unlike the Medellín cartel, the Cali cartel did not kill judges and others, but bought them. Cited in Thoumi (2003): 203. The Cali cartel also perfected a "support your local police" policy, not only putting large numbers of officers on its payroll, but also helping rid the city of social "undesirables."

<sup>202</sup> 242 judges were killed between 1981 and 1991, and many were forced into exile abroad to avoid assassination. The judicial process has never quite fully recovered. See, for example, Marcella: 14-5, and "Colombia's Court Reform," *Economist*, January 8, 2005.

<sup>203</sup> McLean: 128.

<sup>204</sup> The Medellín cartel also attempted to buy 120 Stinger missiles in Florida in April 1990, but its effort was foiled by the FBI.

seized \$125 million of their assets.<sup>205</sup> José Gonzales Rodríguez Gacha was shot by the police in December 1989. The administration of President César Gaviria finally caved in in 1991 and negotiated a surrender policy with most of the Medellín cartel's traffickers in exchange for light sentences. Escobar turned himself in, on condition that he would be placed in a special prison to be constructed by him near Medellín.<sup>206</sup> For thirteen months, Escobar stayed in the prison, continuing to conduct his drug business from there and even leaving the prison on occasion. Ultimately, Escobar escaped the prison and was shot in 1993 on the rooftops of Medellín thanks to a large-scale law enforcement operation facilitated by intelligence from the Cali cartel<sup>207</sup> and Los PEPES.

One of the crucial manifestations of the traffickers' political capital was the lack of intelligence provided by the local population on the capos to law enforcement officials. Although the paramilitaries ratted on the traffickers and the traffickers ratted on each other, ordinary people never betrayed Escobar to the police and Escobar moved freely through the various Medellín neighborhoods and the areas around his estates.<sup>208</sup> They maintained their silence despite the fact that a private anti-Escobar group, *Colombia Libre*, offered a \$5 million reward for Escobar's head and the Colombian government was offering \$7 million, and despite the fact that Escobar was on the run and progressively more and more powerless. In fact, in the poor barrios, Escobar's political

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<sup>205</sup> Clawson and Lee: 99. For a detailed account of law enforcement operation against Escobar, see Mark Bowden, *Killing Pablo: The Hunt for the World's Greatest Outlaw* (New York: Atlantic Monthly Press, 2001).

<sup>206</sup> In addition to equipping his jail with various luxuries, Escobar also participated in the selection of his own prison guards.

<sup>207</sup> The Cali cartel, and specifically its capo, Londoño, had already attempted to kill Escobar during the 1980s. Between 1992 and 1993, the Cali cartel hired as informers scores of Escobar's subordinates as well Japanese communications experts to track Escobar down.

<sup>208</sup> Gabriel García-Marquez, *News of a Kidnapping* (New York: Penguin Books, 1998). For a while after his escape from *La Catedral*, Escobar arranged for the provision of false information, having about a hundred people call in different information on his location every day.

capital lasted even after his death. Instead of being remembered as a brutal thuggish terrorist who killed countless people, bombed city buildings, and organized an all-out-war against the Colombian state, he was remembered as the man who distributed money and groceries to the poor and who built soccer stadiums.<sup>209</sup> Contrary to the predictions of the conventional view and supporting my theory, even purely nonideological criminal organizations were able to use the illicit economy to build up political capital.

The demise of the Medellín cartel temporarily left the Cali cartel to dominate the drug trade in Colombia and the Western Hemisphere. In 1994, however, telephone conversation tapes made public revealed that the presidential campaign of the recently-elected Ernesto Samper was heavily funded by donations from the Cali cartel. Samper became widely criticized at home and a *persona non grata* in Washington, which denied him visas to come to the United States. Relations between Bogotá and Washington reached a long-time low.<sup>210</sup> To clear his name and curry favor with the United States, Samper aborted the negotiations initiated by the Cali capos with the Colombian government in 1993 and put major pressure on the Cali cartel.<sup>211</sup> With the help of U.S. intelligence, Gilberto Rodríguez and José Santa Cruz Londoño were arrested, and other top members of the cartel turned themselves in.<sup>212</sup> The demise of the two large cartels resulted in the emergence of Colombia's many boutique cartels and allowed Mexican trafficking organizations to come to dominate the drug trade in the Western Hemisphere.

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<sup>209</sup> Roldán: 175.

<sup>210</sup> For details on U.S. decision-making on Colombia during that period, see Russell Crandall, *Driven by Drugs: U.S. Policy Toward Colombia* (Boulder: Lynne Rienner, 2002). On March 31, 1997, the U.S. government formally decertified Colombia.

<sup>211</sup> See, Thoumi (2003); 210-225.

<sup>212</sup> Gilberto Rodríguez Orejuela was extradited to the United States in 2004.

## VIII. ELN -- Extortion and Drugs: *Testing the Effect of the Character of Illicit*

### *Economy Factor*

A fifth major belligerent group in Colombia, the *Ejército de Liberación Nacional* (National Liberation Army or ELN), also interacted with two illicit economies: extortion and the illicit narcotics economy. The ELN first became positively involved in the labor-non-intensive extortion of oil companies. At the same time, it adopted a mixture of non-involvement and negative involvement toward the labor-intensive illicit narcotics economy. Since the state of the overall economy was poor, traffickers present, and the government's policy was suppression of the illicit economies,<sup>213</sup> my theory of political capital of illicit economies predicts that this mixture of noninvolvement and negative involvement in the illicit narcotics economy on the part of the ELN belligerents will result in the inability of the belligerents to generate political capital and obtain support from the population. This lack of political capital will not be offset by the group's positive involvement in the labor-non-intensive extortion racket, which even in the absence of ELN's suppression efforts toward the narcotics economy would be predicted to generate only small political capital.

A leftist guerrilla group, the ELN emerged in 1965. It was inspired by the Cuban revolution and drew on Christian Liberation Theology. It sought to end economic exploitation in Colombia and advocated economic redistribution. Its membership include urban working class and labor unions, peasants, middle class, Catholic radicals, left-wing intellectuals, and students. It espoused the *foco* model, believing that a small core of

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<sup>213</sup> The government's policy toward the extortion racket was to protect the companies and prevent kidnapping even though the government was rather ineffective. Its policy toward the narcotics economy was eradication.

guerrillas could initiate guerrilla warfare and inspire revolution, without first creating a large-scale political organization and party.

The ELN's original areas of operation were the northern departments of Bolívar, Antioquia, and Santander (which the group considered a Colombian version of Fidel Castro's stronghold in Cuba). Failing to generate both political support and physical resources, the ELN failed to mount military operations of any consequences and spent the most of its military energies conducting internal purges. Several commanders who wanted to escape a revolutionary execution during these purges turned themselves in, and provided the army with intelligence that allowed it to capture a large number of ELN members by the end of 1960s.<sup>214</sup>

Until the mid-1980s, the group was thus barely surviving. In the mid-1980s, guerrilla priest Manuel Pérez unified the remainders of the group and revived its military capabilities by getting it positively involved in the extortion business. Pérez made the extortion of oil companies, located in areas of ELN operation – Santander, Araucá, and Casanare - the ELN's main source of income, supplementing it by the extortion of other large businesses.<sup>215</sup> Although since then the ELN has periodically blown up various of Colombia's pipelines “to prevent the theft of Colombia's national resources by foreign multinationals” and promote its anti-imperialist agenda, causing hundreds-of-millions of dollars worth of damages per year,<sup>216</sup> it has generated large income by kidnapping oil

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<sup>214</sup> Rabasa and Chalk: 30; Gutiérrez Sanín (2004): 263. For a good overview, see Carlos Medina Gallego, *El ELN: Una historia contada a dos voces* (Bogotá: Rodríguez Quito: 1996).

<sup>215</sup> Sánchez G. (2001): 24. Some of ELN's kidnappings have not been for profit simply, but also to generate attention to itself and attract global media coverage, such as its hostage-taking of Avianca jetliner in Bucaramanga in April 1999 and of a church congregation in southern Cali on May 30, 1999.

<sup>216</sup> The FARC has also blown up the oil pipelines. In 2001 alone, the two groups staged 170 attacks against the Caño-Limón pipeline. See, Guáqueta: 85. Since the mid-1990s, the ELN does not oppose foreign investment in Colombia's economy, but demands that their participation be limited and equitable. It

executives and demanding ransom. Once its extortion activities got fully under way, the group was able to bring in \$150-\$200 million a year in the early and mid-1990s.<sup>217</sup> The group was thus able to expand its physical resources, growing from less than 500 guerrillas in 1979 to about 3,000-5,000 in 1998.<sup>218</sup> Many of its troops, however, lacked rigorous training and were part-time. They were not particularly adept at direct military combat, concentrating mainly on isolated spectacular actions.<sup>219</sup> Nonetheless, as its membership grew through the oil rents, the ELN was also able to expand geographically into Cauca, Huila, and Boyacá.

For religious reasons the ELN exhibited great reluctance to enter the drug business.<sup>220</sup> In 1996, the group prohibited the peasants in Sierrania de San Lucas from growing coca and demanded that they destroy the crops, causing widespread resentment.<sup>221</sup> Because it was involved in a labor-non-intensive illicit economy – extortion of oil companies -- its popular support remained limited. It could not offer employment to the rural population in the areas under its control, even though it could distribute some of the extortion profits in the form of social services. It forced the MNCs to invest in health, education, water, and sewage in the areas where the companies operated. It also forced the MNCs to hire some of the area's residents.<sup>222</sup> After the 1994 National Law of Royalties established the return of a large portion of the oil rents to the

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advocates nationalization of oil resources, land reform, and development of scientific and technical knowledge. For a detail list of demands, see López Montañó and García Durán: 152-53.

<sup>217</sup> Richani: 86. In 2001, insurance companies routinely paid \$1 million per kidnapping victim.

<sup>218</sup> Ibid: 85; Rabasa and Chalk: 30-33.

<sup>219</sup> Rangel Suárez (1998): 12.

<sup>220</sup> Pearce: 283.

<sup>221</sup> Author's interviews in Colombia, Fall 2005. See, Sergio Uribe, "Los cultivos ilícitos en Colombia," in Francisco Thoumi, ed., *Drogas ilícitas en Colombia: su impacto económico, político y social* (Bogotá: PNUD-DNE, 1997): 35-133.

<sup>222</sup> Steve Wienberg, *Armand Hammer The Untold Story* (New York: 1989): 264-68.

regions, the ELN has also extorted regional governments as well as attempted to influence how the oil rents are spent.<sup>223</sup>

However, the social services organized through the redistribution of oil rents and the limited employment in the oil companies that the ELN was able to extract for a few individuals here and there did not generate the same benefits for the local population as did the illicit narcotics economy. Nor did it fully offset the popular resentment generated by ELN's prohibition of coca cultivation. By 1998, the ELN thus was unable to compete with the FARC in attracting support. It was also unable to resist the paramilitaries' and the armed forces' military attacks or compete with the FARC in combat.<sup>224</sup> Its political capital was stagnating, and the group suffered serious military defeats.<sup>225</sup>

By the late 1990s, the ELN leadership came to the conclusion that if it wanted remain at all competitive with the other belligerent groups, it needed to emulate their drug practices. After Perez's death in December 1997, those in the ELN who argued for a "pragmatic" approach toward the illicit narcotics economy -- i.e., tapping into the drug trade -- prevailed.<sup>226</sup> The group became positively involved in the illicit narcotic economy, and drugs now generate about 20 percent of its income.<sup>227</sup> While it still denies that it extracts rents from the narcotraffickers themselves,<sup>228</sup> at minimum, it provides protection to around 3000 coca peasants in south Bolívar and North Santander and taxes them for its protection services. It rescinded its prohibitionist policy. Even in the regions where it did not appear to tax illicit crop cultivation, such as in the municipality of San

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<sup>223</sup> Guáqueta: 84-5.

<sup>224</sup> The FARC and ELN have frequently fought each other over territory and resources.

<sup>225</sup> Isacson (2003): 11; Richani: 62.

<sup>226</sup> Rangel Suárez (1998): 12, 61-3.

<sup>227</sup> Sánchez G. (2001): 24. See also, Eduardo Pizarro Leongómez, *Una democracia asediada* (Bogotá: Norma, 2004): 185.

<sup>228</sup> Thoumi (2003): 283.

Sebastian in southern Cauca, it tolerated the cultivation of opium poppy, even if controlling what drug dealers were allowed to come into the region to buy the opium latex.<sup>229</sup>

Consistent with its effort to generate political capital by becoming positively involved in the illicit narcotics economy, the ELN argues for crop substitution in Colombia and demands reduction of demand abroad as the means to reduce the drug economy.<sup>230</sup> True to its national liberation credo, the ELN has also attempted to reap political capital from its positive involvement in the narcotics economy by condemning foreign interference in Colombia's counternarcotics policies and opposing extradition.

However, the ELN's embrace of the illicit narcotics economy came too late. Its positive involvement in extortion activities did not generate large-scale political capital and its prohibition on the narcotics economy generated resentment. In addition, the group failed to acquire other sources of political capital, and it appears that the ELN does not have any substantial political support anywhere. Thus, in 2000, when the ELN was engaged in negotiations with the Colombian government to obtain a demilitarized zone like the FARC did in 1998, at least 15,000 residents of the area protested vigorously against the plan.<sup>231</sup> By contrast, the residents of FARC's demilitarized zone had generally welcomed its creation in 1998. Obviously, the population in ELN controlled areas did not believe that the ELN could improve their lives and provide them with benefits. Ultimately, the ELN did not get the demilitarized zone.

As predicted by my theory of political capital of illicit economies, although the ELN was able to obtain physical resources from its participation in the extortion racket of

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<sup>229</sup> International Crisis Group (January 27, 2005): 18.

<sup>230</sup> Statements by the ELN reprinted in Berquist, Peñaranda, Sánchez G., eds.: 244-5.

<sup>231</sup> Rochlin: 127.

oil companies, this labor-non-intensive illicit economy failed to generate large political capital for the group. Moreover, and again consistent with the predictions of my theory, this capital was insufficient to offset the losses of political capital generated by its prohibition of and noninvolvement in the illicit narcotics economy. Thus, although the ELN was able to grow in terms of its military capabilities, it failed to build up a support base. Although the ELN ultimately concluded that it needed to become positively involved in the illicit narcotics economy, it changed its policy too late in the late 1990s. By that time, it was already under large military pressure from the paramilitaries and the armed forces as well as the FARC, and by then the FARC had long provided protection services to the illicit narcotics economy, outbidding the ELN in the competition for political support of the rural population.

#### **IX. FARC's Elimination of Intermediaries: *Testing the Effects of the Amplifying Factor "Presence of Traffickers"***

Following the destruction of the Medellín and Cali cartels, FARC's expansion during the 1990s, and its consolidation of control over many drug regions, the FARC progressively eliminated many small traffickers and intermediaries between the peasants and the boutique cartels.<sup>232</sup> This decision on the FARC's part was not only facilitated by the vulnerability of the boutique cartels, but also stimulated by the expansion of the paramilitaries who were frequently identical to the traffickers. Frequently, if the FARC

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<sup>232</sup> Author's interviews in Colombia, Fall 2005. See, also Thoumi (2003): 238, and, "The World Geopolitics of Drugs, 1998/1999: Annual Report," *Geopolitical Drug Observer*, April 2000: 143, <http://www.ogd.org>, downloaded February 15, 2003. Obviously, the elimination of the traffickers is not a completely uniform development since many of the front commanders have considerable autonomy. Moreover, FARC's loses of control over some territories – to the AUC or the military -- at least temporarily allow the return of traffickers. Nonetheless, the elimination of small and medium traffickers by the FARC in the regions under its control has been a trend since the mid/late 1990s.

had allowed the traffickers to come in, it would have been allowing the paramilitaries to be coming in. Other factors being equal – poverty, labor-intensive illicit economy, and eradication -- my theory predicts that, with the traffickers removed, the FARC should experience losses in political capital.

Since the FARC displaced the small and medium drug traffickers who used to deal with the peasants from the territory under its control, its provision of regulation and protection services to the peasants weakened. Instead of raising prices for coca leaves and coca paste, the FARC now imposes prices on the coca peasants, having monopsony in its areas.<sup>233</sup> The FARC also forced all farmers to sell only to the local FARC front. The FARC also came to oppose alternative development projects in various areas and set obstacles to road-building projects and communications construction to prevent the government's presence.<sup>234</sup>

There are increasing reports that the FARC is now forcing peasants in various areas to grow coca or poppy.<sup>235</sup> For example, since the government launched Plan Patriota, a major military offensive against the FARC (described below), the peasants in the Caquetá and Putumayo reported that the FARC made everyone grow drugs (though insisting that they also grow subsistence crops as insurance in case of eradication), even landing money to farmers to be paid with proceeds from the following year's harvest.<sup>236</sup> Various indigenous groups have also been reporting that the FARC forces them to grow coca, despite their resistance.<sup>237</sup> Of course, reporting to authorities and journalists that

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<sup>233</sup> Author's interviews in Colombia, Fall 2005.

<sup>234</sup> Uribe (1997).

<sup>235</sup> Until at least the mid-1990s, such evidence was lacking. See, for example, Richani: 99.

<sup>236</sup> International Crisis Group (January 27, 2005).

<sup>237</sup> See, for example, Juan Forero, "Colombian Conflict Spills into Indians' Perfect World," *New York Times*, May 02, 2005; and Indira Lakshmanan, "Still Battling for Survival," *Boston Globe*, November 16, 2004.

they are forced to grow drugs is the best strategy for the peasants to minimize their role as “criminals,” and hence may not be completely accurate.<sup>238</sup> Nonetheless, the frequency of reports that the FARC actually forced the peasants to be growing drugs seems to be increasing. To the extent the reports are accurate, the FARC’s policy of forcing peasants may have to do with Tirofijo’s announcement in the late 1990s that the front commanders were from then on responsible for their own financing. One of the consequences of this announcement was a change in FARC’s kidnapping tactics: while prior to the announcement, the FARC concentrated mainly on prominent and relatively well-off persons as kidnapping targets, after the announcement the group came to practice “fishing trips,” organizing roadblocks and capturing any traveler from any strata of society and demanding ransom even from the poor.<sup>239</sup>

The FARC also cannot provide protection to the *cocaleros* against the traffickers’ brutality since it had displaced the traffickers and now it does not have anyone against whom to provide protection services. In fact, the FARC itself has become considerably more brutal, including possibly in terms of forcing some peasants to grow coca. First of all, it *de facto* subjected the peasants’ to the brutality of the paramilitaries in the late 1990s since it failed to protect them against the AUC’s massacres and instead frequently chose to avoid military encounters with the paramilitaries. The group has clearly preferred to preserve soldiers over keeping territory,<sup>240</sup> but thus sacrificing its political capital. Second, the FARC itself came to commit more atrocities. One method that has

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<sup>238</sup> In fact, Colombian experts maintain that in the case of indigenous groups, for example, there is a great variation in the groups’ attitudes toward the cultivation of illicit crops, and many do so voluntarily, since coca represents the most reliable subsistence crop. Author’s interviews in Colombia, Fall 2005.

<sup>239</sup> Kirk: 66-7.

<sup>240</sup> Francisco Gutiérrez Sanín, “Diverging Paths: Comparing Responses to Insurgent Challenges in Colombia and Perú,” Paper for the Crisis States Centre, London School of Economics, 2006, author’s copy.

resulted in large civilian casualties and generated a lot of resentment is the use of gas cylinder bombs made out of a propane tank, nails, dynamite, and a launching tube. Although easy to make, it has no accuracy and frequently kills scores of civilians. In May 2002, the guerrillas launched it against a church in Bellavista, Antioquia, where refugees were hiding. The bomb killed 119 people (including 40 children) and injured another 98.<sup>241</sup> Although at least until their demobilization in 2005-6, the AUC continued to kill many more civilians than the FARC, the level of civilian casualties caused by the FARC has been rising.<sup>242</sup> The increasing brutality is undermining the FARC's legitimacy.

A final fascinating development in the changes of FARC's management of the drug economy in areas under its control has been the increasing cooperation between the FARC and the AUC with respect to the drug trade. Although in many regions, such as Putumayo and Catatumbo, vicious fighting over the control of the trade and the cultivation territory continued in the 2000s, in some regions, such as the Serrania de San Lucas, there appeared to be at least tacit coexistence between the two belligerent groups. The leftist guerrillas there controlled the cultivation areas. The AUC controlled the rivers, and hence transportation of both coca paste and precursor agents. Yet smuggling out of these regions continued.<sup>243</sup> This could have only happened if the two groups were in a tacit collusion. When in February 2004, the Colombian military captured "Sonia," chief financial officer of the FARC's Southern Bloc, they found e-mails on her laptop requesting that the AUC lend a helicopter to "transport arms and drugs through the jungle."<sup>244</sup> Since then Colombian authorities interdicted joint shipments of drugs,

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<sup>241</sup> Marcella: 22-5, and Kirk: 68-9.

<sup>242</sup> Restrepo, Spagat, and Vargas (2004).

<sup>243</sup> Author's interviews in Colombia, Fall 2005. See, International Crisis Group (January 27, 2005): 20.

<sup>244</sup> Isacson (2005): 4.

belonging to AUC, the FARC, and independent traffickers, including the biggest ever shipment of drugs containing 15 tons of cocaine.<sup>245</sup>

The elimination of the drug intermediaries, FARC's increasing brutality, and its lack of interest to find a negotiated solution to the civil war during its peace negotiations with President Andrés Pastrana<sup>246</sup> led to a serious decline in the FARC's political capital. As the difference between the FARC's and AUC's brutality has decreased and as the FARC now also does not provide extra regulation services for the illicit economy, the difference in political capital of the two groups has also shrunk. When the paramilitaries took over a FARC territory in the 2000s, the local population not only did not resist, but was frequently rather willing to easily transfer its support.<sup>247</sup> As Francisco Gutiérrez Sanín mentions, "the civilian support for [the FARC] – in particular the network of specialists in mass organization and mobilization – frequently switch side, sometimes with

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<sup>245</sup> Ibid. In taking advantage of joint transportation, the AUC and the FARC are behaving in the same way that the early traffickers and Medellín and Cali cartels behaved. Although rivals, the cartels frequently shared the same transportation to minimize transportation costs and distribute the risk and costs of seizure.

<sup>246</sup> On January 9, 1999, the government of President Andrés Pastrana began disarmament negotiations with the FARC. The talks collapsed on February 20, 2002, after which the FARC initiated a new offensive. As a gesture of good will, Pastrana gave the FARC a large demobilized area, *zona de despeje*, which the government vacated and which became a de facto FARC state. Although this decision has been widely criticized as a critical mistake on the part of the Colombian government, it needs to be noted that the government had no real control over the area to start with and was largely absent from there. During the fitful negotiations, neither the government nor the FARC presented any serious negotiating options with any substantive meat. Most of the discussions ultimately were about discussion procedures. The FARC particularly showed itself extraordinarily stubborn, encouraged by its military strength at the time. Moreover, the paramilitaries were not engaged in similar negotiations, and the FARC clearly feared that after its demobilization, the paramilitaries would attempt to kill the guerrillas out, like they had done with the UP in the 1980s. The Pastrana government also committed mistakes. Pastrana never mobilized the support of the Colombian landowning and business class behind the negotiations, nor, critically, did he obtain the support of the Colombian military. See, for example, Isacson (2003). In my interviews with Colombian security experts, many believed that Pastrana exploited the negotiations for political/ electoral purposes, rather than having an actual negotiating plan. See also, Thoumi (2003): 229. The FARC's failure to participate seriously in the negotiations clearly discredited the FARC both in the eyes of the Colombian professional elite and in the eyes of the international community. It is less clear how much its behavior at the negotiating table actually discredited the FARC in the eyes of the rural population. The rural population clearly wants peace, but the government was not proposing any serious reforms to address their other concerns.

<sup>247</sup> Author's interviews in Colombia, Fall 2005.

astonishing suppleness.”<sup>248</sup> When the FARC retakes territory, the population switches its support back to the FARC.

The loss of the FARC’s political capital is tellingly revealed by the difference in the group’s ability to organize physical support from the *cocalero* community between 1996 and 2001. In both case, the FARC attempted to organize *cocalero* demonstrations to oppose eradication. In 1996, it succeeded in organizing massive protests, with between 150,000 and 200,000 participating. The event was overwhelmingly interpreted as indication of the FARC’s impressive social base. FARC’s effort in 2001 showed a substantial decline in its political capital. The group ordered a stop to commercial and transport activity, but the blockade received little voluntary cooperation from the local population and was suspended without results after 70 days.<sup>249</sup>

Clearly, as predicted by my theory, the FARC has experienced major losses of political capital in the recent years after it eliminated drug traffickers from the territories under its control and hence could not provide the same level of protection and regulation services it did when traffickers were present. Although the decline in the group’s political capital cannot be attributed solely to the absence of traffickers (its increasing brutality has played a significant role in reducing its political capital), the decline of the peasants’ support in the coca regions and their willingness to transfer support to the even more brutal paramilitaries and then back to the FARC when the group retakes the territory is indicative of the negative effect of the absence of traffickers on the FARC’s political capital. The FARC obviously provides no more benefits to the local population now than do the paramilitaries under whose rule the traffickers were frequently absent all along.

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<sup>248</sup> Gutiérrez Sanín (2004): 270.

<sup>249</sup> International Crisis Group (January 27, 2005): 12.

Nor does the competition in brutality explain the FARC's loss of support. The allegiance as function of brutality theory argues that the more brutal belligerent group should be able to extract greater political support. Although this argument could explain why the population switches support to the AUC, it cannot explain why the population then switches support back to the FARC although the FARC is clearly less brutal than the AUC. Nor does it explain why the FARC enjoyed greater support than the paramilitaries prior to the mid-1990s when the FARC was considerably less brutal than the AUC.<sup>250</sup> Clearly, in the eyes of the population, the AUC is no worse or no better now than the FARC. What has equalized – downwards -- is the scope of protection and regulation services the two groups provide to the *cocaleros*.

FARC's failure to reach a negotiated settlement with Pastrana and its participation in the drug trade, especially its elimination of small and medium traffickers and its increasing cooperation with the AUC in its drug operations, have led many experts to argue that the FARC is no more than a cartel, that it no longer retains any political goals or ideology, and that it has no interest in reaching any negotiated settlement.<sup>251</sup> The FARC became the poster profit-motivated thugs of the conventional view.<sup>252</sup>

Others have objected that the FARC still retains some political goals. It is still committed to issues of political, economic, and social reform, such as land reform, rural

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<sup>250</sup> This was detailed in earlier sections of the chapter.

<sup>251</sup> Author's interviews with U.S. and Colombian government officials, Washington, DC, Summer and Fall 2004. See, for example, Marcella; and Buscaglia and Ratliff.

<sup>252</sup> One of the first people to talk about the FARC as a drug cartel without any political goals was Colonel Luis Alberto Villamarín Pulido, whose book, *El Cartel de las FARC* (Bogotá: Ediciones Luis Villamarín Pulido, 1996), was widely circulated among government officials and military commanders in Bogotá and Washington. See also, Ian Bannon and Paul Collier, eds., *Natural Resources and Violent Conflict: Options and Actions* (Washington DC: The World Bank, 2003); and Vinay Jawahar, "Turning Point in Colombia: Rapporteur's Report," Colombia Working Group, Interamerican Dialogue, June 2004, <http://www.thedialogue.org/publications/2005/spring/2004AnnualReport.pdf>, downloaded August 13, 2004.

development, and more inclusive social participation.<sup>253</sup> Moreover, power and the process of struggle -- waging war for war's sake -- have become important goals in of themselves.<sup>254</sup> Gutiérrez Sanín has persuasively shown that participation in the drug economy is still a means to power for the guerrillas, not for personal enrichment as would be the case of ordinary traffickers: With few exceptions, neither the commanders nor the troops live ostentatiously. Money derived from the drug trade still goes toward the war effort. Guerrillas join for life and cannot enjoy their profits, and yet there have been very few desertions from the FARC. Motivations for joining the FARC (the vast majority of recruitment is voluntary) cover a wide range, including revenge and a sense of community, but do not predominantly center on making money.<sup>255</sup> Overall, the available evidence indicates that the FARC still wants power, and that drugs are means to power, not simply to money.

Although ascertaining the FARC's motivations for continuing to fight does have real implications for the ability of the government to negotiate a solution, it has fewer implications for whether or not the FARC still retains popular support. As shown in the case of the cartels, even purely criminal groups, which the FARC as yet does not appear to be, can frequently derive political capital from illicit economies. In fact, despite the overall decline in the FARC's legitimacy, the guerrillas' protection of the peasants' subsistence economy still continues to provide them with some political capital. In fact, some analysts argue that were it not for drugs, their legitimacy would be nonexistent.<sup>256</sup> Indeed, the strongest bases of the FARC's support continue to be the areas of drug

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<sup>253</sup> Chernick (2005): 201; and Ortiz: 131.

<sup>254</sup> Chernick (2005): 201; Rabasa and Chalk: XV; Isacson (2003); and International Crisis Group (January 27, 2005): 6.

<sup>255</sup> Gutiérrez Sanín (2004).

<sup>256</sup> Carpenter: 70.

cultivation.<sup>257</sup> Although the FARC's elimination of small and medium traffickers diminished its political capital, given that the other amplifying factors continue to be poverty, labor-intensive illicit economy, and eradication, its positive involvement in the illicit economy still generates political capital for the FARC.

#### **X. Eradication: *Testing the Effect of Government Response to the Illicit Economy***

The case of Colombia does not allow for a full evaluation of the relative effect of various government responses to the illicit economy since the policy has been one of eradication since the late 1970s. Nonetheless, eradication has varied in intensity, increasing especially in the mid-1990s and then again in the 2000s under Plan Colombia, thus allowing for at least a partial test. More importantly, the case of Colombia is ideal for evaluating the central claim of the conventional view that eradication will bankrupt belligerents and paralyze the insurgency. Nowhere else has eradication been so consistent and intense. If eradication should succeed anywhere in bankrupting the belligerents as the conventional view maintains, it should be in Colombia. Contrary to the conventional view, my theory predicts that eradication will not result in substantial decreases of the belligerents' physical resources, but will increase their political capital, resulting among other things in a poor provision of intelligence to the Colombian military by the local population.

In the mid-1990s, coca cultivation in Colombia experienced a major expansion. Although cultivation of coca was taking place in the southern regions of Colombia since the late 1970s, Peru and Bolivia nonetheless supplied Colombia's traffickers with the

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<sup>257</sup> See, for example, International Crisis Group( January 27, 2005). There is widespread consensus on this among Colombia's experts. Based on author's interviews with more than thirty Colombia experts in the United States and Colombia, Summer and Fall 2004 and Fall 2005.

majority of coca leaf for processing into cocaine. The impetus for the major expansion of the mid-1990s was the disruption of coca leaf supply from Peru and Bolivia under Air Bridge (described in the previous chapter) and a large crisis of Colombia's licit agricultural sector at the time. Partially caused by mishandled economic liberalization policies and compounded by land seizures by the traffickers and paramilitaries, the agricultural crisis left many rural workers jobless and destitute.<sup>258</sup> Coca provided not only the ideal, but frequently the sole source of livelihood. The area cultivated with coca nearly doubled between 1990 and 1996, with 67,200 hectares sowed with coca that year.<sup>259</sup> The cultivation of coca, marijuana, and opium poppy thus spread to 27 out of Colombia's 32 departments and 212 out of its 1,060 municipalities, with poppy cultivation concentrated in the higher cooler regions of the departments of Tolima, Huila, and Cauca.<sup>260</sup> Coca alone was cultivated in at least 19 departments and 117 municipalities. Encouraged by the production declines in Bolivia and Peru and disheartened by the balloon effect in Colombia, the United States applied major pressure on Bogotá to substantially increase its eradication efforts.

At the time, the Colombian military also started to accept Washington's view that drugs were the center of strategy to end Colombia's violence. Until the mid-1990s, the Colombian military was reluctant to participate in counternarcotics operations and see drugs as the core of the problem. With close connections to the landed upper classes, the army saw itself as the guarantor of stability after *La Violencia*, and its prime enemy was the leftist guerrillas, especially the FARC as the strongest one of them. Although the

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<sup>258</sup> For details, see Guáqueta: 79-81.

<sup>259</sup> Ibid.: 79.

<sup>260</sup> About 70-80% of poppy cultivation took place in these three departments. See, Clawson and Lee: 16-7.

military did not prevent the adoption of interdiction and eradication policies,<sup>261</sup> it did not want to have to do anything with counternarcotics operations -- in its eyes, the job of the police. For example, in 1988, Colombian Defense Minister Rafael Samuel Molina observed (as quoted by Lee) that “The Army would have better results in the antiguerrilla struggle if it were not tied down in counternarcotics operations.”<sup>262</sup> And in 1992 the military rejected a \$2.8 million U.S. offer to set up army counterdrug units.<sup>263</sup>

The army’s reluctance was partially due to its tacit collusion with the paramilitaries. The paramilitaries and the army occasionally fought alongside.<sup>264</sup> The paramilitaries could hold territory that the military was too thin to hold on its own. They increased the numbers of available troops to combat the guerrillas. Crucially, however, the army believed the paramilitaries could provide it with intelligence on the guerrillas and their supporters.<sup>265</sup> Wittily capturing the tacit, but at times uneasy and publicly uncomfortable alliance between the army and the paramilitaries, a Colombian colonel interviewed by Robin Kirk described the relationship as “the affair between a married man and his mistress. One has one, but doesn’t bring her home to meet your family.”<sup>266</sup> Similarly, the army has on occasion cooperated with some of the major drug traffickers

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<sup>261</sup> The Colombian military has stayed out of political dispute, preserving its independence from both the executive and legislative branches. At least until the presidency of Álvaro Uribe, it has exercised close to absolute autonomy over national security and public order matters, including its budgets. At the same time, it has not been shy in letting its preferences on policies be known, and has undertaken actions contradictory to the interests and goals of the government. It opposed, for example, Betancúr’s peace negotiations with the M-19 and Pastrána’s peace negotiations with the FARC. See, for example, Richani: 37-42.

<sup>262</sup> Interview with Molina in *El Tiempo* cited by Lee (1989): 215.

<sup>263</sup> Kirk: 188.

<sup>264</sup> See, Richani: 55, Pearse: 195, 240; and Human Rights Watch (1996).

<sup>265</sup> Author’s interviews in Colombia, Fall 2005. To reciprocate, the army has also provided intelligence to the paramilitaries. Intelligence cooperation with the paramilitaries extended to other security agencies as well. In October 2005, for example, information emerged that Colombia’s secret police, the Administrative Department of Security (or DAS), was deeply penetrated by spies of the paramilitaries and that its various high officials were selling information to the paramilitaries. See, Juan Forero, “2 Top Directors Leave Colombia’s Secret Police as Scandal Mounts,” *New York Times*, October 28, 2005.

<sup>266</sup> Kirk: 181.

who eagerly fought the guerrillas and helped set up paramilitary groups, such as the MAS.<sup>267</sup> The army's overall strategy toward the insurgents was one of containment: keep the guerrillas out of strategic military and economic areas and away from urban centers.<sup>268</sup>

By the mid-1990s, however, the Colombian army came to understand that its embrace of counternarcotics operations would provide it with the badly needed U.S. aid. Small in numbers, the Colombian military was also badly structured, with a heavy (6:1) tail-to-tooth ratio. In 1997, for example, the combined number of soldiers in the navy, air force, and army amounted to 131,000, with about only 22,000 professional soldiers, deployed for defensive purposes or occasional incursions against the guerrillas.<sup>269</sup> With the FARC at approximately 7,000 at the time, the 22,000 deployable force was far less than the standard 10:1 ratio of military to insurgents. Moreover, in the mid-1990s, the army suffered several humiliating defeats from the FARC.<sup>270</sup> Thus, in 1998, Colombia and the United States signed an agreement to form an elite, counternarcotics battalion within the Colombian army, that would be the first major injection of U.S. aid into the Colombian army. The 950-man and 33Huey helicopter strong battalion was to provide the necessary security for aerial eradication in the departments of Putumayo and Caquetá, two major drug-producing regions. Necessarily, providing security for eradication meant attacking the leftist guerrillas on the ground, now with resources from the United States.<sup>271</sup>

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<sup>267</sup> See, Lee (1989): 217-8; and Clawson and Lee: 187.

<sup>268</sup> Author's interviews with Colombian military and security experts, Fall 2005. See, Richani: 42-3, 50.

<sup>269</sup> Richani: 44.

<sup>270</sup> See, Rabasa and Chalk: 42-5.

<sup>271</sup> For details, see María Clemencia Ramírez Lemus, Kimberly Stanton, and John Walsh, "Colombia: A Vicious Circle of Drugs and War," in *Drugs and Democracy in Latin America*, Coletta A. Youngers and Eileen Rosin, eds. (Boulder: Lynne Rienner, 2005): 107. See also, Crandall.

Encouraged by U.S. aid, the Colombian army rapidly became a major promoter of the idea that counternarcotics operations were the *sine qua non* of success against the leftist insurgents. Plan Colombia (described below) was the first manifestation of this new paradigm in Washington and Bogotá. The distinction between counterinsurgency and counterdrug operations was fully erased in mid-2002 when the Bush administration removed anti-narcotics restrictions on its aid to Colombia, allowing for all past and present aid to be used for a “unified campaign” against Colombia’s guerillas and the drug traffic. In addition to the significant material incentive of U.S. military aid, the Colombian military accepted the centrality of counternarcotics operations because it could dismiss the negative consequence of eradication reducing the population’s willingness to provide intelligence to the military forces because it had alternative sources of intelligence. After all, by the late 1990s, the paramilitaries’ presence was widespread, and they could extract intelligence from the rural population for the military.

A first major wave of eradication was thus undertaken by president Ernesto Samper in 1994. After assuming office in 1994, Samper pledged that all coca would be eradicated in Colombia within two years.<sup>272</sup> More coca (4,910 hectares) was eradicated in that year than in the preceding four years. 24,081 hectares were sprayed in 1995.<sup>273</sup> Used by Samper to appease U.S. anger at the corruption of his administration by drug money, eradication was also billed as the way to substantially weaken the guerrillas. An editorial in one of Colombia’s leading newspapers, *El Tiempo* (reprinted in Clawson and Lee) opined on January 15, 1995:

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<sup>272</sup> James Brooke, “U.S. Copters are a Target in Colombia,” *New York Times*, March 27, 1995.

<sup>273</sup> U.S. Department of State, *International Narcotics Control Strategy Report (INCSR)* (Washington, DC: Government Printing Office, 1996): 83 and 88.

If anything can persuade the guerrillas to negotiate a definitive and stable peace with the government, it is a substantial and prolonged reduction in the high revenues that they receive regularly from the [drug] traffic which permits them to maintain and equip an expanding armed force. ... In other words, no solution to the problem of armed insurgency in Colombia today is possible while the drug traffic continues to grow ...<sup>274</sup>

The editorial succinctly captured the essential core of the conventional view, which has been repeated countless times since.

But resentment of the rural population grew, frequently leading to strikes and demonstrations, and the FARC was able to capitalize on it. In December 1994, for example, about 4,000 *cocaleros* occupied the airport in San José del Guaviare, the capital of the Guaviare department. In Putumayo, where according to its governor about 135,000 of the department's 314,000 inhabitants depend directly on the coca crop for their livelihood, *cocaleros* occupied Ecopetrol pumping stations, disrupting the flow of oil and causing the loss of millions of dollars in revenue.<sup>275</sup> The capital of Caquetá, Florencia, was virtually under siege by the *cocaleros*.<sup>276</sup> The FARC started offering \$200,000 bounty for every eradication helicopter or plane shot down, with the first being gunned down on February 16, 1995.<sup>277</sup> Crop eradication left many peasants jobless, thus driving them further into the hands of the insurgents. Following large-scale fumigations in 1996, the FARC organized massive protest marches against the government, demanding suspension of forced eradication, adoption of voluntary eradication, and long-term development projects. Between 150,000 and 200,000 participated,<sup>278</sup> powerfully demonstrating the FARC's political capital and potency. The Army blew up the few

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<sup>274</sup> Reprinted in Clawson and Lee: 184.

<sup>275</sup> Clawson and Lee: 219-20.

<sup>276</sup> Christopher Torchia, "Colombian Coca Farmers Vent Rage," *Washington Times*, September 3, 1996.

<sup>277</sup> Clawson and Lee: 220.

<sup>278</sup> Adam Isacson, "The Tragedy of Alternative Development in Colombia," December 3, 2001, <http://www.colombiareport.org/colombia92.htm>, downloaded November 3, 2003; Kirk: 243; and Vargas Meza (1999).

roads leading to main areas of the *cocaleros*' protests to prevent the demonstrators from extending their marches, but also sealing the FARC there with them and further constricting the state's presence in these areas.<sup>279</sup>

Meanwhile, while continuing to deny intelligence on the guerrillas to the military, the rural population increased intelligence provision to the FARC. In March 1998, for example, local sympathizers in the Caguán region, where the FARC connections to the *cocaleros* were the most long-standing, provided the FARC with intelligence on the 52<sup>nd</sup> counterinsurgency battalion of the Colombian army's 3<sup>rd</sup> mobile brigade. The FARC destroyed the battalion.<sup>280</sup> The lack of ability by the Colombian forces to collect intelligence on the guerrillas was one of the reasons why the CIA relied on Peru's Vladimiro Montesinos to obtain intelligence on the FARC. A conversation between Montesinos and a Peruvian politician, Francisco "Pancho" Tudela, Montesinos (reprinted by McClintock and Vallas), revealingly shows the poor intelligence provision available to the Colombian forces:

In [Colombia's demilitarized zone], I have five undercover agents; the best information Washington has about Tirofijo is the information that I send from there. ...Because, as you know, satellite intelligence can't get in there. ...And they can't send any Colombian for fear about the issue of corruption, the issue of drug trafficking.<sup>281</sup>

The fact that better information was coming third-hand from Peru indicates the lack of information available to the Colombian military on the FARC. Even if Montesinos exaggerated his importance, Colombian intelligence experts uniformly agree that the Colombian army has suffered from a chronic lack of good intelligence on the

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<sup>279</sup> Mary Matheson, "Colombian Leader Tries to Please U.S. on Drugs, But Ignites Peasant Revolt," *Christian Science Monitor*, August 12, 1997.

<sup>280</sup> Rabasa and Chalk: 42.

<sup>281</sup> McClintock and Vallas: 86.

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made on alternative development or political, economic, and judicial reforms until permanent security was achieved throughout the country.<sup>292</sup>

Meanwhile, a newly intensified eradication campaign was launched in July 2001 when President Clinton signed into law Plan Colombia. Contained in an aid package of \$1.2 billion for counterdrug operations more broadly in Latin America, the Plan allocated \$860 million specifically for Colombia. Devised between 1998 and 2000, Plan Colombia was originally conceived by President Pastrana as an effort to generate resources for “peace, prosperity, and the strengthening of the state.” Pastrana’s original plan recognized the importance of addressing the root causes of conflict in Colombia and promoting social development, in addition to reducing violence and constructing peace. It also argued for a major beefing up of alternative development programs to provide the *cocaleros* with economic alternatives. However, the social and development components soon became dwarfed by the military and eradication components, as many European countries failed to provide resources for the plan and U.S. money came earmarked predominantly for eradication. In 2001, the Bush Administration renamed the plan the Andean Regional Initiative (ARI), but has maintained U.S. aid levels to Colombia (extending them beyond the Plan’s original expiration in 2005),<sup>293</sup> removed restrictions on the use of U.S. funds for counternarcotics purposes to permit the use of the funds for counterinsurgency operations as well, and increased the cap on the numbers of U.S. military advisers and private contractors to 800 and 400 respectively.

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<sup>292</sup> Sweig: 131.

<sup>293</sup> The funding for Colombia’s share of the ARI for 2006 was \$741 million. Since 2001, Colombia has also been receiving additional funding for counterterrorism, such as from the State Department’s Anti-Terrorism Assistance account. For details, see Ingrid Vaicius and Adam Isacson. *The ‘War on Drugs’ Meets the ‘War on Terror’*. February 2003, <http://ciponline.org/colombia/0302ipr.htm>, downloaded August 08, 2004:18.

A massive aerial eradication was undertaken.<sup>294</sup> It was designed to “inflict significant economic damage to both the farming and refining segments of the cocaine industry long enough to force both dramatically reduce cocaine production in the medium term and face bankruptcy in the long term.”<sup>295</sup> Between 2001 and 2003, the U.S.-Colombian drug eradication campaign appeared to score unprecedented success. As a result of President Uribe’s willingness to allow herbicide planes to spray anywhere and any time, the cultivation of coca in Colombia fell by 15 percent in 2002 and 21 percent in 2003, after the spraying of 270,000 hectares each year.<sup>296</sup> But despite the continuation of massive spraying in 2004 when 242,000 hectares were sprayed, the acreage of cultivated coca remained the same. Then in 2005, after four consecutive years of decline and 170,060 hectares destroyed that year, coca cultivation increased by 6,000 hectares, with the area under cultivation at 86,000.<sup>297</sup> Coca continues to be grown in 23 departments.<sup>298</sup>

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<sup>294</sup> Eradication has been accompanied by interdiction both on the seas, so called Operation Firewall, and in the air, where the Air Bridge Denial operation was restarted in Colombia in 2003, although remaining suspended elsewhere in Latin America.

<sup>295</sup> “Comments from the Department of State,” to the GAO Report, *Drug Control: Coca Cultivation and Eradication Estimates in Colombia*.

<sup>296</sup> Robert B. Charles, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, *U.S. Policy and Colombia*, Testimony before the House Committee on Government Reform, June 17, 2004, <http://reform.house.gov/UploadedFiles/State%20-%20Charles%20Testimony.pdf>, downloaded September 19, 2004, and International Crisis Group (January 27, 2005).

<sup>297</sup> U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, *International Narcotics Control Strategy Report (INCSR)* (Washington, DC, Government Printing Office: 2006), <http://www.state.gov/p/inl/rls/nrcrpt/2006/vol1/html/62106.htm>, downloaded March 14, 2006, and United Nations Office on Drugs and Crime, *Coca cultivation in Andes stabilizes in 2005, farmers need help to find alternative livelihoods*, Press Release, June 20, 2006,

[http://www.unodc.org/unodc/en/press\\_release\\_2006-06-20.html](http://www.unodc.org/unodc/en/press_release_2006-06-20.html), downloaded July 4, 2006. Colombian drug experts dispute the area under cultivation as systematically underestimated, and argue that the actual area under cultivation is over 100,000 hectares. Author’s interviews in Colombia, Fall 2005. Alternative development continues to remain limited. By 2004, for example, it reached about 33,400 families in Colombia, resulting in the voluntary eradication of almost 22,000 hectares. However, the estimated numbers of families dependent on the illicit economy and in need of alternative development is 136,000. See, Government Accounting Office, July 2004: 2,11, and 26.

<sup>298</sup> Poppy also continues to be grown. In 2005, it was grown on 1,950 hectares, down by 51 percent from 2004. United Nations Office on Drugs and Crime, *2006 World Drug Report: Volume II – Statistics*: 232, [http://www.unodc.org/pdf/WDR\\_2006/wdr2006\\_volume2.pdf](http://www.unodc.org/pdf/WDR_2006/wdr2006_volume2.pdf), downloaded July 28, 2006.

Obviously, the *cocaleros* have found a way to replant after eradication as well as adapt in other ways. In addition to shifting production around into regions that were not under eradication, such as Nariño and Meta, and into shade where it cannot be easily detected by satellites and spraying planes, coca producers increased the number of plants per acre several times.<sup>299</sup> To minimize detection, farmers decreased the size of lots cultivated with coca. According to 2002 and 2003 estimates by the United Nations Office on Drugs and Crime, more than 60 percent of Colombia's coca became grown on plots of less than three hectares in size.<sup>300</sup> Fumigation of such small plots is exceedingly difficult and runs large risks of liquidating other licit crops or natural flora as well. Resistance of coca plants to the herbicides also appears to be growing. Since the coca plant takes only four months to grow from seedling to a harvestable plant, if farmers replant immediately after the spraying planes leave, they miss only one harvest per year out of four.

The promise of eradication to financially break the FARC has not materialized so far. First, there is no indication that the FARC is hurting financially.<sup>301</sup> In fact, U.S. Director of the White House Office of National Drug Control Policy John Walters explained the lack of cocaine price increase on U.S. streets until 2005 by insisting that the FARC was feeding the market with stockpiled cocaine to maintain supply.<sup>302</sup> This then

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<sup>299</sup> Author's interviews in Colombia, Fall 2005.

<sup>300</sup> United Nations Office on Drugs and Crime, *Colombia: Coca Survey for December 2002 and Semi-Annual Estimate for July 2003: 27-30, 46*, [http://www.unodc.org/pdf/publications/colombia\\_report\\_2003-09-25.pdf](http://www.unodc.org/pdf/publications/colombia_report_2003-09-25.pdf), downloaded October 17, 2003.

<sup>301</sup> Author's interviews with U.S. and Colombian government officials, Fall 2004.

<sup>302</sup> United States Department of State, "Current Developments in Colombia in the Fight Against Drug Trafficking and Narcoterrorism, Foreign Press Center briefing by John Walters, Director, White House Office of National Drug Control Policy," (Washington, DC, July 29, 2003). In November 2005, John Walter announced that over the past 7 months, U.S. street prices of cocaine rose by 19 percent while purity declined. "U.S. Anti-Drugs Policy 'Succeeding,'" *BBC News*, <http://news.bbc.co.uk/2/hi/americas/4449330.stm>. It remains to be seen whether such a decline in purity and increase in price is sustainable, especially as coca cultivation has increased in Peru and Bolivia. The trend over the past twenty years has been a large decline in street prices for cocaine and heroin. Data provided to the Washington Office on Latin America (WOLA) by the Office of National Drug Control

leads to question of how large the FARC's and the paramilitaries' stockpiles are and how long the belligerents can continue operating once their stockpiles are depleted? Can the suppression of drug production be sustained until and after the depletion of the belligerents' supplies? Evidence shows that by 1998, the FARC began storing coca base.<sup>303</sup>

Given the very large annual profits both the FARC and the AUC gained from the drug trade for many years, it is quite possible that the belligerents have accumulated enough resources to continue operating for many years without new income coming in. Moreover, the FARC (as well as the ELN and the AUC) have income from other illicit activities, such as extortion and kidnapping. In the case of FARC, drugs constitute only about half of its yearly income. Even if the income from drugs completely dried up, a scenario that has not materialized, it would still continue receiving a very large income.<sup>304</sup>

The military offensive against the FARC under Plan Patriota<sup>305</sup> did score important results. President Uribe has launched 18,000 troops and special forces, backed

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Policy (ONDCP) and available at WOLA webpage: [http://www.wola.org/ddhr/ddhr\\_data\\_measures2.htm](http://www.wola.org/ddhr/ddhr_data_measures2.htm). Moreover, many drug experts dispute the validity of ONDCP's 2005, pointing out that it has refused to disclose its methodology. Author's interviews in Bogotá, November 2005, and Washington, DC, Fall 2006.

<sup>303</sup> International Crisis Group (January 27, 2005): 8.

<sup>304</sup> Some Colombian security experts estimate the cost per belligerent at \$3.00 per day. Author's interviews in Colombia, Fall 2005. If this estimate is accurate, the FARC would need to raise about \$60,000 for a 20,000-strong guerrilla force, an income still below the yearly income from non-drug illicit activities, such as extortion and kidnapping, which is believed to be around \$100,000 a year. A FARC invoice recently captured by the Colombian military revealed that the FARC yearly expenditure on supplies and arms were about \$10 million. Author's interviews in Colombia, Fall 2005.

<sup>305</sup> In addition to the military offensive, Plan Patriota, and the larger concept within which it has been nested, Democratic Security Policy, include developing a network of informants in the rural areas and establishing peasant militias. So far, 600 such peasant squadrons have been established. Uribe also increased the number of soldiers to 200,000, paid for with a one-time tax increase. Training and force structures have improved, increasing the mobility of antiguerrilla units. The war effort over the past five years is estimated to have cost Colombia \$16.5 billion in the past five years. International Crisis Group, *Colombia: Presidential Politics and Peace Prospects*, Latin America Report No. 14, June 16, 2005, [http://www.crisisgroup.org/library/documents/latin\\_america/14\\_colombia\\_presidential\\_politics\\_and\\_political\\_prospects.pdf](http://www.crisisgroup.org/library/documents/latin_america/14_colombia_presidential_politics_and_political_prospects.pdf), downloaded September 9, 2005. The Democratic Security Policy also included constrictions on human rights and civil liberties. See, for example, Jawahar: 4-5.

by American-supplied helicopters, against the guerrilla strongholds in the southern jungles after clearing FARC from the mountains around Bogotá. Colombian officials claim that the FARC has lost some 6,000 of its members (or 20 to 30 percent) through desertions, captures, and casualties.<sup>306</sup> 800 FARC encampments were destroyed, and 20 mid-level commanders removed from the battlefield.<sup>307</sup> Police has been placed in every municipality (though they frequently cannot leave their posts due to poor security conditions and other elements of state continue to be absent in many areas).<sup>308</sup> The FARC has been pushed further away from the roads, and travel within Colombia is easier. While important, these successes and improvements cannot be attributed to eradication, but rather to the increased military offensive by the government forces.

Moreover, the leftist guerrillas do not appear to be defeated. After what may well have been several months of tactical retreat, the FARC struck again in the spring and summer of 2005 with a string of deadly attacks against the military and declaring its *Plan Resistencia*. These attacks have continued into the summer of 2006. A leading Colombian security analyst Alfredo Rángel Suarez notes that while the FARC attacks have been smaller and less deadly since Uribe came to power, their frequency has not diminished.<sup>309</sup> The guerrillas retain their capacity to attack and have the capacity to immobilize traffic along major highways. Meanwhile, Colombia's military forces appear to be reaching the

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<sup>306</sup> International Crisis Group (June 16, 2005): 9.

<sup>307</sup> Gen. Bantz J. Craddock, *Posture Statement before the Senate Armed Services Committee*, March 14, 2006, <http://ciponline.org/colombia/050309crad.pdf>, downloaded March 18, 2006. These included Simón Trinidad, "Rodrigo Granda," the FARC's foreign minister who was arrested in Caracas, and "Sonia."

<sup>308</sup> Since Uribe took over, kidnapping rates have decreased by 39 percent and murder rates by 20 percent. See, Government Accounting Office, *Drug Control: U.S. Nonmilitary Assistance to Colombia Is Beginning to Show Intended Results, But Programs Are Not Sustainable*, GAO-04-726, July 2004: 20, <http://www.gao.gov/new.items/d04726.pdf>, downloaded August 10, 2004.

<sup>309</sup> "A New Offensive?" *The Economist*, 374 (8415), February 26, 2005.

limits of their military capacity. For one, the rate of guerrillas killed is declining.<sup>310</sup> The guerrilla practice has become to present the military forces sweeping into an area with minimal resistance, while the bulk of guerrilla forces retreat. The military forces stay in the area for several weeks or even months, without increasing other manifestation of state presence, such as judges, doctors, and development experts. Then the military leaves, and the guerrillas come back. The south still continues to be characterized by high levels of violence.

President Uribe also managed to negotiate a disarmament agreement with the paramilitaries. Stimulated by the threat of extradition to the United States on drug trafficking charges, the paramilitary leadership agreed to negotiate a ceasefire and demobilization deal in exchange for lenient jail sentences (with maximum confinement of eight years) and no extradition to the United States. The paramilitaries also promised to relinquish their control of the drug trade. Uribe's government accepted these terms, at least tacitly agreeing not to extradite the paramilitary leaders, such as Salvatore Mancuso, Iván Duque, and Don Berna to the United States, and signed the so-called Justice and Peace Law.<sup>311</sup> By June 2006, some 24,000 of the estimated 27,000 to 29,000 paramilitaries, including their most notorious commanders, have demobilized. The number of assassinations, torture, kidnappings, and disappearances committed by the

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<sup>310</sup> Author's interviews in Colombia, Fall 2005. See, Rangel Suárez's summarized by Stanton: 5-6.

<sup>311</sup> The law has received widespread criticism from human rights groups as well as members of the United States Congress for granting too lenient sentences to the paramilitary leaders and allowing them and rank-and-file soldiers get away with major human rights violations without even having to disclose them. The investigative and judicial components designed under the law to investigate these violations are too weak to assure prosecution. See, for example, International Crisis Group, *Colombia: Towards Peace and Justice?* Latin America Report No. 16, March 14, 2006, [http://www.crisisgroup.org/library/documents/latin\\_america/16\\_colombia\\_towards\\_peace\\_and\\_justice.pdf](http://www.crisisgroup.org/library/documents/latin_america/16_colombia_towards_peace_and_justice.pdf), downloaded April 18, 2006.

paramilitaries have decreased since 2003.<sup>312</sup> The demobilized paramilitaries have also given up some weapons, roughly one weapon for every three demobilized combatants. On May 20, 2006, Colombia's constitutional court overturned key elements of the Justice and Peace Law, including the lenient sentences.<sup>313</sup> It remains to be seen whether the paramilitaries will withdraw from the demobilization process.

Meanwhile, however, the paramilitaries have been transforming into more regular style mafia organizations. Demobilized soldiers have joined city gangs, especially in Medellín neighborhoods controlled by Don Berna. In some urban neighborhoods, the paramilitaries have begun to impose their rules, such as prohibiting women from wearing miniskirts, and engaged in "cleansing": harassing women leaders and prosecuting homosexuals.<sup>314</sup> The paramilitaries also continue to reap vast benefits from the drug trade and other illicit economies. Their drug networks remain unaffected. They have not given up any substantial assets obtained through violence or illicit economic activities, including seized land. Through intimidation and financial payoffs (having at their disposal financial resources frequently much larger than those of legitimate state authorities and political actors), the paramilitaries have managed to acquire significant political power at the local level in many municipal and gubernatorial offices, getting their preferred candidates elected and buying off others.<sup>315</sup> The AUC's influence is especially pervasive along the Atlantic coast, such as in César and Magdalena, the major drug exporting regions. Moreover, new paramilitaries are emerging. Demobilized

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<sup>312</sup> Ibid.

<sup>313</sup> Indira A.R. Lakshamanan, "Ruling Threatens Peace for Colombia," *Boston Globe*, May 20, 2006.

<sup>314</sup> Author's interviews in Colombia, Fall 2005. See, International Crisis Group, *Demobilizing the Paramilitaries in Colombia: An Achievable Goal?*, Latin America Report No. 8, August 5, 2004, [http://www.crisisgroup.org/library/documents/latin\\_america/08\\_demobilising\\_the\\_paramilitaries\\_in\\_colombia\\_an\\_achievable\\_goal.pdf](http://www.crisisgroup.org/library/documents/latin_america/08_demobilising_the_paramilitaries_in_colombia_an_achievable_goal.pdf), downloaded September 10, 2004.

<sup>315</sup> Isacson (2005): 7 and Duncan. In 2004, Salvatore Mancuso, one of AUC's chiefs, boasted that the paramilitaries controlled 30 percent of the national Congress.

paramilitary leaders continue recruiting among the urban poor and unemployed, offering \$250 a month.<sup>316</sup> At least 43 rearmed groups of ex-paramilitary combatants appear to be operating in 22 departments.

The ELN remains weak, having suffered defeats from the army and paramilitaries and from the FARC. It has engaged in on-and-off negotiations with the Colombian government, which have so far failed to produce any agreement. Many ELN members are becoming increasingly absorbed by the FARC.

While the promise that eradication would bankrupt the drug economy in Colombia, dramatically reduce supply the global supply of drugs, and break the FARC has failed to materialized so far, the costs of eradication have already materialized. Eradication has generated widespread social strife, alienating the rural population from the government. Popular alienation from the state is further compounded when the first manifestation of the state is eradication -- i.e., the destruction of the rural population's livelihood.<sup>317</sup> Eradication policy has been condemned by many regional government officials in Colombia. The governors of six of the Colombian departments most affected by the fumigation policy were especially active in campaigning against aerial spraying.<sup>318</sup>

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<sup>316</sup> "Politics, Drugs, and the Gun," *Economist*, April 30, 2005.

<sup>317</sup> Presentation by a former U.N. alternative development specialist in Latin America, James Jones at a WOLA conference in Washington, DC on April 19, 2005, summarized in Kimberly Stanton, "The Colombian Conflict: Regional Impact and Policy Responses," WOLA Conference Report, August 2005: 23-4.

<sup>318</sup> Jared Kotler, "Colombia Drug Policy Questioned," *Associated Press*, July 20, 2001, and Winifred Tate, "Colombia's Role in International Drug Industry," *Foreign Policy in Focus*, 4 (30) (June 2001), [http://www.fpif.org/briefs/vol4/v4n30colo\\_body.html](http://www.fpif.org/briefs/vol4/v4n30colo_body.html), downloaded March 19, 2003. Such statements are frequently dismissed by proponents of eradication as being issued by political leaders who are either handpicked by or under threat from the FARC.

They saw intensified coca eradication as producing serious levels of social conflict and further delegitimizing the Colombian government.<sup>319</sup>

Crop eradication policies have also led to the forcible expulsion of peasants from lands used for drug production and the burning of their homes, further increasing the scope of protection services the FARC can provide to peasants, and hence its political legitimacy. Putumayo community leaders complained in November 2002 that the region was a humanitarian disaster. According to them, eradication damaged not only coca fields, but also food crops, and many families were going hungry. Community leaders in Putumayo also believed that eradication was designed to expel them from their land. Large numbers of people were in fact leaving Putumayo for other regions of Colombia and Ecuador.<sup>320</sup> Whether inadvertent or by design, the resulting depopulation of the region was seen by some Colombian military specialists as welcome in Bogotá and Washington. Large-scale departure of the population from the region was seen as facilitating the military campaign against the guerrillas by depriving them of support and resources as well as facilitating alternative development by forcing the population to move to areas that would perhaps be more suitable for licit economic development.<sup>321</sup> At the same time, however, young people driven by a lack of economic opportunities were

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<sup>319</sup> Interview with Jorge Devia Murcia, governor of Putumayo, *Colombia Update*, published by Colombia Human Rights Committee of Washington, DC, 12 (1), Summer/ Fall 2000: 7, [http://72.14.207.104/search?q=cache:tZZotZMy68sJ:colhrnet.igc.org/newsletter/y2002/fall02.art/colombiaupdatef02.pdf+Colombia+Update,+published+by+Colombia+Human+Rights+Committee+of+Washington,+DC,+12+\(1\),+Summer/+Fall+2000:&hl=en&gl=us&ct=clnk&cd=4](http://72.14.207.104/search?q=cache:tZZotZMy68sJ:colhrnet.igc.org/newsletter/y2002/fall02.art/colombiaupdatef02.pdf+Colombia+Update,+published+by+Colombia+Human+Rights+Committee+of+Washington,+DC,+12+(1),+Summer/+Fall+2000:&hl=en&gl=us&ct=clnk&cd=4), downloaded April 7, 2003.

<sup>320</sup> Ingrid Vaicius and Adam Isacson, *The 'War on Drugs' Meets the 'War on Terror'*, February 2003: 9-10, <http://ciponline.org/colombia/0302ipr.htm>, downloaded September 10, 2003.

<sup>321</sup> Author's interviews in Colombia, Fall 2005. Ironically, displacement of the population from the original drug regions further contributes to the geographic spread of illicit crop cultivation as a result of the diffusion of knowledge and the frequent inability of internal refugees to find licit economic opportunities in the areas where they arrive.

volunteering for the FARC or the AUC,<sup>322</sup> thus hampering counterinsurgency efforts. Moreover, the FARC began relocating along with the displaced groups into areas, such as Nariño, Meta, Guaviare.

Meanwhile, the FARC has stepped up its protection efforts against eradication. In 2001 alone, there were 86 incidents in which spraying aircraft and helicopters were hit by ground fire.<sup>323</sup> On December 27, 2005, for example, 300 FARC soldiers killed 29 policemen guarding the eradication teams in the national park La Macarena in one of the deadliest FARC attacks since Uribe came to power.<sup>324</sup> In fact, one of the costliest effects of Plan Patriota on the FARC was the resulting FARC decision to retreat to protect its soldiers, thus preventing them from protecting the crops against eradication. The consequence was a significant loss of the FARC's support among the *cocalero* community who felt betrayed and disappointed by the FARC and increased peasant community-organizing to establish independent community structure to oppose eradication. These community structures were not responsive to the FARC. However, after realizing the loss of support resulting from its abdication of the protection function against the eradication teams, the FARC once again began protecting the coca fields against eradication to recapture the farmers' support and resurrect its political capital.<sup>325</sup>

Members of the Colombian government have voiced objections to combining the counter-guerrilla war with the anti-narcotics war. Unlike current President Uribe, who is an enthusiastic supporter of the U.S.-sponsored eradication program, former President Andrés Pastrana was occasionally reluctant to carry out the spraying program as

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<sup>322</sup> Author's interviews with U.S. military officials, Summer and Fall 2004. See, Vaicius and Isacson (2003): 9-10.

<sup>323</sup> Steinitz: 15.

<sup>324</sup> "Colombia: One and Half Steps Forward, One Back," *Economist*, January 7, 2006: 41-2.

<sup>325</sup> Author's interviews in Colombia, Fall 2005.

aggressively as U.S. officials demanded. After the first round of fumigation under Plan Colombia (between December 2000 and February 2001), Pastrana temporarily suspended fumigation to give alternative development a chance. The effort took a series of signed pacts with *cocalero* communities, in which those who signed would receive basic assistance, followed by technical and infrastructure aid, in exchange for eradicating of all their coca within twelve months of the first receipt of aid. But most of the aid was never delivered. By April 2002, only 8,500 of the 37,000 peasant families who signed the pact received aid, and in July 2002 fumigation restarted without alternative development having taken off.<sup>326</sup> Gonzalo de Francisco, Pastrana's national security adviser, commented that the U.S. applied constant pressure to accelerate the pace of coca spraying, viewing it as cheaper and quicker than alternative development and crop substitution. Pastrana instead focused on reaching a peace agreement with the FARC.<sup>327</sup>

Although Pastrana's peace negotiations with the FARC failed for a variety of reasons, and although even in the absence of eradication it is unlikely that they would have succeeded, they were nonetheless also undermined by eradication.<sup>328</sup> Refusal of the U.S. government to talk with "narcoguerrillas" as well as stepped-up fumigation efforts helped undermine the FARC's trust. Trust completely deteriorated in mid-2000, after the U.S. Congress approved Plan Colombia. FARC statements repeatedly denounced the U.S. plan, especially its military and counternarcotics components as foreign intervention

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<sup>326</sup> Vaicius and Isacson (2003): 8. It also needs to be added that the FARC killed several alternative development workers in Putumayo in September 2001.

<sup>327</sup> Scott Wilson, "U.S. Seeks to Avoid Deeper Role in Colombia," *Washington Post*, March 9, 2003.

<sup>328</sup> The problems of the negotiations were detailed above. Chief among them were the lack of interest on the FARC's part and the lack of plan on the part of the Colombian government.

and gesture of bad faith.<sup>329</sup> The guerrillas progressively came to see the talks as a dangerous ruse designed to lull them while eradication weakened their strength.<sup>330</sup>

Despite the fact that Uribe has organized a network of over 2 million paid informers, using sympathizers of the paramilitaries as the base of the informant network, intelligence provision to the military forces continues to be poor.<sup>331</sup> Although much information about current intelligence gathering is classified and concrete data cannot be accessed, there are clear indications that the Colombian government is depriving itself of local intelligence by pushing ahead with eradication. One episode illustrates this dynamic: A U.S. government official in charge of administering alternative development programs since the launch of Plan Colombia visited villages where the FARC was known to operate. His expectation was that the FARC would oppose the programs since the diminished cultivation of coca would reduce the guerrillas' income – as, in fact, increasingly became the FARC's practice during the 1990s. In each village he visited, however, the FARC not only failed to oppose the programs, but encouraged them. The explanation the official received from representatives of the villages was always the same. The FARC knows that if it opposed the alternative developments programs, we [the villagers] would tell the government how to capture the FARC. The guerrillas need to cooperate with our wishes so that we do not give the government the information.<sup>332</sup> The moral of the story, of course, is that the local population knows the whereabouts of the guerrillas, but as long as the government threatens the population's livelihood and as

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<sup>329</sup> Isacson (2003): 7.

<sup>330</sup> Author's interviews in Colombia, Fall 2005. See, also Thoumi (2003): 200.

<sup>331</sup> Author's interviews with Colombian intelligence and security experts who have advised the Colombian military on intelligence acquisition, Fall 2005, and with U.S. government officials, Summer and Fall 2004. See, Adam Isacson and Ingrid Vaicius, "Plan Colombia 2?" March 22, 2004, <http://www.ciponline.org/colombia/040322memo.htm>, downloaded June 13, 2004.

<sup>332</sup> Author's interviews with U.S., Colombian, and OAS officials, Summer and Fall 2004.

long as the guerrillas sponsor that livelihood, the population chooses not to provide vital intelligence on the guerrillas to the government. Another indication of the lack of intelligence provision is the failure of the Colombian forces to capture any member of the FARC's secretariat.

The lack of intelligence provision to the military is all the more significant now that the FARC's legitimacy is at its all time low. As shown above, the FARC's elimination of traffickers from the areas under its control and its increasing brutality have resulted in large decreases in its political capital. Moreover, the military did manage for several months to put the FARC on the run, thus decreasing the chances of FARC's retaliation against informers. Despite all these auspicious conditions, the available evidence suggests that the military is still not receiving adequate or increased intelligence and has not managed to penetrate the FARC or its networks to obtain the necessary intelligence.<sup>333</sup>

In short, as predicted by my theory and contrary to the predictions of the conventional view, the FARC has not been broken financially as a result of eradication one of the most extensive eradication campaigns in history. Proponents of the conventional wisdom can counter that eradication has not been given sufficient time, but after twenty-six years, with the last six especially intense, this argument becomes hard to sustain. At the same time eradication has already generated large costs to the military by increasing the belligerents' political capital and alienating the population from the government. The population does not cooperate with the government, and intelligence provision by the population to the military continues to be poor.

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<sup>333</sup> Author's interviews in Colombia, Fall 2005.

## **XI. Conclusions**

Despite Colombia being the poster case of the conventional view, a detailed examination of the case since the 1960s through the current period undermines the validity of the conventional view and supports the validity of my theory of political capital of illicit economies. Belligerent groups examined in this chapter – the FARC, the paramilitaries, the M-19, and the ELN – obtained not only physical resources from their positive involvement in various illicit economies, but the belligerents that participated in labor-intensive illicit economies, such as the cultivation of illicit crops, also gained substantial political capital. Although drugs did not cause the conflict in Colombia, the belligerents' positive engagement in the illicit narcotics economy substantially escalated it.

The first data point supporting the validity of my theory is the evolution of the FARC's involvement in the illicit economy. The group spent its first fifteen years not involved in an illicit economy, relying on local banditry for food and supply acquisition and isolated attacks against the military to obtain weapons. Not only did the FARC fail to grow, it also alienated the local population. Then, when the illicit narcotics economy took off in Colombia in the late 1970s and the FARC first encountered drugs, it sought to suppress the illicit narcotics economy. Its negative involvement in the illicit narcotics economy, however, alienated the local population and its control over the Caguán region became threatened. Seeing the substantial alienation of the local population and fearing the loss of control over the region to the drug traffickers and their security forces, the FARC reversed its policy and came to positively sponsor the illicit economy. At that point, the conventional view predicts that the FARC's physical resources would grow, as

does my theory. In fact, they did: the FARC was able to grow from a few hundred guerrillas on the run in the southern jungles of the country into a 20,000 strong guerrilla country, largely controlling the southern and south-central parts of the country, and present in at least 60 percent of the country.

But ignored by the conventional view and consistent with my theory is the increase in FARC's strength also in terms of freedom of action, and, most crucially, in terms of political capital. As a result of its positive involvement in the illicit economy, the FARC was able to vastly enlarge the scope and magnitude of its operations. Most importantly, it developed a secure base among the rural population dependent on the illicit economy. While during the period of FARC's negative involvement in illicit crop cultivation, the group alienated the local population and was about to lose control of the region, after its positive involvement, the population welcomed it back. The FARC protected the population against the abuses of the traffickers and the eradication teams, provided a regulatory framework, and used the illicit economy to provide social services to the population. Contrary to the predictions of the conventional view, but consistent with the predictions of my theory, the FARC's strongest support has consistently been in the drug regions. Positive involvement in the illicit economy thus vastly increased the staying power of the FARC and allowed them to pose a serious threat to the government.

Positive involvement in the illicit economy on the part of the paramilitaries supported another aspect of my theory: the importance of the amplifying factor, "presence/absence of traffickers," on the belligerent group's ability to obtain political capital from positive involvement in illicit economies. My theory predicts that if traffickers are absent, the belligerents will derive smaller political capital than if they are

present. This prediction did materialize in the case of the paramilitaries. The paramilitaries obtained large physical resources from the illicit economy, growing from a few hundred in the mid-1980s to almost 30,000 in 2006, and they were also able to obtain some political capital. Nonetheless, their political capital remained limited, because the paramilitaries frequently were identical with the traffickers and hence did not provide a variety of regulatory services to the farmers, such as bargaining for better prices and ameliorating the violence of the traffickers toward the rural population.

Moreover, even when the paramilitaries were distinct and separate from the traffickers and when traffickers were present in the territories they controlled, their political capital remained limited because their primary audience was the traffickers. This limited increase in the paramilitaries' political capital was not predicted by my theory, but is not inconsistent with it. The reason the paramilitaries did not obtain large political capital from their positive involvement in the illicit economy is that they were hired by the traffickers and the landlords to protect their interests and were not vying for the allegiance of the peasants, but for continuing employment from their rich patrons. But in domains where the competition with the guerrillas for being hired to provide protection services to the traffickers was not involved, the paramilitaries did attempt to obtain at least some political capital, and, for example, invested in social services with their profits from the illicit economy.

FARC's elimination of small and medium traffickers from areas under their control by the late 1990s also supports the prediction of my theory regarding the absence of the traffickers. When the FARC eliminated the trafficking organizations' intermediaries, itself selling coca paste from farmers to the trafficking organizations and

even the paramilitaries, it stopped providing a host of regulatory services to the peasants and became more brutal. Its political capital decreased substantially, and the population became largely indifferent in its support between the paramilitaries and the FARC.

The relationship between the belligerents and the traffickers also clearly supports my theory and undermines the validity of the conventional view. The conventional view argues that the belligerents and criminal organizations have merged into a conglomerate actor that needs to be fought together and predicts joint interests and little conflict between the two groups. The case of Colombia clearly contradicts these predictions and arguments. The relationship between the FARC and traffickers deteriorated very rapidly, and although at first, for a year or two, the traffickers welcomed the regulatory and protective presence of the FARC, they soon became fed up with its interference in the management of the drug trade and hired the paramilitaries to displace the traffickers. The reverse side of the coin, of course, is that since the mid-1990s, the FARC has sought to eliminate at least the small and medium traffickers from its territories.

The case of the paramilitaries and the traffickers is at first glance more supportive of the conventional view's arguments. The paramilitaries were hired by the traffickers to protect them from the guerrillas, and especially in the late 1990s and 2000s, many traffickers bought themselves positions of power and leadership among the paramilitaries to avoid extradition. However, even in this case -- when the paramilitaries and the traffickers cannot easily be distinguished -- the conglomerate grouping is far from uniform. Contrary to the predictions of the conventional view, internal infighting, violence, and competing interests among various groups are endemic.

Such was in fact also the state of relations among the major traffickers and cartels of the early era of the Colombian drug trade. Examination of the Medellín and Cali cartels in this chapter showed that the members of the cartels sought to eliminate each other and frequently fought each other. The Cali cartel, for example, hired the paramilitary group, PEPES, to kill Pablo Escobar and destroy the vestiges of the Medellín cartel. Far from there being a great crime alliance to battle the state, there was business as usual among the cartels and the traffickers: competition and violence.

The examination of the cartels also undermined another claim of the conventional view – namely, that when groups lose ideology, they lose legitimacy and support. The cartels never had any real ideology, even though their various members at times tried to wrap themselves in the mantle of a mixture of conservative and populist ideology. Nonetheless, through the distribution of a small portion of their drug rents to the poor segments of the population and their provision of a variety of social services, they did build up political capital. Thus, despite the fact, that Escobar was a brutal thug who had scores of people murdered, the local population from Medellín did not provide intelligence on him to law enforcement officials, and he was ultimately captured by intelligence provided by the Cali cartel. Similarly, although the FARC arguably lost most of its ideology and its remaining ideology no longer resonates with the population, and although it has become brutal and its political capital decreased, it still continues to maintain political capital in the drug regions.

The positive involvement of two other belligerent groups, the M-19 and the ELN, supported the arguments of my theory regarding the importance of the character of illicit economies in determining the scope and magnitude of belligerents' gains from the illicit

economy. The M-19 was involved in the illicit narcotics economy, but not in the labor-intensive cultivation aspects of the illicit economy. At first, the group became involved in extorting the traffickers through kidnapping their family members. Not only did this activity fail to generate any political capital for the group, it also failed to generate physical resources, and the group suffered large physical losses at the hands of the traffickers and their security forces, the MAS. Later, the M-19 switched to providing protection services to the traffickers, such as opposing extradition and destroying judicial evidence against the traffickers. Since the group operated in relatively wealthy Bogotá, its positive involvement in the labor-non-intensive aspects of the illicit economy not only failed to generate political capital for the group, but widely antagonized the urban audience from the group. The M-19 never managed to capture or build connections to the rural population.

The ELN, on the other hand, operated in the rural areas of Colombia where the state of the overall economy was poor. Even so, as predicted by my theory, its participation in a labor-non-intensive illicit economy – namely, the extortion of landowners and major companies, especially oil companies – failed to generate much political capital for the group. The ELN did obtain vast financial resources from its extortion business, at the rate of \$150 million a year, and did invest to some extent in the provision of social services. Nonetheless, it failed to build up substantial political capital since its involvement in kidnapping and extortion did not generate many employment opportunities for the rural population. Moreover, the group lost political capital by its negative involvement in the illicit narcotics economy. For religious reasons, the ELN either abstained from participating in the illicit narcotics economy until the late 1990s or

at various times and in various regions actively sought to suppress it. By the late 1990s, the group learned that if it wanted to remain at all competitive with the FARC and the paramilitaries, it had to embrace the illicit economy. It started to protect and tax the coca and poppy fields under its control, but by then the group was under substantial pressure from the paramilitaries, the state, and the FARC, and remains very weak today.

Finally, the case of Colombia also illuminates the role of government response to the illicit economy. Despite eradication being conducted for almost thirty years, with the last six featuring the most intensive aerial fumigation in history, the policy has failed so far to accomplish either of its two promised goals: Although the area under cultivation has decreased, there has not yet been a substantial decline in the supply of Colombian cocaine or heroin. Nor has eradication – even at the scale that it has been undertaken – managed to bankrupt the FARC or the demobilizing paramilitaries. Even these two groups, prototypical as they may be of the narcoguerrilla thesis, derive only 50% and 80% respectively of their finances from drugs. The rest of their income comes from other illicit economies, such as extortion, kidnapping, and smuggling of illicit goods. Even if eradication managed to completely eliminate the narcotics economy, the FARC would still retain at least half of its current income. Meanwhile, there is no indication that it is hurting financially. It has been under serious military pressure from the Colombia government, but the successes against it cannot be attributed to eradication. Despite eradication, the demobilizing paramilitaries, now deeply penetrated by drug traffickers, have managed to preserve, if not consolidate, their involvement in the narcotics economy. In short, even in the case of Colombia, in many respects the easiest test case for the conventional view to pass, the conventional view fails in all of its central arguments.

Meanwhile, as predicted by my theory, eradication has generated new political capital for the belligerents. Although the FARC has lost most of its legitimacy, it still remains strongest in the drug regions. The local population's cooperation with the government is minimal if not altogether non-existent. Information-provision by the population to the government continues to be poor, and the military is lacking intelligence on the FARC. Eradication has deeply antagonized the local population from the government.

The following chapter explores the relationship between a variety of belligerent groups and several illicit economies in the case of Afghanistan. Like the case of Colombia, the Afghan case contains both labor-intensive and labor-non-intensive illicit economies and both positive and negative involvement on the part of belligerents in these illicit economies. But it also contains a great variation of government responses to the illicit economy. Not only does the government response range from eradication to interdiction to tacit acquiescence, the case of Afghanistan is one of the few cases where a *de facto*, if not *de jure* legalization of illicit drug cultivation had taken place.

## CHAPTER SIX - Afghanistan

### I. Introduction

The alarming statistics on opium and heroin production in Afghanistan, which in 2006 climbed to a staggering 6,100 metric tons,<sup>1</sup> have captured the attention of the general public, policymakers, and academic experts on narcotics. That Afghanistan supplies more than 90 percent of the global illicit market for opiates and more than 95 percent of the European market are much quoted data points, as is the fact that profits from drugs constitute more than 50 percent of Afghanistan's legal GDP, and more than one third of the overall economy.<sup>2</sup> Getting worse year after year since 2001, the statistics continue to paint a bleak picture. Opium poppy cultivation has spread to all 32 provinces of the country and underlies much of its economic and political life. Afghanistan has become the poster "narco-state," vastly surpassing the previous poster "narco-state," Colombia, in the extent of the illicit economy. One of the poorest countries in the world, Afghanistan has been torn by wars and insurgencies of various intensity since 1979.

The case of Afghanistan well illustrates the effect of two amplifying factors – government response toward the illicit economy and character of the illicit economy – on the scope and size of belligerents' benefits from the illicit economy. The case contains

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<sup>1</sup> United Nations Office on Drugs and Crime, *Afghanistan Opium Survey 2006*, September 2006, <http://www.unodc.org/unodc/index.html>, downloaded September 16, 2006.

<sup>2</sup> The estimated overall profits from the opium economy were \$2.3 billion in 2003, while the overall 2002 GDP of Afghanistan was estimated at \$4.4 billion. United Nations Office on Drugs and Crime, *Afghanistan Opium Survey 2003* (Vienna/Kabul, 2003): 3; United Nations Office on Drugs and Crime, *World Drug Report* (Vienna: 2004): 12. In 2006, Afghanistan's GDP was estimated at \$6.7 billion. Given that already only the total farmgate value of opium is estimated at 11% of Afghanistan's GDP, the overall profits from drug production and trade in Afghanistan likely reach over 50% of the entire GDP this year. The calculation of the profits from processing and trade for 2006 were not yet available at the time of this writing. Estimating the size of an illicit economy is notoriously hard. In the case of Afghanistan where a major part of the legal economy is an informal economy, estimating the size of the GDP is equally problematic. Some studies thus put the percentage of the drug economy at 50 to 60 percent of the GDP.

both labor-intensive and labor non-intensive illicit economies, which generate approximately the same level of financial benefits to belligerents, but which are predicted by my theory to generate vastly different levels of political capital for their sponsors. The case also contains both positive and negative involvement of belligerents' in various illicit economies, providing a further test of my theory.

Responses by the governing body toward the illicit narcotics economy covered a spectrum from *de facto* legalization and tacit acquiescence to interdiction and eradication. The official policy toward drugs varied along several dimensions. First, in different regions, various ruling elites adopted different attitudes toward drugs. Second, over time, even in the same regions, such as those controlled by the Taliban, or during the post-Taliban occupation, official policy varied from stringent eradication to a *de facto* if not *de jure* legalization, thus providing a great test for the impact of various government policies on the different components of belligerents' strength.

Apart from being rich in a multiplicity of conflicts and illicit economies, the case of Afghanistan also contains a multiplicity of belligerent actors with dramatically different ideologies, goals, and beliefs. The case thus allows for an analysis of possible intervening variables, such as ideology and religion, on the ability of groups to derive benefits from the illicit economy.

This chapter analyzes the interaction between the drug and other illicit economies and military conflict in Afghanistan from the 19<sup>th</sup> century to the present. It explores the relationship between various forms of military conflict – from interstate warfare to insurgency and civil war – and two large and dominant illicit economies in Afghanistan: the illicit narcotics economy and illicit traffic with legal goods. Specifically, the chapter

examines the dynamics between the illicit narcotics economy and military conflict: 1) during the 19<sup>th</sup> century anti-colonial struggle by the Afghan emirs and Pashtun insurgency against British efforts to incorporate the Afghan territories into the British empire; 2) during the 1980s Afghan insurgency struggle against Soviet occupation; 3) during the 1990s civil war and the Taliban's effort to control the territory; 4) during the American invasion in 2001; and finally, 5) during the post-Taliban stabilization efforts and the Taliban insurgency against the Karzai government and its U.S. ally.<sup>3</sup> The illicit traffic with legal goods, and the way this illicit economy interacted with the Taliban effort to take over Afghanistan, is explored during the height of this illicit smuggling, the decade of the 1990s.

In each period, I also describe and analyze the condition of the illicit economy. I show how the illicit economy is structured, how it operates, and how it is evolving, both as a result of its internal processes and as a result of exogenous shocks, such as policy changes toward the illicit economy and changes in the intensity of military conflict. An accurate picture of the structure of the illicit economy is important for the understanding of how belligerents can and do exploit the illicit economy and what effects government policies have on the relationship between the belligerents and the population.

In each of the examined periods and conflicts, the theory of the political capital of illicit economies provides a better explanation of the dynamics of the illicit-economy-conflict nexus than the conventional view. The 19<sup>th</sup> century period of Afghan struggle against British domination reveals the awareness of both Afghan and British elites of the effect of the drug economy strengthening belligerency and of the costs of trying to

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<sup>3</sup> Although the Taliban insurgency is the dominant insurgency, Jallaluddin Haqqani and Gulbuddin Hekmatyar are also running two separate insurgencies that at times cooperate with the Taliban.

destroy the illicit economy. It also shows how British efforts to bankrupt the Pashtun belligerency by destroying the illicit economy failed to weaken the belligerents despite the policies' success in largely limiting the illicit economy in Afghanistan.

The examination of the anti-Soviet struggle of the 1980s shows how the spreading illicit narcotics economy crucially strengthened the mujahideen and how it did so in ways consistent with the political capital of illicit economies. Beyond providing them with financial profits, as emphasized by the conventional view, their positive involvement in the illicit economy facilitated their freedom of operation and increased their political capital, including in terms of intelligence gathering. The analysis of this period also reveals how the mujahideen progressively learned how to better and more fully exploit the illicit economy to increase their strength and how their exploitation of the illicit economy provided an example for others to emulate.

The section on the civil war of the 1990s, prior to the Taliban's takeover of the country, shows how and why the illicit narcotics economy continued to spread. Consistent with the political capital thesis, the exploitation of the illicit economy allowed former mujahideen commanders to obtain political legitimacy and support, displacing traditional elites and transforming them from being simply warriors into being also governing authorities.

The section on the Taliban strongly challenges the conventional view that illicit economies bring simply financial benefits to belligerents. It shows that the Taliban's eradication campaign of 1994, driven by its religious fanaticism, and then its reversal in 1995, took place within the context of the Taliban's profiting immensely from illicit smuggling with licit goods and hence without financial need to reverse eradication.

Consistent with my theory, the policy reversal was driven by large costs in terms of political capital that eradication generated for the Taliban. It did so at a time when the Taliban's control over the territory was still tenuous. Subsequently, the Taliban adopted a de facto legalization of the opium economy, its political capital greatly increased, and the movement was able to consolidate power. Finally, the section also addresses three key questions about the Taliban's 2000 eradication campaign: Why, given the previously encountered political costs, did the Taliban undertake such a dangerous policy? Did the 2000 eradication campaign generate new significant political costs for the movement? And, if so, how could the Taliban afford to undertake such a policy? The answers to these questions will once again show the greater explanatory power of the political capital of illicit economies theory than of the conventional view.

The final two sections focus on the relationship between military conflict and the illicit narcotics economy during the U.S. invasion of Afghanistan in 2001 and during the subsequent U.S. counterterrorism/ counterinsurgency and stabilization efforts. Although the policies are still being implemented and their effects are still evolving, this period already provides rich material for evaluating the validity of the two competing theories. It illuminates the effect of various counternarcotics policies on conflict limitation as well as on the suppression of the illicit economy. Within the five years since 2001, the U.S., U.K. and Afghan counternarcotics policies to the drug economy have ranged from tacit acquiescence to interdiction and eradication (both compensated and not) and the implementation of alternative livelihoods programs. The evidence reveals the clear awareness on the part of the counter-terrorism and counter-insurgency forces of the large costs of enforcing eradication in the context of an active military conflict. It also shows

how the subsequent adoption of eradication has failed to bankrupt the insurgents and renegade warlords while feeding the existing Taliban insurgency and increasing not only the political capital of warlords-cum-government officials, but, paradoxically, also their financial profits from the illicit economy.

The exploration of the drug-conflict dynamics in the case of Afghanistan is important not only as an academic debate and as a means to test the validity of the two competing theories. A correct understanding of these processes – and, currently, of the Taliban’s management of the illicit narcotics economy -- is necessary for devising appropriate counternarcotics and counterinsurgency policies. A distorted view of the dynamics and policies during the Taliban period and wrong lessons based on this distorted view have come to inform much of the current understanding, dooming the major policies to failure.

The following table summarizes for the Afghanistan case, the study’s key analytical variables – namely, the range of values of the amplifying factors and types of involvement on the part of the belligerent actors.

**DETERMINANTS OF STRENGTH OF BELLIGERENTS**

AMPLIFYING FACTORS		TYPE OF INVOLVEMENT		
		POSITIVE	NEGATIVE	NO INVOLVEMENT
STATE OF OVERALL ECON.	Poor	<i>Emirs of 19<sup>th</sup> century Mujahideen (e.g. Hekmatyar; Nsim until '90; &amp; others); Massoud – gems &amp; drugs from 1990; Taliban ('96-'99; '01-), warlords (e.g. Ali, Daoud until '04; &amp; others)</i>	<i>British colonial forces; Nassim ('90-'91); Taliban ('94-'95; '00-'01); Ali ('04-'05); Daoud ('04-)</i>	<i>Mujahideen (e.g. Massoud - drugs until 1990; &amp; others)</i>
	Rich			
CHARACTER OF ILLICIT ECON.	Labor Intensive	<i>Mujahideen (e.g. Hekmatyar; Nasim until '90; &amp; others); Massoud – gems and drugs from 1990; Taliban ('96-'99; '01-), warlords (e.g. Ali, Daoud until '04; &amp; others)</i>	<i>British colonial forces; Soviet occupation forces; Nassim ('90-'91); Taliban (drugs: '94-'95; '00-'01 &amp; logging)</i>	<i>Mujahideen (e.g. Massoud – until 1990; &amp; others)</i>
	Labor-Non-Intensive	<i>mujahideen, Taliban warlords – illicit smuggling w/ legal goods under ATTA; drug smuggling</i>		
PRESENCE OF TRAFFICKERS	Present	<i>mujahideen, Taliban ('96-'99; '01-), warlords</i>	<i>Soviet occupation forces Taliban ('94-'95; '00-'01)</i>	<i>Mujahideen (e.g. Massoud - drugs until 1990; &amp; others)</i>
	Absent	<i>Nasim, warlords</i>	<i>Nassim ('90-'91)</i>	
GOVERNMENT RESPONSE TO ILLICIT ECON.	Eradication	<i>Taliban ('01-), warlords</i>	<i>Ali ('04-'05) Daoud ('04-)</i>	
	Interdiction	<i>Emirs of 19<sup>th</sup> &amp; early 20<sup>th</sup> century; Warlords, Taliban ('01-)</i>	<i>British colonial forces (19<sup>th</sup> &amp; early 20<sup>th</sup> century)</i>	
	Tacit Acquiescence	<i>Mujahideen (e.g. Hekmatyar; Nasim until '90; &amp; others); Massoud – gems; warlords (e.g. Ali, Daoud until '04; &amp; others)</i>	<i>Nassim ('90-'91) Taliban ('94-'95)</i>	<i>Mujahideen (e.g. Massoud – until 1990; &amp; others)</i>
	Licensing/ Legalization	<i>Taliban ('96-'99)</i>		

The rest of the chapter proceeds as follows: I first analyze each of the periods discussed above in chronological order. In presenting the empirical work, I evaluate the validity of the two competing theories in each section. Finally, after analyzing the five periods, I present a summary evidence section and discuss the cumulative implications of the evidence for supporting and disconfirming the two theories.

## **II. Colonialism and Drugs: *Testing the Effectiveness of Counternarcotics Suppression Policies in Bankrupting Belligerents***

Counterinsurgency and counternarcotics operations intersected in Afghanistan for the first time in the late 19<sup>th</sup> century, during the era of British colonialism. The British colonial forces adopted a counterinsurgency policy analogous to the French counterinsurgency approach and a counternarcotics policy based on interdiction in order to deprive the Pashtun rebels of material resources. The counternarcotics interdiction policy was very effective in limiting the extent of cultivation. This episode thus represents an ideal case for the conventional view since not only is a suppression policy toward the narcotics economy adopted, it succeeds in greatly diminishing production. The conventional view thus predicts that belligerents will go bankrupt and be defeated. Even in the context of a poor country with few alternative means of financing and a severely-degraded labor-intensive illicit economy, the theory of political capital still predicts that belligerents will find alternative sources of financing and will not be seriously weakened as a result of counternarcotics policies.

Seeking to protect India from the threat of Russian invasion, Great Britain invaded Afghanistan in 1838 and 1878. Each time it suffered a humiliating defeat, unable

to overcome the combination of rugged terrain, a population of well-armed “martial tribes,” and a deep Islamic faith that encouraged jihad.<sup>4</sup> After a particularly disastrous defeat during the Second Afghan War (1878-80), Britain decided to negotiate with the ruling emir of Afghanistan to fix boundaries. The resulting shape of Afghanistan was determined by a compromise among the major powers, creating a buffer state with frontiers drawn to please British India, Russia, and Iran. Inevitably, the resulting borders ignored the existing tribal distribution of the population, leaving large portions of Afghanistan’s leading ethnic groups on the wrong side of the borders.

Despite the new territorial division, the northwestern borders of the British lands continued to be unstable, and Britain exercised only a limited control over the border territories. Unable to defeat the Pashtun warriors who were crossing between Afghanistan and today’s Pakistan, the Britain adopted a punitive policy known as “butcher and bolt” - that is, march into the offending village, butcher the available civilians, and bolt out of there before the tribe’s warriors could retaliate.<sup>5</sup>

Britain also adopted a counternarcotics policy that was meant to limit the potential strength of the marauding Pashtun tribes. Instead of encouraging the production of opium for revenue, as it did elsewhere in British India, Britain worked toward the gradual abolition of opium cultivation in the Pashtun regions to deprive the Pashtun belligerents of resources. Even then opium was a highly lucrative commodity. Since the production was still minimal – for example, in 1870 only 1,130 acres of poppy were cultivated in the North-West Territories along the border with Afghanistan -- there was little resistance

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<sup>4</sup> Ikramul Haq, “Pak-Afghan Drug Trade in Historical Perspective,” *Asian Survey*, 36 (10), October 1996: 946.

<sup>5</sup> C. Colin Davis, *The Problem of the North-west Frontier, 1890-1908* (London: Curzon Press, 1932): 26-8.

from the tribes.<sup>6</sup> Through a policy of gradual interdiction, the British reduced poppy cultivation in the region until in 1901 “it had entirely ceased.”<sup>7</sup>

Britain never managed to completely eliminate the opium production in neighboring Afghanistan, but through its interdiction policy, which prevented the Afghan opium from reaching the Chinese and other markets, it nonetheless managed to keep Afghanistan’s production small. Some cultivation of opium in Afghanistan went on since the ruling emir in Afghanistan did not restrict opium production in order to preserve his independence and power base. A reformist, Emir Abdurrahman had a nonideological, purely pragmatic conception of modernization: “to rationalize the institutions of the state to make them more efficient, without thereby affecting traditional society.”<sup>8</sup> Thus, although the state interfered heavily in the overall economy and other aspects of agricultural production, the emir did not attempt to suppress the drug economy. Sensitivity to political costs, especially in the context of the British external threat, crucially contributed to the emir’s decision not to interfere with the opium economy. Even so at the turn of the century, Afghanistan’s opium production remained fairly limited. In 1908, opium was being produced in four districts in Afghanistan: Herat, Kabul, Kandahar, and Jalabad (from which it was being imported to the north-west provinces of toady’s Pakistan), but “not to any great extent.”<sup>9</sup>

However, even this successful source-country counternarcotics policy did not solve Britain’s insurgency problems in the region. The rebellious frontier tribes found

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<sup>6</sup> *Report on the Administration of the Punjab and Its Dependencies for the Year 1870-1871* (Lahore: Government Civil Secretariat Press, 1871): cxxxiii.

<sup>7</sup> *Imperial Gazetteer of India: Provincial Series, North-West Frontier Province* (Calcutta: Superintendent of Government Printing, 1908): 25, 65-6.

<sup>8</sup> Olivier Roy, *Islam and Resistance in Afghanistan* (Cambridge: Cambridge University Press, 1990): 15.

<sup>9</sup> *Imperial Gazetteer of India*: 30.

other sources of financing and avoided dependency on the opium economy. Far from bankrupting and severely weakening the belligerents through its counternarcotics suppression policies, Britain finally adopted a policy of conciliation and arms interdiction. Through naval patrols in the Persian Gulf, Britain tried to control the arms supply to rebellious Pashtun tribes while it allowed loyal tribes to trade in arms without restraint. Britain also paid tribal warriors for patrolling caravan routes through the Khyber Pass, formed them into local militias, such as the Khyber Rifles and the Tochi Scouts, and by 1915 had recruited some 7,500 Pashtun into the regular Indian army. In effect, Britain adopted a policy of cooptation toward the martial Pashtun tribes.

In sum, Britain was clearly aware that the belligerents' positive involvement in the opium economy would increase their strength and hence attempted to suppress the opium economy. But although through interdiction Britain did manage to keep opium production in the region limited, it did not succeed in bankrupting and severely weakening the Pashtun belligerents. The Pashtun marauders found other sources of financing and carried on with their insurgency and raids. The prediction of the conventional view thus failed to materialize. Moreover, local Afghan elites were sensitive to the costs of destroying the drug economy. The behaviors of both ruling elites and the effects of counternarcotics policies on the strength of belligerents are thus consistent with the theory of political capital of illicit economies and contradict the conventional view.

### **III. The Rise of Opium and Heroin Production in Afghanistan in the 20<sup>th</sup> Century**

Despite the early liberal drug policies of Afghanistan rulers, opium production did not increase in Afghanistan until 1950s. Major structural changes in the international

opium and heroin supply market drove the initial expansion of drug production and trade in Afghanistan. The first structural change allowing for the shift of production to Afghanistan was the change in Iran's policies toward drugs. Although opium had been cultivated in Iran since the eleventh century, its usage became a major problem in the 1950s when the country had an estimated one million addicts. This rapid increase in addiction led the Shah's government to ban poppy cultivation in 1955. As Iranian supplies of opium disappeared, entrepreneurial Afghans stepped in, exploiting traditional smuggling routes.<sup>10</sup> Despite the reversal of the Iranian policy in 1969 that allowed limited cultivation, Afghan opium production continued to grow in the early 1970s, with Iran as the major market. Afghanistan's experience with modern global drug commerce commenced in the 1970s, when large number of Westerners arrived in the country to "drop out and turn on" inexpensively. Before the 1973 coup in Afghanistan, it was estimated that some 5,000 to 6,000 hippies lived in Kabul.<sup>11</sup>

Yet it was the tremendous increase in external demand that drove Afghanistan's integration into the big league of producers and traffickers of illicit narcotics. Until the 1980s, the two major international markets for opiates, North America and Western Europe, were supplied by the Golden Triangle countries of Southeast Asia. The situation changed in mid-1970s when the governments of Vietnam and Laos fell, thus disrupting the link between the Golden Triangle supply of Burma, Thailand, and Laos and the Western demand countries. Moreover, a prolonged drought in the late 1970s and early 1980s also reduced the ability of the Golden Triangle to supply the world heroin demand.

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<sup>10</sup> Scott B. MacDonald, "Afghanistan," in Scott B. MacDonald and Bruce Zagaris, eds., *International Handbook on Drug Control* (Westport: Greenwood Press, 1992): 317.

<sup>11</sup> Linette Albert, "Afghanistan: A Perspective," in Louis Dupree and Linette Albert, eds. *Afghanistan in the 1970s* (New York: Praeger, 1974): 257. Cultivation was illegal during the 1970s, but the prohibition was scarcely enforced.

The disruption of the traditional supply thus created an opportunity for the Golden Crescent countries, mainly Pakistan and Afghanistan. Moreover, the Iranian market for Afghan opium was also disrupted by the fall of the Shah and the Islamic revolution in 1979. The Iranian market for Afghan opium shrunk at roughly the same time that the traditional smuggling routes to Iran were blocked by Soviet forces occupying Afghanistan.

The nature of the Soviet occupation, moreover, significantly contributed to the explosion of poppy cultivation in Afghanistan. The Soviet occupation forces in Afghanistan adopted a policy of starving the mujahideen by applying a scorched earth policy and destroying food crops. This policy of systematic agricultural destruction was located within a larger policy of “depopulation through firepower” and the desire to weaken the infrastructure support of the mujahideen through indiscriminate village destruction. The Soviet destruction of cultivable land was compounded by the resisting mujahideens’ own policies: opposing factions would mine each other’s aqueducts, and further destroy irrigation systems. Cultivation of crops demanding more than a minimum amount of water became infeasible. As Afghan agronomist Mohammad Qasim Yusufi observed in 1988, “[b]ecause of war conditions, agricultural production factors such as labour force, fertilizers, irrigation water, improved seed varieties, agricultural machinery, proper farming and management, maintenance of land have been greatly disrupted on the one hand, and the government pays very little or no attention to the agricultural sector of the country on the other hand.”<sup>12</sup> By 1987, the agricultural output was only a third of what it had been in 1978 (not much to start with). Large segments of the population were

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<sup>12</sup> Mohammad Qasim Yusufi, “Effects of the War on Agriculture,” in Bo Huld and Erland Jansson, eds. *The Tragedy of Afghanistan: The Social, Cultural and Political Impact of the Soviet Invasion* (London: Croom Helm, 1988): 212.

thus left with no option but to turn to the cultivation of poppy (which could grow in the poorest agricultural conditions) and the production of opium for livelihood.<sup>13</sup> Suddenly, not only was there an opportunity to penetrate the international heroin and opium market, but such an agricultural switch became a matter of survival.

#### **IV. The Mujahideen of the 1980s and Drugs: *Testing the Effect of Belligerents'***

##### ***Positive Involvement in the Illicit Narcotics Economy***

This period is one where various mujahideen commanders gradually become positively involved in the illicit opium economy. The state of the overall economy is poor; the character of the illicit economies – both opium poppy cultivation and mining for gems with Afghan technology – are labor-intensive; traffickers are present; and government response to the illicit economy is a mixture of tacit acquiescence and eradication. The reasons for this “mixed government” policy were the collapse of Afghan government authority across the country and the policy of Soviet occupation forces. As Afghan government authority had collapsed, the mujahideen commanders became the governing authority in their territories. As they did not try to eradicate the spreading poppy cultivation, a policy of local tacit acquiescence emerged. At the same time, the Soviet occupation forces practiced a policy of “eradicating” the entire agricultural production, although they did not specifically target poppy cultivation.<sup>14</sup>

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<sup>13</sup> J. Bruce Amstutz, *Afghanistan: The First Five Years of Soviet Occupation* (Washington, DC: National Defense University, 1986): 133; and David Isby, *Russia's War in Afghanistan* (London: Osprey, 1986): 8.

<sup>14</sup> The interaction of the Soviet military with the illicit narcotics economy, however, was more complex than eradication through the scorched earth policy and interdiction through the control of roads that were used for traffic. As the war dragged on, heroin addiction rates among Soviet soldiers grew progressively high. By the mid-1980s, the addiction problem became so acute that the Soviet high command had to limit the service of some units and personnel in Afghanistan to nine months. But even this rapid turnover policy did not stop addiction rates from spreading. For details, see, for example, John Cooley, *Unholy Wars*:

Given this combination of structural and policy factors, the conventional view predicts that the mujahideen positively involved in the drug trade will derive financial profits, but the level of those profits will be limited by the Soviet policy of agricultural -- hence also poppy -- destruction. The theory of political capital of illicit economies, on the other hand, predicts that belligerents will derive not only financial profits, but also freedom of action and political capital.

Throughout the 1980s, the Afghan military resistance to the Soviet invasion in 1979 remained hopelessly divided and politically disorganized. Unable to overcome ethnic rifts, the various resistance groups engaged in constant bickering and even in vicious infighting. Even though the Peshawar political parties described below did finally form a political alliance against the Soviets in 1985 and consequently began to jell into a more cohesive military force and their combat operations improved, the mujahideen remained essentially disunited until the Soviet withdrawal in 1989.

Seven Sunni and four Shia parties formed the basis of the military resistance along ethnic and tribal lines. Burhanuddin Rabbani's Jamiat-i-Islami (Islamic Society) and Gulbuddin Hekmatyar's Hezb-i-Islami (Islamic Party) became the largest of the resistance organizations. Hezb-i-Islamic was 75 percent Pashtun, primarily from the Ghilzai and smaller tribes (Hekmatyar himself is a Kharruti Pashtun). Its strongest bases of support were in northeastern Afghanistan and among the refugee population in Pakistan.<sup>15</sup> Until the emergence of the Taliban in 1994, Hekmatyar received the largest share of aid from Pakistan and the CIA. Jamiat became the main resistance organization

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*Afghanistan, America, and International Terrorism* (London: Pluto Press, 2002): 109. Moreover, the Soviet army personnel began trafficking Afghan opiates into Russia.

<sup>15</sup> For a detailed description of the resistance groups, see Barnett Rubin, *Fragmentation of Afghanistan* (New Haven: Yale University Press, 1995): 215-6.

for the northern minority groups, dominated by Tajiks (Rabbani was a Badakhshani Tajik), but also including Uzbeks and some Pashtuns. Much less ideologically rigid than Hekmatyar's Hezb, Jamiat allowed its regional commanders much greater autonomy, and several of them, namely Ahmed Shah Massoud – the Lion of Panjshir – and Ismail Khan of Herat rose to prominence.

In 1979, Maulavi Yunus Khalis left Hekmatyar's Hezb-i-Islami, and with affiliated leaders such as Pashtun tribal leader Maulavi Jallaluddin Haqqani and the Arsala brothers, created his own Hezb-i-Islami. Khalis's small, but militarily effective party, was composed overwhelmingly of Ghilzai and other eastern Pashtun tribesmen. The last major fundamentalist party, Ittehad-I-Silami Bara-yi Azadi Afghanistan (Islamic Union for the Freedom of Afghanistan) was formed by Abdur Rasoul Sayyaf with the help of Pakistan's Inter-Services Intelligence Directorate (ISI) in early 1980. A Kharruti Pashtun, Sayyaf had strong ties to the Arab sponsors of the mujahideen, but only to a few Afghan fighters or commanders.

Three traditional political parties also appeared as separate groups of resistance by 1980. Professor Sibghatullah Mojaddidi's Jeba-i-Milli Nejat (National Liberation Front) was the weakest of these parties, drawing support from pockets of Pashtun tribes, mainly Durrani Pashtuns in Kandahar. Pir Sayed Ahmed Gailani's Mahaz-i-Milli Islami-yi Afghanistan (National Islamic Front of Afghanistan) was based on Gailani's family ties and his Qadiriyya Sufi followers. The largest of three traditional parties was the Hakarat-i Inqilab-i Islami (Movement of the Islamic Revolution). Based strongly on "inward-

looking, traditionalist, provincial ulama,” this party was by all accounts the strongest of the armed opposition groups early in the war.<sup>16</sup>

In addition to the Sunni parties based in Pakistan, a number of smaller, Shia’ parties, based primarily in the West and supported by Iran, emerged. Headed by Hazara religious leader, Sheikh Sayed Ali Beheshti, the Shura-i-Inqilab-i Ittefaq-i Afghanistan (the Revolutionary Council of the Islamic Front of Afghanistan) controlled the Hazarajat region between 1979 and 1982, and due to the rugged topography remained largely isolated from the war against the Soviets. The other three Shia parties were: Sheikh Asif Mohseni’s Harakat-i Islami (Islamic Movement), drawing support from both the Hazara and the Qizilibash populations; Sazman-i Nasr-i Islam-yi Afghanistan (Islamic Victory of Organization of Afghanistan), a strongly Khomeinist Hazara group; and Pazdaran-i Jihad-i Islami (Protectors of the Islamic Holy War), another Khomeinist Hazara group.

The rugged terrain of Afghanistan was ideal for the resistance. High mountains and barren deserts limited opportunities for conventional military encounters. Only certain routes through the mountains were possible, creating an ideal setting for ambushes, sniping, and hit-and-run tactics, all favoring the insurgents. Early on, a tactical pattern emerged. The mujahideen mounted attacks from the mountains; the Soviets responded with combined offensives up the valleys to relieve pressure on the cities and the major roads. Nonetheless, few of the combat mujahideen were adept at anything other than these limited guerrilla tactics, and all were poorly armed and trained.

Perhaps surprisingly, given the conditions in the country and the state of the resistance, only four major resistance leaders -- Gulbuddin Hekmatyar, Mullah Nassim

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<sup>16</sup> Ibid.: 212. See also Roy Olivier, *Islam and Resistance in Afghanistan* (Cambridge: Cambridge University Press, 1990).

Akhundaza, Pir Sayad Ahmed Gaylani, and Ismat Muslim -- systematically exploited the drug production for military purposes from early on. As the mujahideen captured the prime agricultural areas of Afghanistan's south, they encouraged the local population to grow poppy, doubling the country's opium harvest to 575 tons between 1982 and 1983.<sup>17</sup> The mujahideen then transported the opium across the border to Pakistan where they sold it to Pakistan heroin refiners operating under the protection of General Fazle Haq, governor of the North West Frontier province. By 1988, there were an estimated 100 to 200 heroin refineries in the province's Khyber district alone.<sup>18</sup>

With the drug profits, Hekmatyar was able to maintain a hierarchically organized party and conventional army. In the summer of 1988, expecting that the Soviet withdrawal would lead to the decrease of foreign support, he instructed his men to search for precious stones and to cultivate poppy.<sup>19</sup> After the Soviet withdrawal, Hekmatyar also used the income from drugs to make a transition from guerrilla warfare to building up a more conventional army.

In the Helmand Valley, Mullah Nasim Akhundaza emerged as a major sponsor of the opium economy and as one of Afghanistan's main traffickers. Nasim set production quotas, decreeing in 1989, for example, that 50 percent of the land be sowed with poppy and providing cash advances to peasants on poppy cultivation and opium production. Any landlord who failed to fulfill the production quotas had to pay the difference, a policy that drove many into debt. Those who did not comply with these provisions were subject to harsh penalties, and reportedly including torture and execution. Mullah Nasim

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<sup>17</sup> United States Department of State, Bureau of International Narcotics Matters, *International Narcotics Control Strategy Report* (Washington, DC: Department of State, 1984): 4.

<sup>18</sup> McCoy: 478.

<sup>19</sup> Barnett Rubin, *The Search for Peace in Afghanistan* (New Haven: Yale University Press, 1995): 118.

also sought to control as much of the trafficking component of the trade as possible, including by maintaining an office in Zahidan, Iran to handle the trade once it left Afghanistan.<sup>20</sup> Nasim thus effectively cut out the traffickers from the production business in the areas under his control, regulating the farmers' economy very directly and heavily-handedly. "We must grow and sell opium to fight our holy war against the Russian nonbelievers," explained Nasim's elder brother, Mohammed Rasul.<sup>21</sup>

Sayad Ahmed Gaylani was another major mujahideen warlord who effectively used the illicit economy to strengthen his resistance group. Called "Effendi Juan," Gaylani was high on the Russian suspect list in drug operations. The Soviet intelligence report on Gaylani's National Islamic Front of Afghanistan found that it "had significant financial resources. Besides the aid from various foundations in the USA, Western Europe and Arab countries, it makes profits on selling drugs and exacting taxes from the population."<sup>22</sup>

Finally, Ismat Muslim also took early advantage of the drug economy to build up his power base. Engaged in smuggling since his days of training in the USSR, Ismat Muslim was conducting military and smuggling operations, including heroin trade, between Kandahar and Quetta as early as 1979. Following a dispute with the ISI in 1984 over his smuggling activities and his refusal to join one of the Peshawar parties that the ISI insisted were to be the sole beneficiaries of Pakistani aid, Ismat Muslim defected to

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<sup>20</sup> Rubin (1995a): 263.

<sup>21</sup> Alfred W. McCoy, *The Politics of Heroin: CIA Complicity in the Global Drug Trade* Revised Edition, (New York: Lawrence Hill Books, 2003): 484-85.

<sup>22</sup> Lt. Col. Yury Shvedov and team, *War in Afghanistan*, trans. by Natalie Kovalenko (Moscow: Ministry of Defense, Institute of Military History, 1991): 131-2.

the regime. His principal role for the regime was to control transit points and roads between Pakistan's Baluchistan and Kandahar.<sup>23</sup>

The positive involvement of the mujahideen in the illicit economy brought the expected improvements in procurement and logistics, predicted by both theories. For example, the mujahideen went from carrying single-shot rifles to automatic weapons and light artillery.<sup>24</sup> Moreover, prior to fully tapping into the drug trade and in areas where the mujahideen forces did not have a ready access to the drug trade, the mujahideen had to rely on costly and time-consuming ambushes for weapons, ammunition, food, clothing, and other military supplies. Such ambushes had to be conducted by large forces who had to maintain their position for up to an hour.<sup>25</sup> Amassing a large number of fighters for a prolonged period, however, critically exposed the mujahideen to detection and possible destruction by the Soviets.

Nonetheless, prior to solving the logistics and procurement problems by tapping into the drug trade and prior to massive influxes of U.S. military aid to the mujahideen, these highly risky ambushes for spoils were essential for maintaining the fighters in the field. Mujahideen were unpaid volunteers, with responsibilities for supporting their families. In the absence of such ambushes, they could neither gather enough weapons, especially heavy weapons, to fight, nor could they feed their families. In fact, it was a standard practice to sell some of the captured weapons in Pakistan and then give the money to the mujahideen's families to live on.<sup>26</sup>

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<sup>23</sup> For details, see Rubin (1995a): 159.

<sup>24</sup> MacDonald: 319.

<sup>25</sup> Ali Ahmad Jalali and Lester W. Grau, *Afghan Guerrilla Warfare: In the Words of the Mujahideen Fighters* (St. Paul: MBI Publishing Company, 2001): 65-6.

<sup>26</sup> Ibid.

Furthermore, the mujahideen had to mass captured weapons and those supplied from Pakistan in large supply depots. Such depots, however, were a prime target for Soviet forces. In contested areas, the mujahideen tried to move the depots around to avoid capture. But the major supply depots, especially those that held heavy weapons of critical defense against tanks, airpower, and artillery, were stationary and vulnerable.<sup>27</sup> A classic dictum of guerrilla warfare is mobility: not to have to hold ground and to be able to retreat. But logistics demands nonetheless forced the mujahideen who had not become positively involved in the drug trade to hold ground.

On the other hand, the mujahideen who were positively-involved in the drug traffic were able to establish some form of local administration in areas over which they held sway, and their freedom of action increased. These local administrations were responsible for logistics, local security, crop cultivation, and the provision of other social services.<sup>28</sup> Especially poppy cultivation was deemed to be important since it brought subsistence to the population overall as well as generated monetary profits for financing the war effort. Poppies were planted, irrigated, pruned, and harvested, not only by the peasants and criminal organizations, but also by the mujahideen groups themselves. With the opium profits, the mujahideen could buy weapons from various arm-smuggling groups, and they were not constrained to the same extent by the need to conduct ambushes for weapons acquisition and protect weapons depots. As predicted by the theory of political capital of illicit economies, the belligerents' positive involvement in the illicit economy brought improvements in freedom of action.

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<sup>27</sup> Ibid.

<sup>28</sup> MacDonald: 319.

In some areas, the poppy profits allowed commanders to become powerful warlords, increasingly independent of external sponsors.<sup>29</sup> In fact, control over the drug economy became an important source of legitimacy for the mujahideen commanders, who by the late 1980 emerged as a new elite and claimed power in their areas of control. Traditionally, the source of legitimacy in Afghanistan was their ability to provide security and distribute goods to their communities. In order to achieve and maintain this position of leadership, the *khan* “must provide food for others, arbitrate in their disputes and be unflinching in his defense of the *qawm* [communal group].”<sup>30</sup>

Positive involvement in the illicit drug trade allowed the mujahideen commanders to deliver such distributable goods to their communities. As Olivier Roy argues, the “new notables” established their power as redistributors: “The new notable creates a network of clients, strengthened by matrimonial bonds, thanks to the goods he is able to distribute. These goods do not come from extorting peasants, but from international sources. ...[M]ore recently, profits [come] from marketing weapons and drugs (opium).”<sup>31</sup> Meanwhile, as the traditional (non-poppy) agricultural production and overall economic activity was destroyed, the traditional elites had nothing to distribute, and their power was undermined. Positive involvement in the illicit economy thus bestowed legitimacy on the mujahideen commanders. Although all mujahideen fighting the Soviets had some nationalist legitimacy with the local population, those who embraced the illicit economy and used it to distribute goods and provide administration, acquired much greater legitimacy and achieved positions of leadership and power. The mujahideen leaders thus progressively learned how to exploit the drug economy to build up institutions of

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<sup>29</sup> Rubin (1995b): 117.

<sup>30</sup> Roy (1990): 23.

<sup>31</sup> Oliver Roy, *Afghanistan: From Holy War to Civil War* (Princeton: Darwin Press, 1995): 107.

resistance and an independent power base. In short, positive involvement in the illicit economy brought not only financial rewards and freedom of action to the mujahideen commanders, but also political capital.

Mullah Nasim Akhundaza, for example, used the multiple benefits from the drug trade to establish a firm and stable control over the Helmand Valley. In an interview in 1987, he claimed to have established hospitals, clinics, and forty madrasas.<sup>32</sup> His power became so extensive that in 1988 he was singled out by the Communist President of Afghanistan Najibullah in Najibullah's appeal to seven major commanders as the only Sunni traditionalist.<sup>33</sup>

Typically, the mujahideen commanders used the profits from drugs more for personal enrichment than for systematically building political power, as Hekmatyar did. Only Ahmed Massoud, a latecomer to the drug trade in 1980s, used the profits from drugs to develop an integrated political-military-financial system and to build the only truly modern Islamist politico-military organization in Afghanistan.<sup>34</sup> At first, Massoud had ignored the poppy cultivation because he considered it anti-Islamic. However then, while not actively participating in the drug economy and disapproving of it, Massoud nonetheless did not engage in eradication because the political repercussions were too large.

Despite the assured nationalist legitimacy of the mujahideen and the population's resentment against the occupying forces, negative involvement in the illicit economy on

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<sup>32</sup> Quoted in Rubin (1995a): 245.

<sup>33</sup> Nasim Akhundaza was assassinated in Peshawar in 1990. Before his death, Akhundaza greatly curbed the opium production in Helmand as a part of a deal with U.S. Ambassador to Pakistan, Robert Oakley. The State Department later revoked the deal, citing U.S. laws against negotiating with drug traffickers, and Akhundaza's brother who took over Helmand again supported drug production.

<sup>34</sup> For details, Rubin (1995a): 243-5.

the part of the mujahideen would have been very costly for them and would have compromised intelligence gathering. The mujahideen relied on local inhabitants to provide adequate warning about advancing Soviet forces to such an extent that they often failed to post their own security guards. In areas where the population had fled or were tired of the war, the mujahideen were had essentially no intelligence on Soviet movements.<sup>35</sup> Where the drug economy was not present, the rural population was unable to obtain basic subsistence and had leave: either for cities or for Pakistan. Thus, if the mujahideen had tried to eradicate the poppy fields, they would have further compounded the intelligence gathering problem by effectively pushing out the local population. On the other hand, the belligerents' positive involvement in or noninvolvement in the drug economy allowed the population to stay in the regions and facilitated intelligence-gathering. In short, as predicted by the theory of political capital of illicit economies, positive involvement in the illicit economy thus generated not only financial and weapons gains, but also freedom of action, and, crucially, political capital, including intelligence provision.

### *Explaining the Non-involvement of Some Mujahideen Commanders*

Given the widespread benefits and the relative increase in power that positive involvement with the illicit narcotics economy brought to some commanders, a question arises of why only so few of the mujahideen resistance groups exploited the drug economy in the early 1980s and why it took a number of years for the other mujahideen to become positively involved in the drug economy. Several factors account for this situation. The first reason, as described in the section on Afghanistan's integration into

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<sup>35</sup> Jalali and Grau: 225.

the global illicit narcotics market, is that it was only in mid-1980s that Afghanistan started playing a really prominent role in the global drug trade. For several years, some resistance groups could not exploit the illicit production and trade because of the illicit narcotics economy limited size. As the economy grew, many more could participate and eventually did. Moreover, during most of the 1980s, drug production centered predominantly in the southern part of Afghanistan, mainly the Helmand region, thus making it difficult for non-Southerners to access the illicit economy.

The second reason is that the belligerent group's interaction with the illicit economy followed a learning curve. Although the narcotics economy grew in Afghanistan, many of the mujahideen leaders were simply not accustomed to exploiting it, and, in fact, condemned on religious grounds as anti-Islamic. It took the groups several years to learn how to effectively exploit the illicit narcotics economy. But by 1989 and from then onward, many more mujahideen commanders shed their religious inhibitions, obtained the knowledge necessary to exploit the illicit economy, and, in fact, seized the opportunity to become positively involved in it. In doing so, they provided others with an example to emulate. A *modus operandi* contagion effect clearly took place.

This learning curve in the late 1980s was also facilitated by the deterrent effect of the Stinger missiles provided to the mujahideen by the United States and by the softening of Soviet counterinsurgency policy. As improved air defense allowed the mujahideen to prevent the further destruction of the agricultural fields and as the Soviet motivation to further degrade the countryside weakened, agricultural production again picked up, but centered mainly on opium poppy cultivation. By then, the mujahideen participated in the illicit economy at full speed. In 1989, a Russian report attributed to the big “[s]even

major mujahideen groups an annual production of opium ... of over 800 tons, or more than twice the annual national production of Pakistan and Iran combined.”<sup>36</sup> Whether or not the Russian data are exaggerated, there is no doubt that the various mujahideen groups became progressively enmeshed in Afghanistan’s drug economy as they learned how to exploit it for their purposes.

Moreover, not only did Hekmatyar, Gaylani, Nasim, and Muslim provide a successful modus operandi for others to emulate, the learning of curve of how to exploit the drug economy also took place *within* the various groups. Hekmatyar, for example, initially only taxed the cultivation of poppy. However, by the end of the 1980s, unlike other commanders who were satisfied to sell raw opium at bazaars in Afghanistan and Baluchistan, Hekmatyar, in partnership with Pakistani heroin syndicates, invested in building processing plants.<sup>37</sup> By the late 1980s, he controlled at least six heroin refineries at Koh-I-Soltan that processed opium from the Helmand province.<sup>38</sup>

The third factor explaining the initially limited involvement of the mujahideen in the 1980s with the drug economy was the supply of foreign aid. United States, Pakistan, Saudi Arabia, and Iran all provided aid money and weapons to the mujahideen. U.S. aid, which via Pakistan’s ISI went only to Islamist commanders and predominantly to Ghilzai Pashtuns, combined with Saudi aid, amounted to an estimated \$6 billion in guns and money during the 1980s. From 1987, when Washington stepped up its covert aid program, annual shipments of arms amounted to 65,000 tons.<sup>39</sup> The arms included mainly assault weapons, machine guns, 82-mm mortars, SAM-7 missiles, and finally after 1985,

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<sup>36</sup> Shvedov: 139-40.

<sup>37</sup> Rubin (1995a): 199.

<sup>38</sup> Ibid.: 183.

<sup>39</sup> Michael Griffin, *Reaping the Whirlwind* (London: Pluto Press, 2001): 147.

Stinger missiles that ultimately ended Soviet air superiority. The Soviets supplied the Communist government's national army with jets, helicopters, gunships, tanks, and rocket launchers.<sup>40</sup> As the level of foreign aid picked up, some mujahideen did not feel an acute need to search for alternative sources of funding and procurement and ignored the opium economy. But the anticipation of a drying up of foreign aid in the late 1980s led Hekmatyar to greatly increase his group's participation in the illicit economy and motivated other mujahideen leaders to follow suit.

The fourth factor accounting for the gradual learning on the part of the mujahideen about how to take advantage of the narcotics economy was the availability of other lucrative commodities. In the northern areas controlled by Massoud's Supervisory Council of the North, mining of precious gems brought substantial resources as well as employed large segments of the population. Once agricultural production picked up in the late 1980s, the Council also taxed various agricultural products, and eventually this taxation included the collection of rents from opium poppy growing.

Finally, what many of the other mujahideen groups lacked compared to Hekmatyar were the very close relations to the Pashtun refugee community in Pakistan and Pakistan's ISI. Although all of the mujahideen had contacts and support groups in Pakistan, Hekmatyar's connections across the border were especially tight. The brutal nature of the Soviet occupation forced large numbers of Afghans to flee to Pakistan. As argued by Edward R. Girardet, "the refugees have infiltrated two vital areas of the economy in the frontier region – the arms business and the profligate smuggling of consumer goods and opium."<sup>41</sup> Trucks from the Pakistan's army National Logistics Cell

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<sup>40</sup> Ibid.

<sup>41</sup> Edward R. Girardet, *Afghanistan: The Soviet War* (New York: St. Martin's Press, 1985): 207.

(NLC), arriving with CIA arms from Karachi, frequently returned loaded with heroin, protected from police search by ISI papers.<sup>42</sup> Hekmatyar was the ISI's favorite recipient of aid. Whether or not the ISI (and as some analysts argue, the CIA itself)<sup>43</sup> actively encouraged the mujahideen, and Hekmatyar specifically, to exploit the illicit economy to shore up their resistance, it is clear that Hekmatyar learned how to exploit the arms smuggling channels from Pakistan also for the smuggling of heroin.

In sum, not only did drug production in Afghanistan during the 1980s increase dramatically and become progressively well-integrated into the global trade in opiates, but the various mujahideen groups also progressively learned how to exploit the illicit economy to improve their resistance. After the Soviet withdrawal, they also used the illicit economy to transform themselves from anti-Soviet guerrilla leaders into powerful regional warlords. Positive involvement in the illicit economy generated not only physical resources for the mujahideen, but also freedom of action and political capital. It also greatly facilitated information gathering. The period of the 1980s resistance thus supports the theory of political capital of illicit economies.

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<sup>42</sup> Haq: 954; and Griffin: 145. High officials of the Pakistani government were involved in the drug trade. By the mid-1980s, the drug trade created an illicit economy in Pakistan of, by some accounts, as much as \$8 billion, or half the size of the official one. See, for example, Alfred W. McCoy, *The Politics of Heroin: The CIA Complicity in the Global Drug Trade* (Chicago: Lawrence Hill Books, 2003). Among high-ranking officials directly incriminated in the drug trade were Lieutenant-General Fazle Haq, governor of North West Frontier Province and a confidant of General Zia; Hamid Hasnain, another personal friend of Zia's and vice-president of the state-owned Habib Bank; and Haji Ayub Afridi, the National Assembly member for Khyber agency, an important coordinator of Pakistan's Afghanistan policy, and according to many reports, Pakistan's largest drug baron. For details, see, Sumita Kumar, *Drug Trafficking in Pakistan* (New Delhi Institute for Defense Studies and Analyses, 1995).

<sup>43</sup> See, for example, McCoy, and Haq.

#### **IV. Warlords and the Illicit Economy in the Early 1990s: *Testing the Effects of Change from Non-involvement to Positive Involvement and of the Amplifying Factors Character of the Illicit Economy and “Government” Response***

During the early 1990s, all major belligerent groups embraced the illicit opium economy, including those who previously were not involved. The combination of structural and policy factors remained: poor state of the overall economy, the presence of traffickers, and overall tacit acquiescence to the illicit economy. During limited periods, certain warlords also undertook eradication. Various warlords were also involved in both labor-intensive and labor-non-intensive illicit economies. Given the context of the constant infighting among the warlords, the conventional view predicts that warlords should try to eradicate the crops of their opponents to limit their resources and if they do so, they will severely weaken their opponents. The theory of political capital of illicit economies conversely predicts that warlords will not try to eradicate the poppy fields of their opponents for fear of alienating the local population in the contested area, or if they do adopt eradication that they will decrease their relative strength vis-à-vis their opponents. The second prediction of the political capital of illicit economies is that given the overall tacit acquiescence policy in the country and the presence of many competing belligerent actors, local warlords who adopt eradication in their own territories will either be defeated or will not be able to sustain eradication. Finally, the theory also predicts that warlords exploiting labor-intensive illicit economies will have greater political capital than warlords exploiting labor non-intensive illicit economies.

The early 1990s were characterized by shifting and fluid alliances and constant infighting among the warlords who emerged out of the various 1980s mujahideen

factions. After the withdrawal of the Soviets in 1989, a three-year struggle ensued pitting the mujahideen against the regime of President Najibullah. A coalition of Tajik forces, under the military leadership of Ahmed Shah Massoud and the political leadership of Burhanuddin Rabbani, and of Uzbek forces under the leadership of a formerly pro-communist general, Rashid Dostum, seized Kabul. The Pashtuns lost control of their capital, and an internal war began almost immediately, with Hekmatyar laying siege to the capital and shelling it mercilessly.<sup>44</sup> But Hekmatyar never succeeded in mobilizing the Pashtun tribal shuras behind him. The tribes were really not interested in the struggle over Kabul, they were happy tending to their poppy fields in the south. Although Hekmatyar controlled several refining facilities in the south, he did not control large swaths of land there. While he continued receiving aid from Arab and Pakistani radicals and making money on drug trafficking and money counterfeiting in Pakistan, he did not have much to offer to the Pashtun peasants and the tribal leadership. Hekmatyar thus lacked a consolidated regional base. As predicted by the political capital of illicit economies theory, warlords sponsoring labor-intensive illicit economies obtained greater political capital.

Clearly aware of this problem, Hekmatyar spent much of his military effort on acquiring control over the opium-rich Pashtun Helmand valley. But Helmand already had its master and one who was a dutiful sponsor of opium poppy cultivation for years: none other than Mullah Nasim Akhundzada. Already in the late 1980s, Hekmatyar's commanders started challenging Nasim over the poppy fields in Helmand. After months of savage fighting, Nasim won and consolidated control over the valley. Both Nasim and

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<sup>44</sup> For details, see Larry Goodson, *Afghanistan's Endless War* (Seattle: University of Washington Press, 2001): 73-6; and Ahmed Rashid, *Taliban* (New Haven: Yale University Press, 2001): 21.

Hekmatyar were Pashtuns, thus neither had a greater ethnic legitimacy with the Helmand. Both were roughly equal in their brutality. And both were roughly equally matched in their military strength, being two of the strongest and most successful mujahideen commanders. What Nassim had and Hekmatyar lacked was the sponsorship of a labor-intensive aspect of the illicit drug economy. Nassim controlled the poppy fields and thus provided large segments of the local population with livelihood. Hekmatyar controlled several heroin-refining plants in Pakistan, but this labor non-intensive aspect of the drug trade allowed him to employ only a tiny fraction of the number of the people whom Nassim provided with livelihood. During the fight over the Helmand, the population thus sided with Nasim. The support of the peasants for Nasim is consistent with the prediction of the political capital of illicit economies theory.

Fortunes changed for Nasim in 1990. Having struck a deal with the United States via U.S. Ambassador to Pakistan Robert Oakley, Mullah Nasim agreed to radically curtail drug production in Helmand in exchange for \$2 million in the form of USAID's development programs. Nasim kept up his promise, cutting production and forcing the peasants to forgo cultivation. Later that year he invited U.S. embassy officials for an inspection of the valley. The American delegation apparently found the eradication effective, noting that opium prices in the nearby Baluchistan province tripled.<sup>45</sup> The increase in opium prices, however, angered Hekmatyar whose refineries relied on Helmand's opium, and he ordered Mullah Nasim and five of his commanders gunned down. Moreover, the United States government, invoking U.S. laws against negotiating with drug traffickers, revoked the deal and did not deliver any aid to the Helmand region. Hit hard by Nasim's suppression of opium poppy cultivation and production, the

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<sup>45</sup> McCoy: 485.

population became restive. Nasim's brother, Mohammed Rasul, who inherited control of the Helmand valley, annulled the prohibition policy toward cultivation. Given Hekmatyar's (and others') continuing challenge to take over control of the region, Rasul clearly calculated he could not afford the political and financial losses resulting from eradication and had to pacify the population. Maintaining control over the territory necessitated a positive involvement in the illicit economy or a provision of alternative livelihoods.

In a similar way, warlord Abdul Qadir of the Arsala clan in Nangarhar, the second largest opium region in Afghanistan at that time, accepted an offer of international aid in exchange for cutting opium production by half. Haji Abdul Qadir and his brothers had sponsored Nangarhar province's skyrocketing expansion of opium production for several years. They were also positively involved in another illicit economy: the tax-free illicit smuggling of legal goods from Dubai onto Pakistan. Their control of the Jalalabad airport ideally positioned them to participate in this illicit economy and strike up an alliance with Afghan and Pakistani Pashtun truckers. Thus although the prohibition on opium poppy curtailed their income to some extent, they had another assured stream of revenue. But the labor-non-intensive smuggling with licit goods could not provide employment opportunities for the large Nangarhar population. Thus, after the crop-substitution funds ran out and were not renewed, the population became restive, and the Arsalas recalled the prohibition on opium poppy cultivation.<sup>46</sup> Thus, in the cases of both the Akhundzas and the Arsalas, the prediction of the theory of political capital of illicit economies materialized. Negative involvement in the illicit economy without adequate compensation

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<sup>46</sup> Ibid.

for the population jeopardized the warlords' hold on power and ultimately was unsustainable.

In the Ghor province of the South, the illicit economy consisted mainly of trafficking in drugs. The central provincial authorities imposed a 10 percent tax on all transshipment of drugs through their territory. In one year, the governor was believed to have accumulated two tons of opium through taxation.<sup>47</sup> Of course, the non-labor intensive traffic did not translate into many job opportunities for the local population, and Ghor remained one of the most isolated and poorest regions of Afghanistan.

In the northwest, Dostum received support primarily from Uzbekistan, and possibly also from Russia. As new drug trafficking routes developed through Uzbekistan to Russia and onward to Europe, Dostum too became progressively enmeshed in the illicit narcotic traffic.<sup>48</sup> In the west, Ismael Khan in Herat maintained close relations with Iran and taxed all traffic going to Iran, whether with licit goods or not. He too used his revenues to build up strong and functioning institutions in Herat. He also controlled the overland traffic to Dubai.

In the northeast, Massoud's and Rabbani's base consisted mainly of the Tajiks, but also included some other northeastern ethnic groups. Massoud and Rabbani drew on resources from their regional base in the northeastern province, including the mining of precious gems, such as lapis lazuli and emeralds, and drug production and traffic. By then any Massoud's inhibitions on participating in the drug trade were pushed aside. Instead his people taxed various aspect of the illicit opium economy. Paid directly to the local commanders, the tax on opium started at around 2.5 percent, but throughout the 1990s

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<sup>47</sup> Adam Pain, *Opium Trading Systems in Helmand and Ghor*, Afghan Research and Evaluation Unit, Issue Paper Series, January 2006, <http://www.areu.org.af/publications/Opium%20Trading%20Systems.pdf>

<sup>48</sup> Cooley: 130.

continued to climb until reaching 20 percent.<sup>49</sup> Captured samples of raw opium from the region under Massoud's and Rabbani's control – Badakhshan -- showed a morphine content twice as high as elsewhere in the country, despite the fact that local farmers did not use either irrigation or fertilizers.<sup>50</sup> Moreover, new trafficking routes via Tajikistan to Russia and to Europe were also firmly under Massoud's and Rabbani's control. The Northern Alliance's financing and procurement were further improved after the group secured cooperation from a major Iranian drug baron, Hadj Gulyam. Gulyam ensured that the Northern Alliance trucks coming from Afghanistan loaded with opium would return with money and weapons.<sup>51</sup> Massoud and Rabbani used the revenues not only to finance their militias, but also to build up regionally based institutions, independent of Kabul. In fact, it was the entanglement of Massoud in the drug trade that scared off the Clinton Administration from embracing him against the Taliban during the 1990s.<sup>52</sup>

Massoud, a northerner and a Tajik, also resolved not to interfere with drug production in the Pashtun south. His decision was driven by a desire to avoid undermining already weak ties to a rival ethnic group and further alienating the local population there that was already negatively disposed toward the Northerners. Massoud undertook this decision despite the fact that from a financial perspective it would have been more profitable for the Northerners to eliminate production in the south and thus push up prices in the north. In fact, overall the warlords did not try to destroy the fields of their opponents. Instead, they tried to seize them and control them. The prediction of the

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<sup>49</sup> Jonathan Goodhand, "From holy war to opium war? A case study of the opium economy in North East Afghanistan," *Central Asian Survey*, 19 (2), June 2000: 265-280; Martin Cooke, "Afghanistan: Drugs and Jewels Help Pay for War," *The Daily Telegraph* (Australia), July 31, 1999.

<sup>50</sup> Griffin: 150.

<sup>51</sup> Kanai Manayev, "Drug-Fuelled Crime in Central Asia," *The Times of Central Asia*, January 4, 2001.

<sup>52</sup> Steve Coll, *Ghost Wars* (New York: The Penguin Press, 2004): 458, 519, 536.

conventional view that competing warlords would try to eradicate each others' poppy fields to increase their own relative balance of material power thus did not materialize.

The political situation in the country was characterized by the warlords' positively involvement in various illicit economies, or as Barnett Rubin put it, by "regional-ethnic war economies embedded in transnational networks."<sup>53</sup> These illicit economies not only provided the regional commanders with income available to support their armies, but to various degrees, depending on the character of the illicit economy, also with political capital. The multiple benefits derived from these illicit economies thus vastly increased the strength of the different warlords along many dimensions of power and greatly enhanced the commanders' staying power despite their frequent infighting.

#### ***V. The Taliban and Drugs: Testing the Effects of Change from Negative Involvement to Positive Involvement and of the Amplifying Factors Character of the Illicit Economy and "Government" Response***

The extent of the political capital that positive involvement in labor-intensive illicit economies brings to belligerent groups is especially salient in the case of the Taliban. The Taliban did not exploit the drug economy originally out of a need for financial profits nor did it use these financial benefits to expand its military capabilities and intensify the conflict. In the initial phase of conflict expansion, its financial resources and the increase and improvement in its physical capabilities came from other sources; namely from an external sponsor and from the successful exploitation of the illicit traffic with legal goods, a labor-non-intensive illicit economy. Moreover, the Taliban's

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<sup>53</sup> Barnett R. Rubin, "The Political Economy of War and Peace in Afghanistan," *World Development*, 28 (10), 2000: 1789-1803, [http://institute-for-afghan-studies.org/ECONOMY/political\\_economy\\_of\\_war\\_peace.htm](http://institute-for-afghan-studies.org/ECONOMY/political_economy_of_war_peace.htm), downloaded August 11, 2004.

expansion through Afghanistan's territory also came mainly prior to its exploitation of the narcotics economy. It was the need to consolidate its political capital once its military expansion was largely accomplished that drove the Taliban to become positively involved in the illicit economy.

A religious fundamentalist movement that became notorious for its unrestrained brutality religious fanaticism, and ruthless oppression, the Taliban emerged on the political and military scene of Afghanistan in 1994. Although led by Afghans, specifically Mullah Omar, the Taliban was formed as a transnational network, organizationally present both in Afghanistan and Pakistan. In Pakistan it drew primarily on a sectarian network of madrasas educating Afghan refugees in Pakistan and on political parties belonging to the Deobandi movement. Although Kandahari Pashtuns dominated its leadership and also most of the rank-and-file, the movement did not simply represent a particular ethnicity. Rather, as Barnett Rubin argues, it represented "a social group, the privately educated, rural ulama and their students affiliated to the Deobandi movement."<sup>54</sup> Highly centralized, secretive, and dictatorial, the movement presented itself as motivated by Islam and desiring to pacify and purify Afghanistan.

Fundamentally anti-modernist, the religious students of the Taliban sought to reconstruct the Afghan state and society by imposing a very strict and almost backward interpretation of Islam on the country.<sup>55</sup> They emerged both within the context and as a reaction to the inability of the various commanders to stop their bickering and prevent the disintegration of Afghanistan into predatory warlordism at a time when both the Communist power

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<sup>54</sup> Barnett Rubin, "The Political Economy of War and Peace in Afghanistan," *World Development*, 28 (10), 2000: 1789-1803, [http://institute-for-afghan-studies.org/ECONOMY/political\\_economy\\_of\\_war\\_peace.htm](http://institute-for-afghan-studies.org/ECONOMY/political_economy_of_war_peace.htm).

<sup>55</sup> William Maley, *The Afghanistan Wars* (New York: Palgrave Macmillan, 2002): 223-6, 232.

structure and the traditional tribal leaderships were either completely eliminated or severely discredited. Meanwhile, the war-exhausted population was ready to accept peace at any price. The Taliban's declared agenda consisted of restoring peace in Afghanistan, disarming the population, enforcing Sharia, and defending the integrity and Islamic character of Afghanistan.

***Phase I: Taliban's Positive Involvement in a Labor Non-intensive Illicit Economy:  
Testing the Effect of the Amplifying Factor Character of the Illicit Economy***

In the first phase, the Taliban became positively engaged in the labor non-intensive illicit economy: illicit smuggling with legal goods. The state of the overall economy was desperately poor and traffickers were present, with local warlords imposing high taxes on the traffickers. Although the warlords were not purposefully trying to destroy the illicit smuggling economy, their capriciousness and greed severely hampered the functioning of the illicit economy, de facto amounting to the warlords' negative involvement. The theory of political capital of illicit economies thus predicts that the belligerent group that is positively involved in the illicit economy – the Taliban -- will be able to derive large benefits in terms of improved military capabilities and also political capital. But the increase in the political capital will be limited by the labor non-intensive aspect of the illicit economy.

Within a year and half of fall 1994, a group of originally perhaps as few as thirty Talebs armed with only light rifles managed to expand militarily to such a degree that it could take over large swaths of Afghanistan's territory. It managed to defeat most of the many warlords present in the country, conquer Kabul, and relegate Ahmed Massoud to a

small region in the north where he and his Northern Alliance hung on for dear life until the U.S. invasion of Afghanistan in 2001. Two factors crucially contributed to the ability of the Taliban guerrillas to strengthen their physical capabilities and expand militarily: the aid of Pakistan and the ability to exploit a lucrative illicit economy. However, the economy that the Taliban exploited in the early, key phases of its expansion was not the narcotics economy, but rather the labor-non-intensive illicit traffic in undeclared legal goods under the Afghan Transit Trade Agreement (ATTA).

At the beginning of their military operations in the fall of 1994, the Taliban were poorly armed, had poor logistics, frequently ran out of ammunition, and numbered in the hundreds. Over the course of the next few months, their numbers swelled to 15,000 as the influx of the madrasas' religious students continued to pour into Afghanistan with the active encouragement of Pakistan. Pakistan also provided direct aid in terms of money and weapons. Early in the fall of 1994, by bombing the Taliban's opponents with artillery fire, Pakistan allowed the Taliban to seize Spin Boldak and the arms depot at Pasha, a major weapons cache with rockets, artillery ammunition, tank ammunition, and small arms.<sup>56</sup> Further seizures of weapons arsenals, such as at the Kandahar airport where they acquired six MIG-21 fighters (of which only one was operational) and four MIG-17 transport helicopters and at Sarkateb's base where they gained 20 tanks and two additional MIG-17s, supplemented the considerable logistical and infrastructural support the Taliban was receiving from Pakistan.<sup>57</sup> Money also continued coming in from groups in Saudi Arabia, and thus by October 1996 the Taliban had fielded at least 25,000 men,

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<sup>56</sup> Anthony Davis, "How the Taliban Became a Fighting Force," in William Maley, ed., *Fundamentalism Reborn: Afghanistan and the Taliban* (New York: New York University Press, 1998): 46.

<sup>57</sup> For details on the extent of Pakistan's involvement, see *ibid.*, pp. 43-71; and Ahmed Rashid, "Pakistan and the Taliban," William Maley, ed., *Fundamentalism Reborn: Afghanistan and the Taliban* (New York: New York University Press, 1998): 85-6.

complete with tanks, armored vehicles, helicopters, and fighter aircraft. Through Pakistan's ISI, the Taliban was also able to recruit former Afghan personnel in Pakistan refugee camps who were veteran pilots, tank drivers, and technicians to operate the equipment by offering high salaries paid in U.S. dollars.<sup>58</sup> Pakistan's interests behind its support for the Taliban were twofold: A) A desire have Afghanistan under the control of a force that was pro-Pakistani and not close to either Russia, India, or Iran B) A desire to have secure access over Afghanistan's territory to Central Asia to conduct trade, badly needed for Pakistan's depressed economy. And to have this trade assured without the constant harassment of the marauding Afghan warlords who were charging exorbitant tolls on routes and sometimes taking hostages.<sup>59</sup>

Apart from Pakistan's aid, the second source of the Taliban's military capabilities was its positive involvement in the illicit traffic with legal goods that existed between Pakistan and Afghanistan. Under the Afghan Transit Trade Agreement, negotiated in the 1950s, landlocked Afghanistan secured a deal from Islamabad that allowed goods to pass from the port of Karachi through Pakistan and over the border to Afghanistan duty-free. Yet, the subsequent U-turn scheme that emerged benefited the smugglers above all and worked like this: a buyer in Afghanistan issued a letter of credit to import some goods, such as refrigerators, through the port of Karachi. The appliances were then driven through Pakistan into Afghanistan duty-free. The trucks unloaded on the Afghan side and returned to Pakistan empty. Meanwhile, the tax-free goods were carried back to Pakistan illegally, for example, by camels and donkeys. The goods, which sold for far less than the goods imported into Pakistan legally, were then distributed via a trucking industry to a

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<sup>58</sup> Jobin Goodarzi, "Washington and the Taliban, Strange Bedfellows," *Middle East International*, October 25, 1996.

<sup>59</sup> For details, see Rashid (1998) and Davis.

large extent controlled by Afghan refugees in Pakistan. According to the World Bank, in 1997 this illicit traffic amounted to \$2.5 billion.<sup>60</sup>

Naturally, however, other actors stepped into this highly lucrative lacuna of state power and complicated the life of the smuggling mafia. Local warlords charged tolls for the smugglers' (and anyone else's for that matter) use of the roads and passes under their control, a practice that dated back to the British. As a result of the progressive chaos of the early 1990s, and the increasingly higher and higher tolls and taxes charged by the local warlords, the interests of the transport mafia were severely threatened. For example, Ismail Khan of Herat went from charging 5000 rupees (\$125) custom duty on his part of the highway to charging 10,000 rupees (\$250) per truck for onward movement. On any route a transport could have been stopped as many as twenty times and forced to pay tolls. Sometimes local warlords stole the goods. Although the warlords were not consciously trying to destroy the smuggling economy, their capriciousness and greed made it increasingly difficult for the smugglers to conduct business even within Afghanistan and Pakistan and exceedingly difficult to expand their operations also into Iran and Central Asia. The traffickers came to feel that the warlords were de facto suppressing the illicit smuggling.

The emergence of the Taliban presented the traffickers with a force that could assure that transaction costs were significantly lowered and business was carried out in a much more predictable fashion. Purported to be long incensed with the excesses of the predatory warlords on the highways and by their arbitrary taxation and extortion, Mullah Omar in fact willingly provided protection to the illicit smuggling enterprise. Already in

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<sup>60</sup> Frederik Balfour, "Dark Days for a Black Market: Afghanistan and Pakistan Rely Heavily on Smuggling," *Business Week*, October 15, 2001, [http://businessweek.com/magazine/content/01\\_42/b3753016.htm](http://businessweek.com/magazine/content/01_42/b3753016.htm).

the fall of 1994, just as the Taliban first emerged around Kandahar, it cleared the chains from the roads, set up a one-toll system for trucks entering Afghanistan at Spin Baldak, and patrolled and protected the highways against the warlords. Crucially, the Taliban also declared that it would not allow goods bound for Afghanistan to be carried by Pakistani trucks, thus satisfying a key demand of the Afghan transport mafia.<sup>61</sup> The transport mafia was ecstatic, and from the beginning the traffickers and the Taliban struck up very good relations. As a result, the Taliban got paid handsomely by the traffickers and the traffickers did not interfere with the Taliban's military expansion. In March 1995, for example, the Taliban was reported to collect 6 million rupees (\$150,000) from transporters in Chaman in a single day and twice that amount the next day in Quetta.<sup>62</sup> Overall, the Taliban's annual income from the illegal smuggling with licit goods was estimated at about \$75 million.<sup>63</sup>

Apart from facilitating procurement, logistics, and salaries, the money obtained from the illicit traffic also increased the Taliban's freedom of action by allowing the group to buy off some of its opponents. Underwritten with the profits from the illicit smuggling, this bribe approach became a key feature of the Taliban's military tactics.<sup>64</sup>

Apart from generating military capabilities for the Taliban, its positive involvement in the illicit economy also provided the group with some increase in its political capital. The traffickers whom the Taliban pleased were important regional powerbrokers who frequently exercised substantial political power. Their benevolence toward the Taliban and their disenchantment with the warlords turned out very

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<sup>61</sup> Rashid (2001): 29.

<sup>62</sup> Ahmed Rashid, "Nothing to Declare," *Far Eastern Economic Review*, May 11, 1995.

<sup>63</sup> Balfour.

<sup>64</sup> Griffin: 41.

convenient for the Taliban. Moreover, the byproduct of the vibrant smuggling economy was a revitalization of some aspects of the licit economy, such as the emergence of teahouses and rest stops for the truckers, which pleased those living close to the smuggling routes. Still, the overall number of people who benefited from this economy remained limited. Once its initial wider legitimacy resulting from its provision of security and its promise of pacifying a country exhausted by fifteen years of war and rampant banditry worn off, there was little the Taliban had to provide to the larger population in order to obtain some level of popular support. Writing prior to the Taliban's sponsorship of the opium economy, Olivier Roy remarked that the Taliban's legitimacy came essentially from the weapons they controlled.<sup>65</sup>

Overall, as predicted by my theory of political capital of illicit economy, the positive engagement in the labor non-intensive smuggling increased the movement's military capabilities – both in terms of physical resources and freedom of action. It also increased the movement's political capital, by securing the cooperation of a set of important regional powerbrokers. But the illicit economy did not generate substantial political capital for the Taliban with the overall population that was largely left out of the smuggling business. That said, the positive involvement in the illicit smuggling economy crucially facilitated the Taliban's expansion throughout Afghanistan.

***Testing the Effect of Amplifying Factor Presence/Absence of Traffickers and Taliban's Non-involvement in Drug***

The Taliban's expansion from Kandahar to Helmand in early 1995 illustrates another aspect of the political capital of illicit economies theory – namely, the effect of

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<sup>65</sup> Roy (1995).

the presence or absence of traffickers on the extent of the belligerents' increase in strength resulting from their positive involvement in the illicit economy. In the Helmand region, the Taliban encountered a new illicit economy – the labor-intensive narcotics cultivation. During the initial two-month period of fighting, the Taliban remained uninvolved in the illicit economy. The local warlords who were positively involved in the economy had, however, eliminated traffickers in their region and took over their functions. The theory of political capital of illicit economies thus predicts that the political capital of the local warlords will be limited and their staying power undermined.

In late 1994 and early 1995, the Taliban spread from Kandahar through the south in a blitz campaign, taking everyone by surprise. What seems at first surprising about the Taliban experience in the Helmand is the fact that the Taliban was able to take over a major drug-producing region where the local warlord, by then Ghaffar Akhudzada, the brother of the late and above-mentioned Mullah Nasim Akhudzada, was a sponsor of the illicit economy and put up a rather substantial fight. The fighting was bitter, with casualties for the Taliban running into the hundreds for the first time. As Anthony Davis argued, “neither [the Taliban’s] moral authority nor cash accounted for much” in Helmand.<sup>66</sup> Finally, however, the Taliban did succeed in taking over the region after a two-month long military campaign.

What accounts for the limited staying power of the Ghaffar, despite his positive involvement in the illicit economy and the Taliban’s non-involvement, is absence of traffickers and the Akhundazas’ taking over their role. As described earlier, wanting to dominate the illicit economy to the fullest extent possible, the Akhudzadas took it upon themselves to directly regulate cultivation, set prices, and punish (frequently brutally)

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<sup>66</sup> Davis: 51.

those who failed to deliver the quotas. The Akhudzadas thus limited the scope of their political capital by putting themselves in the position of the brutal monopolists. Instead of offering themselves as security providers and benevolent economic regulators by moderating the traffickers' abuse of the peasants, the Akhudzadas pushed the traffickers out of the areas they controlled and behaved even worse. Under Ghaffar, the population became more and more squeezed, and opium rents increased.

Moreover, the effect of traffickers' absence in limiting the political gains of the belligerents from their positive involvement in the illicit economy was compounded by the Akhundazas' not too distant eradication, or negative involvement in the illicit economy. The eradication campaign had generated considerable and lasting hardship for the population.

Although simply the relative balance of power between Ghaffar and the Taliban could be an alternative explanation for why Helmand fell to the Taliban so rapidly, it does not seem a particularly compelling explanation. First of all, the Taliban took over the Akhundazas' area early in their campaign, when their numbers were still small, their military equipment very limited, and their military tactics poor. Second, the Akhundazas were experienced warriors, having fought against the Soviets during the 1980s and coming out of the 1990s civil war as some of the most prominent commanders and in charge of one of the most desirable provinces. Third, what was surprising about the way Helmand fell was the limited level of popular resistance to the Taliban. Although the in the late 1980s, the population may have preferred the Akhundazas to Hekmatyar, by the mid-1994, it lost much of its affinity for them. As predicted by the theory of political

capital of illicit economies, elimination of independent traffickers and the lingering resentment at eradication decreased the political capital of local warlords and undermined their staying power.

***Phase II: Taliban's Negative Involvement in Two Labor-intensive Economies – Drugs and Timber: Testing the Effect of the Amplifying Factor "Government Response"***

As has been shown, the increase in Taliban's capabilities and its military expansion through Afghan territory took place without its exploitation of the illicit narcotics economy and was not dependent on it. Moreover, after the Taliban secured control over the poppy-growing Helmand province, its original impulse was to prohibit drug cultivation and trade. Given the context of a poor state of the overall economy and a labor-intensive illicit economy, my theory of political capital of illicit economy predicts, that this switch toward suppression policies on the part of the governing actor – the Taliban – will result in a critical weakening of its political capital and a decrease in its strength. The prediction regarding the Taliban's suppression of another labor-intensive illicit economy, illicit logging, is the same. On the other hand, the conventional view predicts no serious weakening of the Taliban's strength, given that the group continued to have large assured financial profits from the illegal traffic with licit goods.

Considering opium as anti-Islamic, the Taliban denounced the drug trade and burned down the poppy fields in Helmand as it won control over the region in early 1995. In a series of communiqués about the Taliban goals, its leaders made a commitment to eradication of opium poppy. They also prohibited the cultivation of cannabis. In fact, poppy cultivation in the regions under the Taliban controlled halved for the following

growing season, a trend that farmers attributed to the fear of reprisals from the Taliban. But wheat prices were also booming that year and there was a significant carry-over of opium from 1994's bumper harvest.<sup>67</sup> Whether the 8 per cent reduction of the 1995 opium crop was simply due to Taliban's eradication policy or was primarily due to external economic factors is perhaps less important than the fact that the Taliban, for religious and ideological reasons, attempted to suppress the illicit narcotics economy. In fact, both the United Nations and the United States were hopeful that should the Taliban succeed in taking over the country, it would stem Afghanistan's opium and heroin production. In 1996, after the Taliban expanded its control of Afghanistan, Giovanni Quaglia, then director of the United Nations Drug Control Policy office in Pakistan declared, rather cavalierly as it turned out, that, "In these circumstances, the [drug] problem [in Afghanistan] can be dealt with in ten years."<sup>68</sup> The Taliban also cracked down harshly on hashish addicts, imprisoning them, beating them, and submerging them in cold water for several hours at a time.<sup>69</sup>

Immediately after the implementation of drug eradication, the Taliban's control of the Helmand became destabilized. This weakening of the Taliban's control took place despite the fact that the Taliban operated in the region to which it had many close ties, including family networks, and where the dominant ethnicity of the population was the same as the ethnicity of the Taliban fighters, i.e. Pashtun. Moreover, ethnicity, not religion or social class, has been the dominant cleavage in Afghanistan.<sup>70</sup> Still, after its eradication policy, the Taliban lost control of the region in 1995. The Taliban's political

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<sup>67</sup> Ibid.: 152-3.

<sup>68</sup> *Geopolitical Drug Dispatch*, No. 63, January 1997.

<sup>69</sup> Rashid (2001), p. 119.

<sup>70</sup> Roy (1995): 105.

capital was seriously undermined, and popular resistance to the Taliban emerged.

Subsequently, throughout 1995, control over the region shifted back and forth between the Taliban and local warlords.

Similarly, the Taliban encountered large-scale political resistance in 1997 when it attempted to proscribe the illegal traffic in timber. Hundreds of acres of high-quality hardwood, pine and cedar, from the provinces of Paktya and Kunar were chopped down and hauled off to Pakistan to be processed into cheap furniture and window frames and sold in the Gulf states. After taking over the two provinces and expelling the local warlord, Haji Qadir, the Taliban first attempted to levy a tax of \$750 per truck, before altogether banning the trade.<sup>71</sup> The Taliban's effort to prohibit this fairly lucrative and labor-intensive economy, which in the conditions of tremendous poverty brought an assured livelihood to a large segment of Paktya's and Kunar's residents, generated widespread resistance. In fact, Haji Qadir, exiled in Peshawar, Pakistan at the time, was able to capitalize on the popular resentment and with the help of two local warlords launched a military attack to reclaim Kunar. Although the Taliban ultimately won, the scale of the unrest in the province seriously rattled the Taliban leadership.

As predicted by my theory of political capital, eradication of narcotics cultivation and suppression of the illegal logging economy – both labor-intensive enterprises – in both cases undermined the Taliban's political capital and weakened its strength. Despite the Taliban's continuing profits from positive involvement in illicit smuggling with licit goods, it lost control of Helmand and its control over Kunar and Paktya was seriously shaken up. This phase of the Taliban's involvement in the illicit economy thus once again supports the theory of political capital of illicit economies. In the case of both illicit

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<sup>71</sup> Griffin: 147.

economies, the predictions of the conventional view did not materialize, and the validity of that theory is thus weakened.

***Phase III: From Laissez-Faire to De Facto Legalization: Testing the Effect of the Amplifying Factor “Government Response”***

But the Taliban’s prohibition policy toward narcotics did not last. The need to secure the Helmand Valley, the Taliban’s vital base, resulted in the Taliban rapidly adopting a different policy toward narcotics – namely, positive involvement in the opium economy. In the context of a poor state of the overall economy and a labor-intensive illicit economy, the government response toward the illicit economy is a crucial determinant of the increase or decrease of the belligerents’ political capital and their overall strength. My theory of political capital thus predicts that the Taliban will register a large increase in its political power and its overall strength, in addition to an increase in its military capabilities. The conventional view predicts no such increase in political capital.

By 1996, the Taliban ended eradication and lifted the ban on cultivation. At first it adopted a laissez-faire approach to drug cultivation, but progressively it became positive involved in various aspects of the opium economy, taxing the farmers as well as providing security for and taxing the traffickers. Once the Taliban reversed its policy toward poppy eradication, it was able to consolidate its control over the region. In fact, Helmand became its key stronghold.

The new edicts the Taliban issued now read: “The cultivation of, and trading in *chers* (cannabis, used for hashish) is forbidden absolutely. The consumption of opiates is

forbidden, as is the manufacture of heroin, but the production and trading in opium is not forbidden.”<sup>72</sup> In practice, however, heroin labs were not destroyed and heroin traffic was not interdicted. The 10% *zakat* on opium, formerly paid to the village mullahs, was now directed to the Taliban’s treasury, earning an estimated \$9 million in 1996-7, from the south’s regular output of 1,500 tons of opium.<sup>73</sup> A 10% *zakat* was also levied on the traffickers. As the 1990s progressed, these taxes were increased to 20%, bringing in between \$45 million to \$200 million a year.<sup>74</sup> By 1999, the Taliban also taxed heroin labs.<sup>75</sup> As in the case of the trucking mafia in Afghanistan, the drug traffickers benefited from the Taliban’s sponsorship of the illicit narcotics economy, once the Taliban reversed its prohibitionist policy. Compared to the greedy and unpredictable local mujahideen who had controlled and taxed the trafficking routes prior to the Taliban, the Taliban significantly lowered many transaction costs for the traffickers, preventing constant power shifts among the warlords, bringing stability to the industry, and helping to streamline it.

Since 1996, poppy cultivation continued increasing. In 1980, the total production of opium in Afghanistan consisted of 200 metric tons. By 1994, cultivation had grown to 2,300. As a result of the Taliban’s temporary eradication policy, combined with bad weather, the production fell to 2,300 metric tons in 1995, but by 1999 it climbed to 3,300

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<sup>72</sup> Quoted in Griffin: 153.

<sup>73</sup> *Geopolitical Drug Dispatch*, No. 63, January 1997.

<sup>74</sup> The TNI’s Briefing Series give a much lower estimate, between \$30-45 million a year, than Barnett Rubin, for example, who puts the Taliban’s yearly earnings from drugs to \$100-200 million. See, Transnational Institute, “Afghanistan, Drugs and Terrorism: Merging Wars,” TNI Briefing Series, *Drugs and Conflict*, No. 3, December 2001; and Rubin (2000). As explained in the theory chapter, estimating the size and profits of illicit economies is more magic than science, and despite the large discrepancy both numbers are plausible. However, given the World Bank and UNODC estimates of the size of the illicit economy and traffickers’ profits after the fall of the Taliban under much greater transparency, Rubin’s estimates seem more likely.

<sup>75</sup> Jeffrey Bartholet and Steve LeVine, “The Holy Men of Heroin,” *Newsweek*, 134 (23), December 6, 1999: 40-43.

in 2000.<sup>76</sup> With the exception of a few months early in its ascendancy and its 2000 eradication campaign, described in detail below, the Taliban thus supervised a steady augmentation of the drug economy in Afghanistan. The table below summarizes the trend.

<b>Opium Production in Afghanistan between 1980 and 2000</b> (in metric tons)						
<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1994</b>	<b>1995</b>	<b>1999</b>	<b>2000</b>
200	450	1,600	3,400	2,300	4,600	3,300

In addition to the profits from other smuggling, the profits from the drugs now also funded the Taliban's weapons, ammunition, fuel, food, and clothes. The profits also paid for salaries, transport, and other perks that the Taliban leadership allowed its fighters. Unlike many of the former mujahideen and Afghan and Pakistani traffickers, the Taliban leaders continued to live extremely frugal lives.

However, despite the increase in the Taliban's military capabilities that the profits from drugs brought, the Taliban's change in its approach to the drug economy was not driven by any acute financial need or logistical problems. According to World Bank estimates, the profits from the illicit traffic with legal goods were \$75 million, a number large enough to comfortably sustain the Taliban's military effort.<sup>77</sup> Whatever the methodology and accuracy of these estimates, there were no indications that prior to the reversal of eradication, the Taliban was hurting financially. Having access to income from drugs was not a matter of life or death for the Taliban. In fact, as detailed above, the

<sup>76</sup> United Nations Office on Drugs and Crime, "Presentation to the International Crisis Group on Afghanistan," Brussels, July 5, 2004, author's copy.

<sup>77</sup> Zareen Naqvi, *Afghanistan-Pakistan Trade Relations*, (Islamabad: World Bank, 1999).

Taliban's major territorial conquest took place prior to its exploitation of the illicit narcotics economy.

The Taliban changed its policy toward the illicit narcotics economy to compensate for what its positive involvement in the illicit smuggling with legal goods could not provide: widespread popular legitimacy, even if a thin popular legitimacy. The illicit narcotics industry provided a reliable source of livelihood to a vast segment of the population. Not only was this livelihood fairly lucrative as compared with other crops and employment opportunities, it was frequently the only source of livelihood available to the population in an otherwise devastated economy.<sup>78</sup> Ruined by the war against the USSR in the 1980s, Afghanistan's economy remained in a critical condition throughout the 1990s. All economic activity, short of subsistence production and the microeconomic spillover from illicit activities came to a halt.

Despite the rather high price elasticity of farmgate prices for opium, the prices were frequently, though not always, considerably higher than prices for legal products, such as wheat and fruit.<sup>79</sup> Opium revenues totaled \$102 million in 1994, \$54 million in 1995, \$183 million in 1999, and \$1,200 million in 2002.<sup>80</sup> Typically, the yearly net earnings for small sharecroppers amounted to several hundred dollars, rising to over \$1,000 for landowners.

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<sup>78</sup> Needless to say, the peasants growing poppy make only very small profits from the drug industry (about 2 percent of the total profits), compared to the traffickers and those who profit from the drug industry higher up the chain.

<sup>79</sup> In Thailand, for example, the substitution of flowers for opium poppy has led to a profit increase by much as 50 times per square meter. In Pakistan, onion has proven more profitable than opium poppy. See, Michael Smith et al, *Why People Grow Drugs: Narcotics and Development in the Third World* (London: Panos, 1989), and David Mansfield, "The Economic Superiority of Illicit Drug Production: Myth and Reality – Opium Poppy Cultivation in Afghanistan," Paper prepared for the International Conference on Alternative Development in drug control and cooperation, Feldafing, September 7-12, 2002, August 2001.

<sup>80</sup> UNODC (2004a).

Two other factors were at least as important for the peasants' decision to grow opium and welcome the Taliban's embrace of poppy cultivation as the relative prices of opium to other crops. One was the very low transaction costs for the peasants for the production of opium. As irrigation systems were ruined in most of the country, cultivation of wheat and fruit became exceedingly difficult. Transportation networks around the country collapsed, thus making it impossible for the peasants to deliver the crops to market. Light, easy to transport, and not perishable, opium was either picked up by traders at the farm gate or had to be transported over much shorter distances.

The third key driver of the peasants' decision to grow drugs was access to advance credit under a system known as *salaam*. Over time, creditors in Afghanistan came to lend money against a guaranteed amount of opium to be delivered by the farmer at the time of the harvest. No other microfinance opportunities existed for the majority of the rural population. Without access to microcredit, the farmers were not able to secure any income for the winter months, hence could not provide food, clothes, and medicine for their families during the winter period. Moreover, if the farmers for whatever reason failed to pay the loan back, their only chance to get another loan was to cultivate opium.<sup>81</sup> Thus, unlike the cultivation of other crops, only the cultivation of opium could guarantee food security to the farmers.

On the micro-foundation level, religious piety, although no doubt an inhibitor of pro-opium policies, frequently did not seem to determine the individuals' decision whether or not to grow poppy. Many madrasa students and teachers and even local mullahs were involved with opium cultivation and trafficking. Some of the madrasa teachers and students left their schools (frequently in Pakistan) and traveled to regions

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<sup>81</sup> For details, see Mansfield (2001).

where harvest was taking place to lance the poppy capsules and collect opium as a way of generating economic resources.<sup>82</sup>

Moreover, as in the case of illicit smuggling in legal goods, the flourishing illicit narcotics economy also allowed for other forms of microeconomic activity to develop in areas where there previously was only limited agricultural production. Services, such as rest stops, teashops, and fuel stations sprung up in connection with the smuggling of narcotics.<sup>83</sup> In areas with poppy cultivation, much more reconstruction than elsewhere in the country took place.<sup>84</sup> Many people thus developed a stake in the illicit narcotics economy and appreciated the Taliban's positive involvement in it: the traders, the smugglers, the shopkeepers, the moneylenders, and the local warlords and religious elites whom the Taliban tolerated and allowed a cut in the narcotics economy. But unlike the smuggling of legal goods under ATTA, the highly labor intensive illicit narcotics economy also provided a reliable livelihood to the vast segments of the rural population. Approximately 350 person days are required to cultivate one hectare of opium in Afghanistan, compared to approximately 41 person days per hectare for wheat and 135 person days per hectare for black cumin. Harvesting alone requires as much as 200 person days per hectare.<sup>85</sup> Thus even those who did not have access to land could be hired as itinerant laborers during various parts of the growing season.

In the limited interviews conducted in Afghanistan during that period, the peasants emphasized the Taliban's sponsorship of the illicit economy as a crucial source

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<sup>82</sup> UNODC (1999).

<sup>83</sup> Goodhand.

<sup>84</sup> Rashid (2001): 118.

<sup>85</sup> United Nations Office on Drugs and Crime, "Access to Labour: The Role of Opium in the Livelihood Strategies of Itinerant Harvesters Working in Helmand Province, Afghanistan," Strategic Study #4, June 1999, [http://www.undcp.org/pakistan/report\\_1999-06-30](http://www.undcp.org/pakistan/report_1999-06-30).

of the group's legitimacy. Ahmed Rashid's 1997 interview with Wali Jan, an elderly farmer near Kandahar, illustrates the reaction of the peasants: "We cannot be more grateful to the Taliban. The Taliban have brought us security so we can grow our poppy in peace. I need to grow poppy crop to support my 14 family members."<sup>86</sup> He earned around \$1,300 a year, a small fortune by the standards of Afghan farmers. The security the Taliban provided for the illicit narcotics economy assured the peasants that they would be able to make ends meet and obtain profits from their investments.

The Taliban's statements themselves, even if only partially genuine, also attest to the political salience of the illicit narcotics economy and to the significant political costs the group learned eradication generated. In 1997, for example, Abdul Rashid, the head of the Taliban's anti-drug control force in Kandahar (quoted by N.C. Aizenman) explained: "We let people cultivate poppies because farmers get good prices. We cannot push the people to grow wheat as there would be an uprising against the Taliban if we forced them to stop poppy cultivation. So we grow opium and get our wheat from Pakistan."<sup>87</sup> Similarly, elsewhere, the director maintained: "Everyone is growing poppy. If we try to stop this immediately, the people will be against us."<sup>88</sup> As predicted by my theory of political capital of illicit economies, the Taliban's embrace of the narcotics economy generated a large increase in the group's political capital.

The critical political consequences of the suppression or toleration of the illicit economy and the Taliban's acquired sensitivity to these consequences is also revealed by the fact that the Taliban did not yield on any other doctrinal issue nor did it reverse any other of its extremely unpopular repressive policies. As the Taliban expanded its control

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<sup>86</sup> Quoted in Rashid (2001): 117.

<sup>87</sup> Rashid: 118. See also, Ahmed Rashid, "Drug the Infidels," *Far Eastern Economic Review*, May 1997.

<sup>88</sup> *The Washington Post*, May 11, 1997.

through the country, it instituted a reign of terror and a highly restrictive form of Sharia. The Taliban forbade women to attend school, work outside of the home, or get access to medical care, and imposed purdah, the mandatory veiling of women from head to toe with a burqa and only a slit for the eyes. Playing sports or music, flying kites, dancing, or reading anything published outside of Afghanistan became illegal to ensure that the population was not distracted from prayer. Religious police from the Ministry for Promoting Virtue and Preventing Vice patrolled the streets, looking for offenders, such as men who failed to grow sufficiently long beards. Women who were walking on the streets without a male relative or whose ankles were showing were lashed on the spot, frequently by boys or men wielding car antennas or electrical cords. Punishments for offenses were exceedingly brutal. The Taliban frequently packed the stadiums with crowds of tens of thousands to witness amputations, floggings, and executions. Thieves had their right hand and left foot amputated, murderers were killed, sometimes by members of the victim's family, and adulterers were stoned to death with the children of the offenders watching from the front of the crowd. The Taliban also destroyed almost all vineyards, insisting that grapes were used to make alcohol, a substance prohibited by the Koran.<sup>89</sup> But although it never relented on any of its other prohibitions and draconian measures, the Taliban did reverse its drug prohibition and eradication.

Moreover, the Taliban conceded to women participation in opium cultivation. Even though it proscribed all other economic employment opportunities and many social activities for women, the political costs of interfering with the opium economy were too high for the Taliban to prevent women's participation in the opium economy. As far the

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<sup>89</sup> Nigel J. R. Allan, "Opium Production in Afghanistan and Pakistan," in *Dangerous Harvest: Drug Plants and the Transformation of Indigenous Landscapes*, Michael K. Steinberg, Joseph J. Hobbs, and Kent Mathewson, eds. (Oxford: Oxford University Press, 2004): 138.

illicit drug economy was concerned, women were allowed to be employed in various stages of poppy cultivation and opium production -- from planting, weeding, thinning, lancing the capsules and collecting the resin, clearing the seeds, and processing by-products such as oil and soap.<sup>90</sup> Nor can pecuniary motives on the part of the Taliban explain the decision to allow women to participate in opium cultivation and production. Although the participation of females frequently made a crucial difference for the family's ability to achieve food security for the coming year, the actual increase in tax income obtained by the Taliban was negligible. The Taliban's decision permitting women's participation in the opium economy once again supports the validity of the theory of political capital of illicit economies.

Not only did the Taliban refuse to yield on any other social, political, or economic issue except for opium cultivation, in power it proved fundamentally uninterested in state-building or economic development. Its goal was to purge any sign of modernity from the country and enforced its fundamentalist cultural norms. The Taliban essentially abdicated all, but the bare minimum of its governing responsibilities, such as providing security. The Taliban never set up social services or a functioning bureaucracy. Furthermore, it allowed the existing social services and state administration to completely disintegrate. But once again, it made an exception for the opium economy. In this domain, it provided a variety of extension services to the farmers, such as issuing licenses for cultivation, providing fertilizers, and setting up model poppy farms to teach the

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<sup>90</sup> United Nations Office on Drugs and Crime, "The Role of Women in Opium Poppy Cultivation in Afghanistan," June 2000, [http://www.unodc.org/unodc/alternative\\_development\\_studies\\_6.html](http://www.unodc.org/unodc/alternative_development_studies_6.html).

peasants how to improve poppy productivity.<sup>91</sup> Despite its dogmatic radical agenda, its religious zealotry, and its total abdication of state-making responsibility, the Taliban nonetheless considered the political consequences of drug production suppression policies too high to maintain and rapidly adapted itself to the rentier economy based on drugs.

In areas where the Taliban was not able to buy political legitimacy by distributing gains from the illicit narcotics economy, it had to resort to much greater brutality, thus further decreasing its legitimacy. Consistently, the Taliban was much harsher in its treatment of cities, perhaps with the exception of Kandahar, than in its treatment of villages. Although drug and other illicit traffic no doubt went through the major cities, the number of people who could benefit from it (and consequently did not critically resent the Taliban) was much smaller than in the rural areas.

In short, ideology nor religion did not override the need to eliminate the large political costs resulting for the Taliban for its narcotics eradication policy. As predicted by the theory of political capital of illicit economies, in the context of a poor overall economy and a labor-intensive illicit economy, the political costs of eradication for the Taliban were very large and severely undermined their strength. But once the Taliban became positively involved in the illicit economy, its political capital greatly increased, providing it frequently with its sole source of legitimacy.

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<sup>91</sup> "Heroin," *Jane's Intelligence Review*, June 1, 1998; Andrew Meier, "Afghanistan's Drug Trade," *Muslim Politics Report*, No. 11, 1997: 3-4; and Ahmed Rashid, "The Taliban: Exporting Extremism," *Foreign Affairs*, 78 (6), November/ December 1999: 22-36.

***Phase IV: The Taliban's 2000 Eradication and the Subsequent Return to Laissez-Faire: Testing the Effect of the Amplifying Factor "Government Response"***

Given the above analysis, the Taliban's vast and effective eradication campaign in 2000 seems both puzzling and contradictory to what has been argued previously. Yet a detailed examination of the event once again underscores the salience of the political benefits belligerent groups derive from adopting a tolerant policy toward labor-intensive illicit economies and of the political costs drug-suppression policies entail for them. Given that the other amplifying factors remain the same, and only the value of "government response" changes to suppression, my theory of political capital of illicit economies predicts a large decrease in the Taliban's political capital. The predictions based on the conventional view's are: no effect on the political capital of the Taliban and a weakening of the Taliban's military capabilities.

The Taliban's 2000 opium ban on poppy cultivation in Afghanistan resulted in the largest reduction of opium poppy cultivation in a country in any single year. Cultivation fell from an estimated 82,172 hectares in 2000 to less than 8,000 in 2001. Globally, this reduction contributed to a 75% fall in the global supply of heroin for that year,<sup>92</sup> a truly impressive number.

Needless to say, the ban severely affected the economic prospects of vast segments of Afghanistan's rural population. In the words of one DEA official, the ban was "bringing their country -- or certain regions of their country-- to economic ruin."<sup>93</sup>

The ban drove the majority of landowners and sharecroppers heavily into debt. Unable to

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<sup>92</sup> David Mansfield, "Coping Strategies, Accumulated Wealth and Shifting Markets: The Story of Opium Poppy Cultivation in Badakhshan 2000-2003," A Report for the Agha Khan Development Network, January 2004: 4.

<sup>93</sup> Barbara Crossette, "The Taliban's Ban on Growing Opium Poppies is Called a Success," *The New York Times*, May 18, 2001.

repay their debts, the farmers were driven to borrow even further or abscond into Pakistan. The experience of a 70-year old sharecropper from Nad e Ali (recounted by David Mansfield) illustrates the destructive micro-effects of the Taliban's eradication program: The sharecropper planted two to four jeribs (about one fifth of a hectare) of poppy to support a ten-member family. After the Taliban's eradication campaign, he was unable to pay his outstanding debt of \$1,800 to his landlord, granted against his promise to deliver a certain amount of raw opium to the landlord after the growing season. The landlord whose land he tilled agreed to extend him a further loan on the condition that he would accept a reduced share of the profit, receiving only a sixth of the final opium crop, compared to the traditional one third, and agreeing not to leave the area even if only to visit his extended family. The peasant was thus de facto consigned to bonded labor. The sharecropper felt he had no option but to accept the terms if he were to feed his family. He believed that if his crop of opium were not destroyed in the upcoming growing season, he could repay his outstanding debts. However, were the crop to be destroyed by the Taliban again, he would have to run away into Pakistan, leaving his family to ruin.<sup>94</sup>

Three key questions about the 2000 eradication campaign emerge: Why, given the previously encountered political costs, did the Taliban undertake such a counterproductive policy? Did the 2000 eradication campaign generate new large political costs for the Taliban? And, if so, how could the Taliban sustain such a policy?

With respect to the first question, it is important to note that while banning opium cultivation in 2000, the Taliban did not ban or otherwise attempt to interfere with the sale and trafficking of opium and poppy during that period. In choosing to curb the

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<sup>94</sup> One among many similar stories in David Mansfield, "What Is Driving Opium Poppy Cultivation? Decision Making Amongst Opium Poppy Cultivators in Afghanistan in the 2003/4 Growing Season," Paper for the UNODC/ONDCP Second Technical Conference on Drug Control Research, July 19-21, 2004.

production, the Taliban was balancing its domestic legitimacy with its international legitimacy as well as its political gains from the illicit economy with its financial profits. As the UN, the United States, and other governments caught onto the fact that despite its religious fervor, the Taliban was not curbing the drug trade in Afghanistan, in addition to grossly violating human rights, they started treating the regime as a pariah. By 2000, still only a few countries around the world, including Pakistan and Saudi Arabia, recognized the Taliban regime as a valid ruler of Afghanistan and were willing to engage with it. Having consolidated power throughout the vast majority of the territory, the Taliban apparently became determined to finally secure also international recognition. It thus decided to respond to the UNDCP's repeated appeals to curb opium if it would bring the regime international recognition. The 2000 eradication campaign meant to accomplish this goal. But despite the impressive eradication, no additional country recognized the regime. In other words, the Taliban probably gambled its domestic legitimacy for obtaining international legitimacy, calculating that its control of the territory was firm enough to weather any domestic resistance.

The second motivation that likely drove the Taliban's decision to impose the ban on cultivation was the desire to boost the price of opium and consolidate control of the drug trade. As cultivation exploded during the 1990s, the farmgate prices for opium plummeted. The 2000 ban by the Taliban and the resulting supply contraction of 75% did in fact substantially increase prices for opium. The total farmgate value of opium went from \$56 million in 2001 to \$1,200 million in 2002.<sup>95</sup> Meanwhile, when the poppy

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<sup>95</sup> UNODC (2004a). Farmgate opium prices jumped from \$28 per kilogram in 2000 to \$301 per kilogram in 2001. See, United Nations Office on Drugs and Crime, *Summary Findings of Opium Trends in Afghanistan*, September 12, 2005, [http://www.unodc.org/pdf/afghanistan\\_2005/annex\\_opium-afghanistan-2005-09-09.pdf](http://www.unodc.org/pdf/afghanistan_2005/annex_opium-afghanistan-2005-09-09.pdf): 16, downloaded September 18, 2005.

cultivation ban went into force, it was estimated that there were hundreds to thousands of metric tons of opium and heroin stockpiled in Afghanistan. According to one estimate, 220 tons of heroin were stockpiled in Afghanistan, many under the Taliban control. This amount would have been sufficient to supply the needs of the Western European market for at least two years without any new production.<sup>96</sup> Other estimates put the level of stockpiles even higher, at about 3,000 tons of opium. According to the Drug Enforcement Administration spokesman, Will Glaspy, for example, the Taliban regime was believed to be stockpiling as much as 65 percent of previous years' harvests.<sup>97</sup> Captain Saif Riaz, a veteran of Pakistan's drug enforcement efforts, estimated that "They have sufficient stockpiles to last at least 10 years."<sup>98</sup> The UNDCP also pointed to Taliban's vast stockpiles as indicators of the Taliban's lack of sincerity with respect to the eradication campaign.

The financial profits the Taliban expected to reap as a result of the temporary eradication thus were great. What is crucially significant about the financial outcome of the Taliban's eradication campaign is that it contradicts the key tenet of the conventional view that eradication will bankrupt belligerent groups. As argued by the theory of political capital of illicit economies, eradication has highly unpredictable effects on the financial resources of belligerents and can in fact increase their profits. The case of the Taliban's eradication is a manifest example of how eradication increased the financial

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<sup>96</sup> International Crisis Group, *Central Asia: Drugs and Conflict*, Report No. 26, November 26, 2001, [http://www.crisisgroup.org/library/documents/report\\_archive/A400495\\_26112001-2.pdf](http://www.crisisgroup.org/library/documents/report_archive/A400495_26112001-2.pdf), downloaded August 16, 2004.

<sup>97</sup> Quoted in Mary Jacoby, "War's New Target: Drugs," *St. Petersburg Times*, February 11, 2002. See also, LaVerle Berry, Glenn E. Curtis, Rex A. Hudson, and Nina A. Kollars, *A Global Overview of Narcotics-Funded Terrorist and Other Extremist Groups*, A Report Prepared by the Federal Research Division, Library of Congress, May 2002, [http://www.loc.gov/tr/frd/pdf-files/NarcsFundedTerrs\\_Extrems.pdf](http://www.loc.gov/tr/frd/pdf-files/NarcsFundedTerrs_Extrems.pdf): 6, downloaded August 05, 2004.

<sup>98</sup> Caryl: 27. Other sources put the level of stockpiles considerably lower, at about two years worth. The fact that the Taliban had stockpiles, however, did not mean that the population had any stockpiles.

profits of the belligerents. In this case once again, the prediction of the conventional view failed to materialize.

But the political costs of eradication for the Taliban were substantial. Although the movement carried out eradication in regions where by then it had firm control and where there was no immediate organized armed opposition, it nonetheless encountered widespread popular resistance. This resistance was neither assuaged by the Taliban's negotiations and hefty subsidies to tribes affected by eradication, such as the Shinwari tribe,<sup>99</sup> nor deterred by the Taliban's brutal punishment of violators. The Taliban's control over Afghanistan was seriously rattled. Throughout the territory, the loss of the Taliban's political capital was large.

The answer to the third question, regarding sustainability of the drug suppression policy, is that the Taliban probably could not and certainly did not try to sustain the policy for more than one year. By the summer of 2001, with the ban still in place, some peasants started seeding poppy once again.<sup>100</sup> The Taliban rescinded the ban on poppy cultivation in September 2001. Some analysts have attempted to explain the reversal of the Taliban's policy by arguing that the Taliban needed greater financial resources in order to fight against the United States after 9-11.<sup>101</sup> This explanation, however, does not seem accurate for several reasons. First of all, as already mentioned above, the temporary ban on poppy cultivation vastly increased the price of heroin, thus significantly increasing the Taliban's financial profits. Second, the Taliban had large stockpiles. In

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<sup>99</sup> Barnett R. Rubin, "Road to Ruin: Afghanistan's Booming Opium Industry," October 7, 2004, <http://www.cic.nyu.edu>.

<sup>100</sup> Caryl, Christian. "The New Silk Road of Death." *Newsweek*, Vol. 113, No. 12, September 17, 2001: 24-28.

<sup>101</sup> See, for example, Bertil Lintner, "Taliban Turns to Drugs," *Far Eastern Economic Review*, October 11, 2001.

short, financial need does not appear to be a compelling explanation of what drove the reversal of the Taliban's ban on opium production.

The Taliban's sensitivity to the political costs associated with eradication, especially in anticipation of the upcoming war with the United States, is much more likely what drove the Taliban's decision to rescind the cultivation ban and stop eradication. As mentioned above, even before the war with the United States, the Taliban was already facing widespread resistance as a result of its prohibition. Moreover, the Northern Alliance still opposing the Taliban from a northern corner of the country continued producing opium at full speed during the 1990s and during the Taliban's 2000 ban. Its taxes were similar to those of the Taliban, between 10 and 20 percent on production and traffic; and opium production in Badakhshan, controlled by the Northern Alliance, vastly increased during the 1990s. It is very likely that the Taliban feared that if it continued with its ban on opium poppy, the Northern Alliance, with U.S. support, would have been able to exploit the popular discontent with eradication to effectively challenge the Taliban. In fact, as will be described in detail below, many farmers charged that part of their support for the anti-Taliban forces during the U.S. invasion was the promise by the anti-Taliban forces that the farmers could go back to growing poppy after the Taliban was defeated.

## **VI. Drugs After the Fall of the Taliban: *Testing the Effect of Government Response to the Illicit Economy***

The military and narcotics situation in Afghanistan since the U.S. invasion in 2001 offers an important test of the effect of government policy toward narcotics on the

strength of belligerents and the intensity of military conflict. During the military campaign to overthrow the Taliban regime and the subsequent and steadily worsening insurgency, the government policy toward narcotics changed from a policy of tacit acquiescence to interdiction and finally to eradication (combined with interdiction). Government response to the illicit economy thus kept changing within a short span while the other amplifying factors and other conditions remained the same, thus minimizing the interference of other possible variables. Since 2001 through the present, the country has remained desperately poor, the character of the illicit economy in which the Taliban and various other warlords have been involved is labor-intensive (although both the warlords and the Taliban) have also been involved in labor-non-intensive aspects of the narcotics economy), and traffickers have been present. Although still evolving and difficult to research because much information about intelligence-gathering, counterinsurgency, and counterterrorism policies remains classified, this period nonetheless contains much evidence to illuminate the validity of the two competing theories. As will be shown, the shift toward eradication, driven by an exogenous factor – U.S. domestic politics – as well as by the evaluation that other counternarcotics policies had failed, not only resulted in the increase in the Taliban's strength and intensification of the insurgency but in fact allowed the Taliban to reinsert itself into the narcotics economy from which it had been largely cut off by the U.S. invasion.

The 9-11 al Qaeda terrorist attack against the United States homeland and the subsequent refusal of the Taliban leadership to hand over Osama bin Laden and the rest of al Qaeda operatives using Afghanistan's territory as a recruitment and training safe-haven precipitated a war by the United States against the Taliban. Operation Enduring

Freedom sought to capture al Qaeda and depose the Taliban leadership from power in Afghanistan. Despite warnings and reminders of Soviet failure against the mujahideen in the 1980s, Operation Enduring Freedom rapidly succeeded in toppling the Taliban regime. Within a few months, most of Afghanistan was no longer under the control of the Taliban. The top al Qaeda leadership as well as the Taliban's Mullah Omar and several other officials, however, managed to escape, despite major offensives, such as Operation Anaconda in the Tora Bora region.

What was highly surprising about the military campaign was the speed of the Taliban's fall in the south of Afghanistan, its traditional stronghold. Obviously, U.S. military superiority and the withdrawal of Pakistani support for the Taliban determined the movement's fall from power, but the surprising element was the immediate lack of pro-Taliban insurgency in the fall and the fact that many southern Pashtuns actually rose up and actively fought against the Taliban.<sup>102</sup>

There can of course be several possible explanations for the sources of the popular resentment against the Taliban, including social oppression. But even five years since the fall of the Taliban, many social values imposed by the Taliban still persist today. It is likely that the Taliban's eradication in the previous year greatly undermined its support. The eradication did not affect only the poor peasants, but also Pashtun tribal chiefs, who faced a imminent loss of not only material resources, but also legitimacy. In fact, at least some peasants in the Helmand province, disgruntled with the new post-Taliban government's ban on poppy in 2002, alleged with chagrin that during the U.S. military invasion, Hamid Karzai had promised to let them grow poppy in exchange for

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<sup>102</sup> Stephen Tanner, *Afghanistan: A Military History From Alexander the Great to the Fall of the Taliban* (Cambridge: De Capo Press, 2002): 308-09.

their help in toppling the Taliban regime, and that they now felt betrayed. The Karzai government denied these allegations.<sup>103</sup>

From the beginning, Operation Enduring Freedom was conducted with a minimalist approach toward the size of U.S. forces in the theater, both during the actual military campaign and during post-war occupation. Hailed by Secretary of Defense Donald Rumsfeld as a prime exhibit of his transformation of U.S. armed forces and the incorporation of the revolution of military affairs into military strategy and campaigns, the operation relied on a small number of U.S. forces cooperating with local anti-Taliban resistance, namely the Northern Alliance. At their peak, U.S. forces involved in the war numbered no more than 60,000 (about half of which were off-shore in the Persian Gulf).<sup>104</sup> A dominant image of the war was one of a few U.S. special operations forces on horses and with GPS and laser pointers directing U.S. precision air strikes and coordinating the anti-Taliban local forces in their attacks against the Taliban held cities.<sup>105</sup>

A direct consequence of the minimalist approach to the military campaign and to the subsequent stabilization efforts, which left Afghanistan with one of the lowest density of international troops per territory and population in stabilization efforts,<sup>106</sup> was the need to rely on local warlords to capture al Qaeda and the top leadership of the Taliban. In

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<sup>103</sup> Indira R. A. Lakshmanan, "Afghan Announce Victories in a New War against Opium," *Boston Globe*, April 21, 2002.

<sup>104</sup> Michael O'Hanlon, "A Flawed Masterpiece," *Foreign Affairs*, 81 (3), May/June 2002: 48.

<sup>105</sup> 316 special operation forces personnel and 110 CIA operatives were deployed on the ground in Afghanistan during the military effort to depose the Taliban.

<sup>106</sup> The density of international troops in Afghanistan per kilometer was one soldier per 25 km, and per population 1 soldier per 1,115 inhabitants, thus ranking in both counts behind Kosovo, Bosnia, East Timor, Iraq, Somalia, Liberia, Sierra Leone, and Haiti. See, Michael Bhatia, Kevin Lanigan, and Philip Wilkinson, "Minimal Investments, Minimal Results: The Failure of Security Policy in Afghanistan," Afghanistan Research and Evaluation Unit, June 2004. See also, James Dobbins, John G. McGinn, Keith Crane, Seth G. Jones, Rollie Lal, Andrew Rathmell, Rachel M. Swanger, and Anga Timilsina, *America's Role in Nation-Building: From Germany to Iraq* (Santa Monica: RAND, 2004).

what President George Bush called one of the biggest bargains of all time, CIA and special forces officers handed out \$70 million in \$100 bills to local warlords, such as Ismail Khan in the west, General Abdul Rashid Dostum, General Mohammed Fahim, and Ustad Atta Mohammed in the north, and Harzat Ali in the east.<sup>107</sup> Many of these warlords, including numerous smaller ones, were also deeply connected to a variety of illicit economies, including the drug trade.

The United Nations Assistance Mission in Afghanistan (UNAMA) adopted a similar minimalist approach, seeking to limit its involvement, avoid waste and duplication problems, and to encourage Afghans themselves to assume responsibility for their own reconciliation and reconstruction. An underlying rationale for this so-called “light footprint” approach was to force donor nations to accept responsibility for assisting Afghanistan, and not simply hand the burden over to the U.N.<sup>108</sup> Under the light-footprint UNAMA approach, a country was designated to be in charge of critical governance-building roles: the United States was thus designated to be in charge of training Afghanistan’s new army, Germany in establishing Afghanistan’s police, Japan in disarming and reintegration militias, Italy in establishing rule of law and carrying out a reform of the judiciary, and the United Kingdom in carrying out counternarcotics policy. After the presidential elections in the fall of 2004 that elected the previously appointed Hamid Karzai as the president of the country and the parliamentary elections of the fall of 2005, the Afghan government itself has also increasingly been involved with these processes. By September 2006, the Afghanistan national army fielded about 35,000

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<sup>107</sup> See, for example, Pankaj Mishra, “The Real Afghanistan,” *New York Review of Books*, 52 (4), March 10, 2005: 46.

<sup>108</sup> See, for example, United States Institute of Peace, *Establishing the Rule of Law in Afghanistan*, Special Report No. 117, March 2004.

soldiers while the police had about 50,000 officers, although both have greatly varying quality. Around 60,000 official militia of the warlords were disarmed and the majority of heavy weapons confiscated, but a vast amount of small arms continues floating among the population.<sup>109</sup> Former warlords have become members of the national and local governments, police chiefs, and members of the new parliament.

Meanwhile, several critical security threats have remained and created the context of counternarcotics policies: powerful warlords cum government officials divided along ethnic and tribal lines; anti-Coalition-forces and anti-Karzai-government insurgency; and the critical weakness of the Afghan national government. The mixture of these belligerent actors and the revival of the illicit narcotics economy has led to an emergence of yet another phase of the drug-conflict nexus in Afghanistan.

### ***Approach I: Tacit Acquiescence***

Originally, the mission of the coalition forces during Operation Enduring Freedom was limited to anti-al-Qaeda and anti-Taliban efforts and did not include peacekeeping (taken over by NATO forces) or the post-conflict disarmament of the warlords. Nor did it include any counternarcotics operations. The United States adopted a tacit acquiescence policy. As described by James Dobbins, U.S. special envoy to Afghanistan during and immediately after the invasion, the Bush administration treated Afghanistan only as the opening campaign in a larger war on terrorism and did not want

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<sup>109</sup> International Crisis Group, *Afghanistan Elections: Endgame or New Beginning*, Asia Report No. 101, July 21, 2005, [http://www.crisisgroup.org/library/documents/asia/south\\_asia/101\\_afghanistan\\_elections\\_endgame\\_or\\_new\\_beginning.pdf](http://www.crisisgroup.org/library/documents/asia/south_asia/101_afghanistan_elections_endgame_or_new_beginning.pdf).

to get bogged down there.<sup>110</sup> Given the poor state of the overall economy, the labor-intensive character of the illicit economy, and the presence of traffickers, the prediction of the theory of political capital is that in such a situation the local population and local warlords will cooperate with the U.S. military and provide it with support and intelligence and that belligerent actors will also grow stronger in terms of military capabilities. Positive involvement on the part of other belligerents, such as local warlords, will also increase their military resources and political capital.

The commitment of minimal U.S. military forces to Afghanistan during and after the invasion necessitated an extensive reliance on local proxies. Afghan warlords, frequently with sizable militias numbering in over 10,000 each, were used not only for intelligence gathering, but also directly for military operations against al Qaeda and the Taliban. There was a definite sense among the U.S. military was that the need to rely on the warlords and local population also prevented the military from interfering with the drug trade. In October 2002, General Tommy R. Franks affirmed that the U.S. military would stay clear of drug interdiction.<sup>111</sup> Similarly, when asked about counternarcotics operations, the U.S. military spokesman at the Bagram military base, Sergeant Major Harrison Sarles, commented: "We're not a drug task force. That's not part of our mission."<sup>112</sup> Privately, U.S. officials acknowledged that early drug-suppression efforts would compromise the anti-Taliban effort. Western diplomats admitted that the U.S. military relied on local warlords for intelligence and for troops regardless of their connection to the drug trade: "Without money from drugs, our friendly warlords can't

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<sup>110</sup> Quoted in Anne Barnard, "Afghan Projects Slow to Reach Rural Areas," *Boston Globe*, October 17, 2004. Much of the following information is based on my interviews with U.S. and U.K. government officials.

<sup>111</sup> Eric Schmitt, "U.S. to Add to Forces in Horn of Africa," *New York Times*, October 30, 2002.

<sup>112</sup> Tim McGirk, "Drugs? What Drugs?" *Time*, August 18, 2003.

pay their militias. It's as simple as that."<sup>113</sup> Thus, the U.S. military did not interfere with drug convoys or bust drug labs and storage depots that it encountered.

The U.S. military believed that interdiction would strongly alienate local warlords who were believed to provide vital information and other military assets. Thus, the military not only avoided to directly participate in counternarcotics efforts, but it also was very reluctant to even share intelligence on drug depots and processing plants with other actors, including the United Kingdom, the lead nation for counternarcotics. The presence of the Drug Enforcement Administration personnel was limited to two agents who rarely left Kabul.<sup>114</sup> The arrest in late 2001 and subsequent release of Bashir Noorzai, one of Afghanistan's and Asia's major drug traffickers, epitomized the tacit acquiescence approach. Although Bashir was known to be a major player in the illicit trade and closely linked to the Taliban leaders at the time, he was nonetheless released in exchange for collaborating with the United States and providing intelligence.<sup>115</sup> Intelligence-gathering objectives were clearly driven priority over drug suppression efforts.

Among the warlord favorites of the U.S. military was Hazrat Ali, a powerful commander from eastern Afghanistan backed by 18,000 militias and deeply involved in the drug traffic. Ali rose to prominence after he was hired by the U.S. military to hunt down Osama bin Laden in the Tora Bora region. The failure at Tora Bora aside, Ali's cooperation greatly facilitated information gathering and U.S. troop operations in the area under his control. As Major James Hawver, a reservist in Jalalabad in 2002, commented,

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<sup>113</sup> Ibid.

<sup>114</sup> Ron Moreau and Sami Yousafzai, "Flowers of Destruction," *Newsweek*, 142 (2), July 14, 2003: 33.

<sup>115</sup> Transnational Institute, *Downward Spiral: Banning Opium in Afghanistan and Burma*, TNI Briefing Paper Series, No. 12, June 2005, <http://www.tni.org/reports/drugs/debate12.pdf>: 11, downloaded June 29, 2005. In a much publicized event, Noorzai was later arrested again in 2005 and extradited to the United States.

“He [Ali] was sort of our benefactor. He let it be known that if anybody messed with us, he’d deal with them.”<sup>116</sup> Similarly, in Kandahar Gul Agha Shirzai supplied militia help to the United States anti-Taliban efforts while taxing the opium trade.<sup>117</sup> The overall sense among the U.S. military was that it was necessary to postpone dealing with the narcotics economy to gather vital support from the locals, vital all the more since the numbers of U.S. soldiers deployed to Afghanistan were small.<sup>118</sup> Tacit acquiescence thus greatly facilitated intelligence gathering and other operations of the U.S. military in Afghanistan.

Yet with powerful structural economic drivers pushing toward poppy cultivation and without a systematic effort to address those structural drivers, poppy cultivation inevitably swung back to the very high pre-2000 levels, irrespective of President Karzai’s 2002 ban on cultivating opium poppy. The following description features the structural economic conditions of the Taliban era. Yet it is important to recount them since the widespread view is that the structural economic conditions in Afghanistan today are fundamentally different than during the Taliban era and that counternarcotics policy in Afghanistan is not only cognizant of these structural conditions but designed to change them. In fact, however, counternarcotics policies in Afghanistan are frequently unresponsive to and unaware of the structural drivers, focusing narrowly on crop profitability and the deterrent effect of government punishment of opium peasants and traders. A detailed description of these conditions is also necessary for the understanding of the mechanisms by which the over time more intense drug suppression policies have strengthened the Taliban insurgency.

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<sup>116</sup> Quoted in Anne Barnard and Farah Stockman, “U.S. Weighs Role in Heroin War in Afghanistan,” *Boston Globe*, October 20, 2004.

<sup>117</sup> Rubin (2004).

<sup>118</sup> Author’s interviews with U.S. and U.K. government officials.

First of all, poverty and lack of economic alternatives have remained endemic since the fall of the Taliban, with Afghanistan ranking as one of the world's three lowest per-capita GDP countries.<sup>119</sup> Around 6.4 million people out of estimated 30 million people do not have enough to eat on a yearly basis, and 37% of the population are not able to meet basic needs (including non-food items).<sup>120</sup> Until 2005, a large and devastating seven-year drought caused most crops to fail. At least one third of farmers surveyed by the United Nations Drug and Crime Office reported alleviation of poverty as a principal driver in their decision to grow drugs.<sup>121</sup>

The second key driver for the renewed large-scale cultivation of opium poppy has been the persistence of the credit system based on opium and the abject lack of availability of an alternative microcredit system, described above. Moreover, the Taliban ban on opium poppy cultivation drove many peasants further into debt, only perpetuating dependency on opium cultivation. This problem of indebtedness is compounded by the relatively high price volatility of farmgate opium prices in the short term, especially as a result of external shocks such as eradication. In the first instance, eradication prevents farmers from repaying their debt, driving them deeper into debt. At the same time, it again pushes up prices that have been declining as a result of relatively unmitigated production, and hence makes growing opium poppy a possible and frequently the only way to get out of debt. Moreover, since the fall of the Taliban, the financial structure based on opium has also deepened to include the calculation of rent, sharecropping, and

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<sup>119</sup> Christopher Ward and William Byrd, *Afghanistan's Opium Drug Economy*, World Bank Report No. SASPR-5, December 2004.

<sup>120</sup> Carlotta Gall, "Seven-Year Drought Puts Afghanistan on the Brink," *New York Times*, December 12, 2004.

<sup>121</sup> United Nations Office on Drugs and Crime, *Afghanistan: Farmers' Intentions Survey 2003/2004*, [http://www.unodc.org/pdf/afg/afg\\_fis\\_report\\_2003-2004.pdf](http://www.unodc.org/pdf/afg/afg_fis_report_2003-2004.pdf), downloaded August 08, 2005.

land tenure on the basis of opium. Increasingly, it is difficult to obtain access to land without a delivery of opium payments, and hence without the willingness to cultivate poppy.<sup>122</sup> Growing opium poppy thus provides not only access to on-farm income, but because of the typical mixed cropping system practiced in Afghanistan, it also provides the means of producing food crops for household consumption.<sup>123</sup>

High transaction costs have also continued to make it difficult for farmers to participate in licit economic activities. The continuing lack of infrastructure makes it extremely difficult to deliver products to local markets. Especially in the case of perishable goods, such as many agricultural products, this lack of infrastructure can make such economic activity completely unviable. Moreover, even if goods do not spoil on the way to the local markets, they frequently require that at least one member of a household be away from the family for a considerable amount of time. Opium continues to be picked up by traffickers in the village. The persisting lack of irrigation and fertilizers further compounds the unviability of legal crops, unlike opium. The nonperishable opium can also be stored easily and thus allows peasants to maintain access to income even during the winter months. In fact, many farmers store about 20% of their opium harvest.<sup>124</sup> Pakistani traffickers also facilitate opium cultivation by sending comprehensive extension teams to new growing areas and offering financial incentives and technical assistance to farmers growing poppy.<sup>125</sup>

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<sup>122</sup> Mansfield (2004b).

<sup>123</sup> For details, see Mansfield and Pain: 3.

<sup>124</sup> UNODC (2003-04): 35.

<sup>125</sup> Rubin (2004): 8.

Price profitability is another important factor driving the decision to grow drugs, though frequently not the prime one.<sup>126</sup> Although the farmers capture only a tiny fraction of the overall profits from the drug trade (3-4%),<sup>127</sup> and although they frequently earn enough only to make ends meet, they nonetheless earn a better income than from many economic activities. For example, in the 2004 growing season, an Afghan farmer could expect a gross income of \$12,700 per hectare under poppy cultivation. Given the average size of land under poppy cultivation of slightly more than 0.3 hectare, the average gross income of an poppy farmer was around \$3,900 for his family (\$594 per capita) if he sold all of his opium production immediately after harvest time, and more if he sold some later<sup>128</sup> – a fortune in a country where many people live on less than one dollar a day. Of course, opium debt and other expenditures would substantially reduce the net income. At those price levels, for wheat to become competitive with opium, opium prices would

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<sup>126</sup> Mansfield (2001).

<sup>127</sup> United Nations Drug and Crime Office, *The Opium Situation in Afghanistan*, August 29, 2005, [http://www.unodc.org/pdf/afghanistan\\_2005/opium-afghanistan\\_2005-08-26.pdf](http://www.unodc.org/pdf/afghanistan_2005/opium-afghanistan_2005-08-26.pdf), downloaded September 06, 2005. For example, in 2000, a kilogram of dried opium sold in Afghanistan for \$30– an all time low from the normal price of several hundred dollars per kilogram. Ten kilograms of opium thus generated \$300. In Moscow, a major transshipment point for heroin heading to Western Europe, a kilogram of heroin (processed from 10 kg of opium) then sold for \$30,000, and the same kilogram of heroin sold at retail levels in gram units brought as much as \$150,000. See, Nancy Lubin, Alex Klaitis, and Igor Barsegian, *Narcotics Interdiction in Afghanistan and Central Asia*, 2002, [http://www.eurasianet.org/policy\\_forum/lubin012902a.pdf](http://www.eurasianet.org/policy_forum/lubin012902a.pdf), downloaded August 03, 2004. Opium is smuggled out of Afghanistan to Western Europe by several routes: a) through Central Asia and Russia; b) through Iran, Turkey, and Eastern and Southern Europe; and c) through Pakistan and then Central Asia and Russia. Increasingly, the Pakistani route also feeds markets in Asia, including traditional consuming countries, namely Iran and Pakistan. New information also indicates that Afghan heroin appears to be reaching the United States as well (author's interviews with U.S. and Afghan government officials, December 2005), although United States continues to be predominantly supplied by opiates from Latin America.

<sup>128</sup> UNODC (2003-04): 35 and UNODC (2004a). The United Nations Office on Drugs and Crime estimates an average yield of 30 kg of dried opium from a hectare of land.

have to fall to levels of \$10 per kg or less from the current \$200 per kg<sup>129</sup> -- rather difficult to achieve even with vast overproduction of poppy.

A factor perhaps even more important than price profitability appears to be price stability. In surveys conducted in the opium-growing villages, peasants highlighted risk management as a crucial consideration in their decision what crops to plant each year. Although *daily* opium prices fluctuate by up to 30 percent, long-term price data and farmers' assessment indicate a fairly stable market.<sup>130</sup> Legal products, especially those with intense external competition, tend to be much more volatile even over the long term, and hence considerably more risky.

Earnings from opium poppy cultivation also make it hard for other economic activities to compete with growing poppy. During 2003, for example, although farmers could earn as much as \$12 a day cultivating opium, the U.S. Agency for International Development (USAID) only offered between \$3 and \$6 a day to its Afghan employees.<sup>131</sup> Similarly, being a tailor generates a daily wage of 30 cents.<sup>132</sup> Greater earnings from poppy allow for acquisition of property beyond immediate subsistence needs. Those who grow opium can afford to buy TVs, electric generators, motorcycles, and even cars as well afford medical care in Pakistan and large dowries for their daughters. Growing poppies is thus not simply survival in the face of grinding poverty, but also about upward mobility.

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<sup>129</sup> UNODC (2003-04): 35. When farmgate opium prices fell in Afghanistan before the Taliban ban to \$30 per kilogram as a result of overproduction and costs of hiring itinerant workers for harvest increased, even wheat temporarily sold at higher prices than opium.

<sup>130</sup> Pain: 1, 19.

<sup>131</sup> Jim Lobe, "Afghanistan: Concerns Grow Over Taliban Resurgence, Opium," *Global Information Network*, January 29, 2004, <http://proquest.umi.com/pqdweb?did=533932931&sid=8&Fmt=3&clientId=5482&RQT=309&VName=PQD>, downloaded August 03, 2004.

<sup>132</sup> Stephane Allix, *La Petite Cuillère De Schéhérazade* (Paris: Ramsay, 1998): 48-52.

Finally, growing opium poppy is extremely labor-intensive, thus allowing for a large segment of the rural population to be employed in the illicit economy. The high labor-intensivity of opium poppy cultivation and harvesting thus provides employment for itinerant labor to weed and harvest.<sup>133</sup> For example, the 2003-04 crop from 131,000 hectares sown with poppy would have generated approximately 46 million labor days of which potentially one third would have been hired labor.<sup>134</sup> As David Mansfield and Adam Pain estimate, “where a household has more than one male able to follow the staggered weeding and harvesting season [there is a several week difference in weeding and harvesting between the south and the north of Afghanistan], the off-farm income generated from opium poppy can last up to five months, and it is usually higher than the on-farm income generated as a sharecropper.”<sup>135</sup> In short, given the structural conditions after the fall of the Taliban, cultivation of opium poppy continues to be economically superior to other economic activities for vast portions of the rural population.

It should thus be hardly surprising that despite Karzai’s ban on poppy cultivation, the removal of the Taliban by U.S. forces led to a vast expansion of opium poppy cultivation, back to the pre-2000 levels. The following table lists the cultivation levels.

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<sup>133</sup> The need to hire itinerant labor both contributes to the spread of opium poppy cultivation and limits the size of the spread. It contributes to the spread of cultivation because itinerant workers learn not only how to grow and harvest opium, but also personally experience the economic advantages of the activity and bring this knowledge back to their communities. At the same time, however, costs of itinerant labor are substantial, and the need to hire itinerant labor to collect the opium resin limits the size of the plot a farmer can sow with poppy, since, if he sowed too much, he and his family would not be able to collect the resin nor afford a large number of itinerant workers.

<sup>134</sup> David Mansfield, *Diversity and Dilemma: Understanding Rural Livelihoods and Addressing the Causes of Opium Poppy Cultivation in Nangarhar and Laghman, Eastern Afghanistan*, GTZ Project for Alternative Livelihoods in Eastern Afghanistan, PAL Internal Document No. 2, December 2004, [http://www.gtz.de/de/dokumente/en-LIVELIHOODS\\_STUDY\\_PAL\\_ID\\_NO\\_2.pdf](http://www.gtz.de/de/dokumente/en-LIVELIHOODS_STUDY_PAL_ID_NO_2.pdf), downloaded January 08, 2005.

<sup>135</sup> Mansfield and Pain: 3.

Opium Production in Afghanistan Since 2001 <sup>136</sup>					
(in metric tons)					
2001	2002	2003	2004	2005	2006
190	3,400	3,800	4,200	4,100	6,100

In 2006, opium poppy was cultivated on 165,000 hectares of land in Afghanistan. Although this number represents only about 3.65% of arable land in Afghanistan, drug cultivation and traffic generates over 50% of Afghanistan's GDP. The number of villages growing opium poppy increased dramatically since the fall of the Taliban. The production in the north of the country, in provinces such as Badakshan, also expanded dramatically. Although the north produced drugs during the era of the Northern Alliance hunkering there from the expanding Taliban, its production frequently amounted only to six percent of total production. After 2002, Badakshan emerged as one of the major producing provinces.<sup>137</sup> Moreover, unlike in other drug producing countries, poppy cultivation in Afghanistan is not limited to remote areas inaccessible to the government: it is everywhere.

The United Nations thus estimates that 2.9 million Afghans or 12.6% of the population are involved in opium cultivation.<sup>138</sup> Yet this number fails to capture the true size, scope, and economic importance of the drug economy. It does not include the itinerant laborers hired during harvest times and their families; those who live off of imports purchased with drug profits, such as durable consumer goods, fuel, and

<sup>136</sup> UNODC (2005) and UNODC (2004a). Global opium production has remained stable over many years, hovering at around 4,400 metric tons. Since the mid-1990s, however, Afghanistan has captured a progressively greater and greater share of the market, and production is significantly concentrated there. See, United Nations Office on Drugs and Crime, *Executive Summary: Global Illicit Drug Trends 2003*, [http://www.unodc.org/pdf/report\\_2003-06-26\\_1\\_executive\\_summary.pdf](http://www.unodc.org/pdf/report_2003-06-26_1_executive_summary.pdf), downloaded August 08, 2004; and UNODC (September 2006).

<sup>137</sup> Mansfield (2004a): 1.

<sup>138</sup> UNODC (September 2006).

medicines; those who profit from the development of local production and sales underwritten by drug profits; or those who benefit from the development of local services, such as teashops and resthouses, for traffickers. Even as U.S. officials point to the real estate boom and business activity visible in many Afghan cities as a sign of progress, the reality is that such progress is in large part financed by profits from the drug industry.<sup>139</sup>

Apart from facilitating U.S. military operations and coinciding with the expansion of poppy cultivation, tacit acquiescence toward narcotics on the part of the U.S. military also resulted in the entrenchment of powerful warlords in the drug trade since the warlords were given free run.<sup>140</sup> As indicated earlier, the most notorious of these was Hazrat Ali. Although bin Laden escaped from Tora Bora, Ali managed to maintain his power and prominence. Backed by General Mohammad Fahim, he threatened his rivals with American air strikes, as he appointed himself the security chief of Nangarhar province. In this position, he consolidated his control over the drug trade. Poppy farmers from Nangarhar described how Ali had encouraged and closely supervised the cultivation and trafficking of opium: Ali's men came to the villages in pickup trucks, bought raw

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<sup>139</sup> Rubin (2004). It also needs to be mentioned that such as large-scale unmitigated illicit economic activity carries some serious negative economic effects. So far, in Afghanistan, it has been contributing to inflation, pushing up prices of food, consumer goods, and real estate. It has also led to real estate speculation and currency destabilization. Furthermore, the size of the illicit economy dwarfs government revenues, which in 2005 were only 4.5 percent of GDP, one of the lowest rates in the world. See, "Creeping towards the Marketplace," *Economist*, 378 (8463), February 4, 2006: 38. Large cultivation of illicit crops, easy access to drugs, and the return of refugees from Pakistan, a country that has a major drug addiction problem, also contributed to a major rise in the number of opiate addicts in Afghanistan, totaling perhaps as much as four percent of the population. "Asia: Demand-Driven – Drug Addiction in Afghanistan," *Economist*, 370 (8358), January 17, 2004: 53.

<sup>140</sup> I am not arguing that the U.S. military actively encouraged the participation and/or entrenchment of the warlords in the drug trade, but the direct consequence of the minimalist and light-foot-print approaches was the inability and early unwillingness to prevent the warlords from consolidating their power vis-à-vis the Kabul government, including by becoming entrenched in the drug trade. See, also Pierre-Arnaud Chouvy, "Narco-Terrorism in Afghanistan," *Terrorism Monitor*, 2 (6), March 25, 2004.

opium, and at first transported it across the border to Pakistan for processing, but later processed it into heroin in labs that sprung up in Nangarhar itself.<sup>141</sup>

Sponsorship of the illicit economy generated political capital for Ali. A 2003 interview by Ron Moreau and Sami Yousafzai with a 35-year-old farmer from Nangarhar, Ghulam Shah, illustrates the attitudes of the local population toward Ali and poppy cultivation in Nangarhar at the time. During the Taliban ban on opium cultivation, Shah was barely able to feed his family and became heavily indebted. However, after the removal of the Taliban and the sponsorship of poppy cultivation by Ali, Shah went back to poppy cultivation, succeeded in breaking out of debt, and expecting to make about \$9000 from 25 kilograms of opium – an immense fortune for him. With this money, he could afford to take his teenage daughter to Pakistan for a kidney transplant. He praised god and Ali for his good fortune: “We are all Hazrat Ali’s soldiers. We all work for him.”<sup>142</sup> Ali was even reputed to be handing out AK-47s among the villagers for protection.

In addition to Hazrat Ali, other commanders also took advantage of U.S. hands-off approach not only to narcotics, but crucially to the warlords themselves, and solidified their power positions and their control over the drug trade. Wielding large amounts of firepower and manpower, the warlords acquired positions of official political power by becoming governors and police chiefs. From the position of official power, they further consolidated their control over the drug trade. The slow disarmament process frequently allowed them to find ways around the disarmament requirements by hiding weapons or complying with the militia disarmament agreements only after they had secured control

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<sup>141</sup> Mishra: 47. See also, Phillippe Grangereau, “Afghanistan: Dans le Nangarhar, la mafia de l’opium regne en maitre,” *Liberation*, October 9, 2004.

<sup>142</sup> Moreau and Yousafzai: 29.

and loyalty of the military and police in their region. Allowing their police and military to participate in the drug trade, such as by taxing farmers and traffickers, helped the ex-warlords-now-government-officials to secure the necessary loyalty.

In Kandahar, Gul Agha Sherzai, a prominent warlord, who with the help of U.S. air strikes captured the city of Kandahar from the Taliban in 2001 and was governor of the province until 2004, was known to be deeply involved with the drug traffic, providing his military and police officials to ride along with and protect the 50-to-70 vehicle drug convoys heading to Iran. Commanders in Sherzai's militias were also buying opium poppy from the farmers.<sup>143</sup> Under Sherzai's supervision of the province, opium cultivation increased by 140 percent between 2004-2005 growing season.

Another prominent warlord-cum-governor deeply involved in the drug trade was Mohammad Atta. While giving out interviews from his governor's mansion in Mazar-I-Sharif in the Balkh province near Uzbekistan about his extensive eradication efforts and disarmament measures, Mohammad stashed away large amounts of weapons and protected the smuggling of drugs into Uzbekistan. When the Karzai-appointed police chief seized a large shipment of opium, Mohammad arrested him and kept him locked up in his house for several days.<sup>144</sup> Mohammad Atta also engaged in large-scale fighting with the Uzbek warlord Abdul Rashid Dostum, himself deeply involved with the drug trade, over the control of opium poppy fields and smuggling into Uzbekistan. Similarly,

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<sup>143</sup> Ibid. Gul Agha Sherzai was replaced by Haji Assadulah Khalid as the governor of Kandahar in 2005 while Sherzai was moved to Nangarhar.

<sup>144</sup> Mishra: 47.

in the south, the governor of Helmand, Sher Mohammad Akhund, was deeply involved in the drug trade.<sup>145</sup>

At the most basic level, the warlords-cum-government officials tax the poppy peasants. The farmers reported having to pay on average one tenth of their opium harvest to local commanders/government officials, either in kind or in cash.<sup>146</sup> The actual size of the rent paid to the local commander depends on the personal relationship between the commander and the farmer. The closer the relationship, the smaller the tax. By lowering the taxes, local warlords thus buy loyalty from the population and increase their political capital.<sup>147</sup> Thus, in north-west Afghanistan, some peasants from a different ethnic group than that of the commander have to pay up to 40% of their harvest earnings.

Overall, the trade is very ethnically divided, with local ethnic-based cultivation and smuggling networks emerging and little cross-ethnic integration taking place. As in many consuming countries, there appear to be multiple segmented drug markets in Afghanistan, rather than one large national market.<sup>148</sup> The direct consequence of the existence of the ethnically segmented markets and the reinforcement of the ethnically-based segmentation by the warlords is the reinforcement of the power of the warlords-cum-governors. By giving their own ethnic group preferential access to the drug market – lower taxes, better protection, and greater marketing opportunities – the warlords can

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<sup>145</sup> In 2005, Akhund was appointed by President Karzai to the upper chamber of Afghanistan's parliament, the House of Elders. It is also important to note that individuals sponsoring or more directly participating in the drug trade occupy positions of power not simply in regional and local governments, but at every level in the country's political and economic governing structures. Other warlords, many of them with various ties to the drug trade, include Pashtun warlord Pasha Khan Zadran in Khowst province; Shia Karim Khalili in the Bamiyan province and the central Hazarajat region; Haji Abdul Qadir in Nangarhar; Amanullah Khan in Ghor province; and Abdul Salam and Zaher Naibzada in Herat.

<sup>146</sup> UNODC (2003-04): 36.

<sup>147</sup> In some villages in the north, no taxes were levied on the peasants, but the peasants were not allowed to sell at local bazaars and could only sell their opium to traders approved by the local commander who in turn demanded a facilitation fee for allowing the traders to enter the village. *Ibid.*

<sup>148</sup> Pain (2006): 23.

obtain large political capital from their ethnic/tribal group. Although the ex-warlords now government officials are currently not involved in fighting – a situation that may possibly change given Karzai’s decision to arm the ex-warlords to fight against the Taliban insurgency – the ability of the regional powerbrokers to obtain political capital from sponsorship of the illicit economy contributes to centrifugal forces in Afghanistan. The significance of the political capital and the ability of the warlords to extract such political capital from ethnically-based drug networks and its impact on the insurgency will become even more prominent in the later discussion of the post-Taliban eradication.

Moreover, like the mujahideen commanders in the 1980s, the post-Taliban warlords also have progressively learned how to most effectively exploit the illicit economy. They tax not only cultivation, but also labs at the rate of 12-15%, and also charge a 15-18% transportation fee for providing secure transportation routes.<sup>149</sup> Like Ali in Nangarhar, General Mohammad Daud, a senior commander in northern Afghanistan, not only protected and facilitated smuggling of opium into Tajikistan, but also invested in operating several heroin refineries in the area under his control, and over time moved toward exporting refined heroin (a much more valuable commodity) instead of raw opium. Overall, the warlords/ government officials provide credit, extension services, cash income, and security guarantees to local poppy farmers, thus generating important political capital.

The warlords continue to pose important security and political threats to the Kabul government. They continue to pose these threats despite the fact that several prominent warlords, such as Ismail Khan from Herat, were removed by President Karzai from their regional government positions and given positions in the national government and even

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<sup>149</sup> UNODC (2004a).

though there is a sense in Kabul that the warlords are simply paper tigers. First of all, occasional infighting among the warlords over drug smuggling and other power base sources erupts, such as among Dostum and Mohammad in 2003, or among Ismail Khan, Amanullah Khan, Abdul Salam, and Zaher Naibzada in 2004. The Kabul government is frequently unable to put down such outbreaks of violence. Second, while accumulating vast personal resources and a large power base, the governors refuse to turn over income from the province taxes to the national government. Third, the warlords accumulate large political capital from sponsoring the drug economy. Fourth, because of their political and material strength, Karzai is also forced to compromise with the warlords on major policy issues, a situation that results in policy paralysis in key areas.<sup>150</sup> The commanders are not in a position to fundamentally physically challenge the Kabul regime as long as foreign forces remain in the country and protect the regime. However, their local power – greatly enhanced by their positive involvement in the illicit narcotics economy -- prevents Kabul from exercising control over the regions and thus hampers national governance.

In sum, tacit acquiescence to counternarcotics thus resulted in several outcomes: It greatly facilitated information-gathering and other military operations of the U.S. forces in Afghanistan. However, in the absence of a policy to disempower the warlords challenging the Kabul regime, it also resulted in the entrenchment of the warlords and government officials in the drug trade and the consolidation of their relative power vis-à-vis the government in Kabul.

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<sup>150</sup> See, for example, Mishra (2005); Larry Goodson, "Afghanistan's Long Road to Reconstruction," *Journal of Democracy*, 14 (1), January 2003: 82-99; and Kathy Gannon, "Afghanistan Unbound," *Foreign Affairs*, 83 (3), May/June 2004: 35-46.

## ***Approach II: Compensated Eradication***

While the U.S. military maintained a tacit acquiescence approach to drugs, Britain, the lead nation for counternarcotics, adopted a two-pronged counternarcotics approach: compensated eradication and interdiction. In 2002 the British government pledged to reduce opium cultivation by 70 percent in five years, and Karzai reaffirmed his prohibition against growing poppy.<sup>151</sup> As one drug policy expert put it, Karzai's ban resulted in "a gradual shift from what was seen to be an open and legitimate market to one that was illegal but in the eyes of many still legitimate."<sup>152</sup> The prediction of the conventional wisdom is that under compensated eradication, the physical resources of the warlords will be significantly diminished while there will not be a change in the government's and intervention forces' political capital. The theory of political capital, however, predicts the change from tacit acquiescence to compensate eradication will fail to bankrupt the warlords involved in the illicit economy. And if the compensation aspect of the policy fails to offset the hardship on the local population resulting from eradication, compensated eradication will also decrease the political capital of the government and the international community operating in Afghanistan and alienate and radicalize the local population.

Under the compensated eradication program in place during the 2002-03 growing season, Britain promised to pay \$350 to the farmers for one jerib of poppy eradicated to mitigate the serious negative repercussions of eradication on the livelihood of the peasants. Altogether it committed approximately \$36.75 million of British aid money and

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<sup>151</sup> Peter Osborne and Lucy Morgan Edwards, "A Victory for Drug-Pushers," *Spectator*, 292 (9121), May 31, 2003: 26-7.

<sup>152</sup> Pain: 20.

another \$35 million of international aid money to the program.<sup>153</sup> Although Britain was seriously committed to reducing opium production in Afghanistan, the compensation program failed not to reduce the extent of poppy cultivation (in fact, opium production kept steadily increasing) and improve the livelihood of the rural population.

Several major problems emerged. First of all, money was not distributed to farmers directly, but given to local authorities who were then to compensate the farmers. More frequently than not, the commanders and governors simply pocketed the money, not distributing any to the farmers. Many farmers who actually eradicated their fields did not get any compensation and quickly soured on the scheme, alleging betrayal by Karzai and the international community. The following comments from a Nangarhar farmer (quoted by John Burns) expressed the sense of alienation of the rural population due to compensated eradication: “When the Taliban fell, we were happy, because they took away our freedom, they forced us to go to mosques, they made us grow long beards. But now we are not happy, because the governments that control Karzai, the American and the British, are cruel. They freed us from one evil, and now they have delivered us into another one.”<sup>154</sup> The next growing season, poppy cultivation increased dramatically.

Local commanders in charge of the compensated eradication also demanded that farmers pay them bribes if they wanted to avoid having their fields eradicated. As a result, the 2002-03 eradication campaign generally targeted only the poorest and most vulnerable farmers, while the poppy plantations of the wealthy and influential were not

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<sup>153</sup> Ibid.

<sup>154</sup> John F. Burns, “Afghan Warlords Squeeze Profits from the War on Drugs, Critics Say,” *New York Times*, May 5, 2002.

destroyed.<sup>155</sup> By being highly selective in whom they targeted, the local commanders were able to obtain important political IOUs from influential elites, thus accumulating greater political capital. Many government officials responsible for implementing the compensated eradication policy also owned poppy farms themselves, but invariably failed to eradicate their own holdings, even though they kept the compensation money.

Second, fraud became a major problem. Local commanders declared much larger areas of land cultivated with poppy than was actually the case, and hence collected very large sums of money. Since the poor security situation did not allow for independent surveyors to assess the extent of cultivation in individual districts or ascertain to whom the poppy field belonged, there was no independent verification procedure in place, and the British authorities simply relied on the input of the local authorities to determine the amount of money to be disbursed. Thus, even though the warlords collected vast some of money, they failed to supervise or enforce eradication, thus obtaining triple amount of financial resources (from their own drug holdings, from bribes of those whose poppy they did not eradicate, and from compensation funds for committing to destroy drug cultivation). Crucially, they also obtained political capital for not eradicating.

Third, the money quickly ran out since much it was overpaid to or confiscated by local commanders. As a result, the compensation per jerib kept steadily shrinking from the promised \$350 per jerib to \$40 per jerib.<sup>156</sup> At that level, even the actually disbursed compensation did not allow peasants to make ends meet without continuing to grow poppy. Moreover, the level of compensation and the entire compensated eradication scheme did not take into account the structural drivers of poppy cultivation, including the

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<sup>155</sup> Anthony Fitzherbert, "The Impact of Afghan Transition Authority's Poppy Eradication Programme on Rural Farmers," Mercy Corps Mission Report, September/October 2003.

<sup>156</sup> Osborne and Edwards.

level of indebtedness of the farmers and microcredit access. The scheme did little to figure out what the farmers could grow after the scheme was carried out and how alternative livelihood programs could overcome the structural drivers. The compensated eradication scheme actually threatened to drive farmers who participated in it further into debt. The case of a thirty-three year old farmer in Nangarhar typified how the scheme ignored the structural drivers of production. The farmer was expected to obtain \$5000 from his poppy harvest. If he participated in the compensated eradication scheme, he would receive less than \$1000, a considerable loss. But he also owed \$1,160 to a local trader and faced ruin and punishment if he failed to repay. Obviously, had he participated in the compensated eradication scheme, he would not have been able to repay.<sup>157</sup>

Fourth, moral hazard also emerged as a major problem. Not only did local authorities overdeclare the area cultivated with poppy, farmers apparently also started growing more than would have otherwise been the case. Because collecting opium milk from poppy capsules is very labor-intensive, the number of acres individual peasants can seed with poppy is limited by the number of people in their family who can be employed during the harvest time and by the financial resources available to hire itinerant laborers. Although small peasants frequently own only few “jeribs” of land, they usually plant only a portion of their total land with poppy. If they sowed poppy their entire land, they would not have enough manpower to collect all opium resin and would waste part of their harvest. However, when they were paid by the government to destroy their poppy plants, they were relieved of the need to collect all of the opium resin, and therefore could seed larger acreage with poppy in order to extract greater compensation from the government.

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<sup>157</sup> Burns.

Moral hazard also became a regional issue. Because of different climactic conditions, cultivation in Nangarhar takes place several months earlier than in Badakhshan in the north where poppy is a spring crop. Farmers in Badakhshan witnessed the compensation scheme in the east, and substantially increased production in the north, expecting to be compensated at the same rate. Paying compensation for eradication thus increased cultivation.

Finally, the eradication proposal generated violent protest and civil unrest. Peasants in the Helmand province, disgruntled with the Karzai government's effort to eradicate, alleged with chagrin that during the U.S. military invasion, Hamid Karzai had promised to let them grow poppy in exchange for their help in toppling the Taliban regime, and that they now felt betrayed. The Karzai government denied these allegations.<sup>158</sup> In the subsequent peasant protests trying to prevent eradication, the police killed eight farmers and wounded dozens of others, generating widespread resentment. Similarly, in Nangarhar, up to 10,000 farmers blocked roads and attacked police and eradication teams with stones. The spontaneous protests in Nangarhar congealed into more systematic organized violence against the fragile state as several tribes joined forces to stop eradication.<sup>159</sup> The assassination of Vice President Abdul Qadir Arsala and attempted murder of then Minister of Defense Mohammad Fahim were also blamed on the opponents of eradication.<sup>160</sup>

In short, paradoxically, compensated eradication vastly increased both the financial resources of local commanders and alienated the peasants from the Karzai

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<sup>158</sup> Lakshmanan.

<sup>159</sup> "Asia: Poppies Bloom Again; Drugs in Afghanistan," *Economist*, 363 (8269), April 22, 2002: 66.

<sup>160</sup> Institute for War and Peace Reporting, *Farmers Enraged by Poppy Crackdown*, April 11, 2002, [http://www.iwpr.net/?p=rca&s=f&o=176816&apc\\_state=henirca200204](http://www.iwpr.net/?p=rca&s=f&o=176816&apc_state=henirca200204).

government and international community. It thus accomplished exactly the opposite of what it, consistent with the conventional view of narcoinsurgency, it had promised—namely, to limit the resources of the warlords and reduce opium poppy production. In fact, opium cultivation dramatically expanded while the compensated eradication scheme was in place. Furthermore, the eradication scheme also generated a large negative externality: the destabilization of key regions in Afghanistan and alienation of a large segment of the population from the Kabul government and its external sponsors. The predictions of the theory of political capital of illicit economies thus materialized, whereas the prediction of the conventional view failed.

Meanwhile, interdiction was not making any serious progress in limiting the extent of cultivation or the power of the warlords involved with the drug trade either. British interdiction efforts were clearly at odds with U.S. tacit acquiescence policy, and the U.S. maintained the upper hand. As domestic and international criticism of British ineffectiveness in stamping out drug production kept mounting, Britain was getting increasingly frustrated with the unwillingness of the U.S. military to cooperate in any way with counternarcotics operations, including not sharing intelligence on prominent traffickers. Prime Minister Tony Blair was even prompted to raise the counternarcotics cooperation issue, at least in intelligence sharing, with President Bush. To improve effectiveness, in early 2004 Britain established an elite interdiction unit, the Afghan Narcotics Special Force (ANSF), nominally responding directly to Karzai's cabinet, but operating under the control of British Special Forces. In its first year, the unit seized 75

tons of opiates, destroyed 80 labs, and dismantled two opium bazaars.<sup>161</sup> But despite the interdiction efforts, there was no significant impact on Afghanistan's drug trade.

### ***Approach III: Forced Eradication and Beefed-Up Interdiction***

As a result of both exogenous factors – U.S. domestic politics – and the evaluation of existing counternarcotics policies as having failed to significantly decrease production, the counternarcotics policy changed further in the direction of more intense suppression measures in 2004. Instead of compensated eradication, forced eradication and beefed up interdiction were now undertaken. Given the new government response to the illicit economy, the conventional view thus predicts that belligerent actors – be they ex-warlords and the resurgent Taliban – will be deprived of physical resources; the legitimacy of the national government and international actors in the country will remain unchanged; and the support of the local population for the government and the belligerents will remain unchanged. The theory of political capital of illicit economies, by contrast, predicts that forced eradication will fail to significantly decrease the physical resources of the belligerents while it will undermine the political capital of the government and the counterinsurgency forces and other international actors. It will also increase the political capital of the belligerents, including of the Taliban.

### ***Sources of Policy Change toward Eradication***

Ironically, by the spring 2004, criticism of the failure to eliminate narcotics from Afghanistan started coming strongly from the United States. Amidst a host of U.S. newspaper articles reporting on the “explosion” of opium poppy cultivation in

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<sup>161</sup> TNI (2005): 10.

Afghanistan and editorials urging strong action, pressure to make more resolute progress toward eliminating poppy in Afghanistan also mounted from Republicans in U.S.

Congress, including prominent members of the House International Relations Committee and the Appropriations Committee.<sup>162</sup> The criticism was compounded by the presidential election campaign, with Democratic nominee Senator John Kerry castigating the Bush Administration for failing to stamp out drugs in Afghanistan. Statements about Afghanistan becoming a narcostate and the drug cancer consuming all that had been achieved in Afghanistan became commonplace. The Executive Director of the United Nations Office on Drugs and Crime Antonio Maria Costa, for example, declared that “opium cultivation, which has spread like wildfire throughout the country, could ultimately incinerate everything – democracy, reconstruction, and stability. ... The fear that Afghanistan might degenerate into a narco-state is slowly becoming a reality.”<sup>163</sup>

In the summer of 2004, the Pentagon thus undertook a major revision of its Afghanistan policy, expanding the mission of the U.S. military to include help for President Karzai to uproot drugs and drug lords. Written by Robert Andrews, a retired CIA and Defense Department official for the Pentagon’s Afghanistan groups, the revision concluded that “[t]he narcotics problem has become a major impediment for ridding Afghanistan of warlords, the Taliban, and al Qaeda.”<sup>164</sup> The decision followed an earlier revision of U.S. policy to beef up reconstruction and stabilization efforts by establishing the so-called Provisional Reconstruction Teams (PRTs) which were designed to provide

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<sup>162</sup> See, for example, Christopher Blanchard, *Afghanistan: Narcotics and U.S. Policy*, Congressional Research Service, CRS Report for Congress, December 7, 2004.

<sup>163</sup> Antonio Maria Costa, Executive Director, UNODC, “Letter of 11 November 2004,” <http://www.colombo-plan.org/www/images/pubs/pdf/unodcnov2004.pdf>

<sup>164</sup> Jim Hoagland, “A New Afghan Policy,” *Washington Post*, August 8, 2004. Author’s interviews with U.S. government officials, summer 2004.

assistance in rebuilding local infrastructure and ensuring local security, but not to perform police functions.<sup>165</sup> Under the new guidelines which were officially announced in March 2005, U.S. military forces in Afghanistan were to provide support for counternarcotics operations, including “transportation, planning assistance, intelligence, [and] targeting packages,” as well as *in extremis* support for Drug Enforcement Administration and Afghan officers who come under attack.<sup>166</sup> Already in December 2004, Lt. Gen. David W. Barno, then the top American commander in Afghanistan, announced that the U.S. military was conducting three wars in Afghanistan: 1) a hunt for al Qaeda and the Taliban leaders; 2) a campaign against Taliban and Qaeda networks; and 3) a campaign against provincial warlords, drug traffickers, and other centrifugal forces.<sup>167</sup> Although the U.S. military’s mission was expanded to include some counternarcotics interdiction support, there was nonetheless a strong sense in the Pentagon that participating in eradication efforts (until then conducted by the British and Afghan government) would severely jeopardize U.S. military operations. If American troops were seen to be eradicating the population’s only livelihood, the American forces overall mission would be unhinged. Thus, a senior Pentagon official commented: “But this is not about burning crops or destroying labs. Eventually it is all about finding a better option for Afghans who have to feed their families.”<sup>168</sup> The sentiment of many British soldiers operating in Afghanistan under NATO command was also that counternarcotics operations would jeopardize their counterinsurgency mission. As a

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<sup>165</sup> As of January 2006, there were 9 ISAF (International Security Assistance Force deployed to Afghanistan for peacekeeping and stabilization purposes in 2002) PRTs and 14 Coalition PRTs.

<sup>166</sup> Thom Shanker, “Pentagon Sees Antidrug Effort in Afghanistan,” *New York Times*, March 25, 2005. Author’s interviews with U.S. government officials, Spring 2006.

<sup>167</sup> Eric Schmitt, “Afghans’ Gains Face Big Threat in Drug Traffic,” *New York Times*, December 11, 2004.

<sup>168</sup> Shanker.

British counterinsurgency soldier returning from Afghanistan commented after the British government announced that British soldiers would now also be employed in interdiction: "The guys have been out there, building relationships with local people that brings in crucial intelligence and keeps us safe. If the same guys start kicking down doors and reporting on ordinary people who are just trying to earn a living in difficult circumstances, then they are not going to see us as friends anymore."<sup>169</sup> Participation in eradication and interdiction was thus believed by the militaries to undermine the relation between the counterinsurgency forces and the local population in two ways: 1) It destroyed the people's means of survival. 2) It threatened to further alienate the locals by increasing the extent and frequency of the highly unpopular door-to-door searches that tremendously antagonized the local population, especially in the vital and unstable Pashtun regions, but which would be necessitated by the envisioned eradication and interdiction campaigns.<sup>170</sup> The need to win the hearts and minds of the population was clearly seen by the militaries and incompatible with the participation of the counterinsurgency forces in eradication.

Uncompensated and "resolute" eradication, however, was seen as the primary tool to eliminate narcotics from Afghanistan by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs. In an April 2004 testimony titled: "Are British Counternarcotics Efforts Going Wobbly?" before the U.S. Congress, then Assistant Secretary of State for International Narcotics and Law Enforcement Affairs,

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<sup>169</sup> Jason Burke, "British Troops Wage War on Afghan Drugs," *Observer*, December 5, 2004.

<sup>170</sup> Author's interviews with Afghan government officials, Winter 2005. See, Christian Parenti, "Afghanistan: The Other War," *Nation*, 282 (12), March 27, 2006: 11-17. Several observers have criticized American methods in Afghanistan as heavy-handed, overly focused on military means, failing to win the hearts and minds by not delivering economic progress to the population, culturally insensitive, and tainted with allegations of torture and murder at the U.S. Bagram prison.

Robert B. Charles testified that the opium economy was “a cancer that spreads and undermines all we are otherwise achieving in the areas of democracy, stability, antiterrorism, and rule of law.”<sup>171</sup> In a later statement, he insisted that the British-led eradication effort used

targeting criteria [that], while designed with the best of intentions, may be overly restrictive. Criteria such as requiring alternative development to be in place and a preoccupation with avoiding any possibility of resistance may restrict our ability to collectively reach key eradication goals. ... [I]f there is heroin poppy there which needs to be eradicated, we shouldn't be delaying, we shouldn't be making it conditional upon providing an instant and available additional income stream. [For some farmers] it is just survival, but what we have to do is to make it crystal clear there is such a thing as a rule of law. ... [T]he point being that our priority should not be, it seems to me, some kind of misplaced sympathy.<sup>172</sup>

Thus, in November 2004, Assistant Secretary Charles announced that there would now be a Plan Afghanistan, tantamount to Plan Colombia.<sup>173</sup> He also made sure that UNODC was on board with aggressive eradication, flying to meet with Costa and suggesting that U.S. funding, the UNODC largest contribution, would be jeopardized unless UNODC expressed a clear support for eradication. Responding in a letter on November 11, 2004, Costa stated: “I am happy that large scale eradication is under consideration.”<sup>174</sup>

The United States also put a major pressure on President Hamid Karzai, who had just won the country's first free presidential elections, to resolutely tackle narcotics. At a

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<sup>171</sup> Robert B. Charles, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, “Are British Counternarcotics Efforts Going Wobbly?” Testimony before Testimony Before the House Committee on Government Reform Subcommittee on Criminal Justice, Drug Policy, and Human Resources, April 1, 2004, <http://www.useu.be/Article.asp?ID=90CBBA80-50B2-4939-8E76-FC1C3C041D2B>, downloaded August 08, 2004.

<sup>172</sup> Robert B. Charles, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, “Counternarcotics Initiatives for Afghanistan,” On-The-Record Briefing, Washington, DC, November 17, 2004, <http://www.state.gov/p/inl/rls/prsr/spbr/38352.htm>, downloaded November 28, 2004.

<sup>173</sup> Transnational Institute, “Plan Afghanistan,” Policy Briefing, No. 10, January 2005, <http://www.tni.org/policybriefings/brief10.pdf>, downloaded June 13, 2005.

<sup>174</sup> Costa.

major counternarcotics policy conference in Kabul in December 2004, attended by U.S. Vice-President Richard Cheney, Karzai declared a jihad against poppies, describing the Afghan opium trade as a worse “cancer” than terrorism or the Soviet invasion of 1979 and promising to eradicate all poppy in Afghanistan in two years.<sup>175</sup> Not everyone in Karzai’s government was comfortable with the new anti-drug jihad. The Afghanistan’s finance minister at the time, Ashraf Ghani, announced a multi-pronged approach to counternarcotics including interdiction, economic growth, an agricultural strategy, and judicial reform, but warned against premature eradication, arguing that “[D]estroying that trade without offering our farmers a genuine alternative livelihood has the potential to undo the embryonic gains of the past three years. The likely results would be widespread impoverishment, inflation, currency fluctuations and capital flight.”<sup>176</sup> Karzai nonetheless reaffirmed the prohibition against growing poppy, while Afghanistan’s National Council of Ulemas issued a *fatwa* against opium cultivation and trade.<sup>177</sup> The Karzai government also undertook a bureaucratic restructuring, upgrading the Counter-Narcotics Directorate to a Ministry, and designating the Counter-Narcotics Police of Afghanistan as the main narcotics law enforcement agency.

Despite the flurry of proclamations by the Afghan government, the United States nonetheless considered the Afghan counternarcotics agencies as too unreliable and the British as too squeamish about the political fallout to entrust them with executing “Plan Afghanistan.” Instead, the U.S. turned to private contractors. Several months earlier, the

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<sup>175</sup> John Lancaster, “Karzai Vows to Combat Flourishing Afghan Opium Trade,” *Boston Globe*, December 10, 2004.

<sup>176</sup> Ashraf Ghani, “Where Democracy’s Greatest Enemy Is a Flower,” *New York Times*, December 11, 2004.

<sup>177</sup> A U.S. public-relations company, the Rendon Group, was hired to help Karzai with the propaganda against growing drugs, with a contract of \$1.4 million that was renewed in 2005 by another \$3.9 million funded through the U.S. Department of Defense.

United States had provided Dyncorp with a \$50 million contract to train an Afghan eradication team, consisting of four units of 150 men each. This eradication team, the Central Poppy Eradication Force (CPEF), was to be responsive to the United States directly through Afghanistan's Ministry of Interior, sidelining the Afghan Counternarcotics Ministry and the British. Under U.S. supervision, CPEF and to be used for eradication. The major ally of the U.S. in the Ministry of Interior became Lt. Gen. Mohammad Daoud, an ex-warlord from the north with major connections to the drug trade, and now Deputy Minister of Interior for Counternarcotics.<sup>178</sup> The United States also set up a similar parallel interdiction unit, a covert squad of special trained agents, known as Task Force 333. Yet London and Kabul did not want to simply witness the evisceration of their influence over counternarcotics and established the Central Eradication Planning Cell under the Ministry of Interior (not under the Ministry of Counternarcotics) in an effort to regain some control over decision-making on when and where to deploy the Central Poppy Eradication Force in order to "ensure that eradication by CPEF is targeted in a way which takes account of alternative livelihoods."<sup>179</sup> The momentum was nonetheless on the side of eradication.

For a while, aerial spraying was under major consideration in the U.S. government. In December 2004, reports of a mysterious spraying plane eradicating crops in Nangarhar appeared. Villagers from Nimla claimed that their poppy fields were ruined

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<sup>178</sup> As mentioned earlier, Karzai's government included many prominent politicians and warlords with ties to the drug trade. They had accumulated so much military power and political capital that Karzai did not feel he could avoid making deals with them. Apart from giving them positions of power, Karzai announced in January 2005 an amnesty for drug traffickers who come clean, end their participation in the drug trade, and invest their illicit earnings in local development. As Deputy Minister Lt. Gen. Daoud explained, under the amnesty program, "[w]e would ask them [politicians prominently connected to the drug trade] to join the government and use their influence and capital to help eliminate poppy and to support the economy." See, Stephen Graham, "Afghanistan May Pardon Drug Dealers," *Associated Press*, January 10, 2005.

<sup>179</sup> Bill Rammell, "Afghanistan Counter Narcotics Implementation Plan," Ministerial Statement, Parliamentary Under Secretary of State for Foreign and Commonwealth Affairs," London, March 10, 2005.

by a plane spraying herbicide. Angry protests broke out. The Governor of Nangarhar, Din Mohammad, claimed that only the Americans could have sent the plane. Both the Karzai government and the United States denied involvement or authorization. According to Western officials in Kabul, “very senior” members of the Bush administration resolved to eradicate by aerial spraying, much to the consternation of President Karzai who feared that major protests and instability would follow. But in late 2004, spraying was at least temporarily called off, apparently opposed by then U.S. Ambassador to Afghanistan, Zalmay Khalilzad who believed that it would significantly antagonize the population and undermine stabilization efforts.<sup>180</sup>

#### *Effects of Eradication and Interdiction on Counterinsurgency*

The pressure to undertake forceful and extensive eradication and intensified interdiction took place amidst a worsening security situation and a strong increase in the anti-coalition/anti-Karzai insurgency. The insurgency (or insurgencies), located mainly in the south and east of the country along the border with Pakistan, is composed of Taliban and al Qaeda forces, of the forces of warlord Jalaluddin Haqqani, and of Gulbuddin Hekmatyar’s Hezb-I-Islami Gulbuddin (HIG). Since 2004, the number of foreign jihadists operating in Afghanistan both independently and as part of the Taliban has also been increasing. The extent of coordination between the Taliban, Haqqani, and Hekmatyar appears to vary over time. As of September 2006, the number of Taliban’s insurgents is estimated at 2,000 to 5,000. Haqqani’s forces and HIG are estimated at 200-300 each. Since 2004, the insurgent forces have managed to keep continually increasing

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<sup>180</sup> Author’s interviews with U.S. government officials, summer 2004 and spring 2006. See, also Mishra (2005), and Sonni Efron, “US Backs Away from Afghan Aerial Spraying,” *Los Angeles Times*, January 22, 2005.

the level of insecurity, especially in the rural Pashtun belt in provinces, such as Helmand, Kandahar, Khost, Nangarhar, Kunar, Paktya, Zabul, and Uruzgan. Afghanistan's capital Kabul has also seen a major surge of instability, especially in terms of suicide attacks. The daily attacks on pro-Karzai government officials, NGO workers, and coalition forces have been increasing both in scope and intensity.<sup>181</sup> The insurgents use Pakistan's North-West Frontier and Baluchistan provinces as a safe-haven where they have an extensive ethnic support network among Pakistan's Pashtun population, including refugees from Afghanistan, and the radical madrasas of the Deobandi movement.<sup>182</sup>

The anti-coalition forces oppose the core developments in Afghanistan. Their declared goals are to rescue Afghanistan from being dominated by American infidels and their stooges,<sup>183</sup> reclaim the supreme role of the Pashtuns from the Northern Tajiks who they allege dominate the post-Taliban government, and reconstitute a strict interpretation of Islam as the law of the land.<sup>184</sup> The insurgents have been tapping into the popular resentment with Karzai over slow progress of economic reconstruction. In the fall of 2005, such protests paralyzed Kabul for several weeks. Commented a Kandahari landowner and tribal leader, quoted by N.C. Aizenman: "We don't want any more

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<sup>181</sup> See, Larry P. Goodson, *Security in Afghanistan: The Continuing Challenge*, Center for American Progress, October 7, 2004, and Bhatia, Lanigan, and Wilkinson.

<sup>182</sup> Seth G. Jones, "Averting Failure in Afghanistan," *Survival*, 18 (1), Spring 2006: 111-128.

<sup>183</sup> The Taliban forces have exploited both actual and alleged actions by the U.S. military that are inconsistent with Islam, such as the alleged desecration of the Koran at Guantanamo, human rights abuses at the U.S. prison at Bagram, and the heavy-handed search by U.S. military personnel in Afghan villages, including barging into women's quarters and searching women. The distribution of leaflets by the U.S. military threatening to cut off humanitarian aid if the population failed to provide information on the Taliban and al Qaeda was also met with widespread popular resentment (as well as being condemned by many NGOs that believed that their ability to operate as neutral humanitarian agencies was severely compromised). Many NGOs have become seen by Afghans as corrupt and usurping the money that was to be distributed among the population while living the high life in Kabul.

<sup>184</sup> See, for example, Larry P. Goodson, "Bullets, Ballots, and Poppies in Afghanistan," *Journal of Democracy*, January 2005, 16 (1): 25-38.

promises on paper. We want Mr. Karzai to keep his word.”<sup>185</sup> The popular expectations of economic progress have greatly exceeded the actual ability of the national government to deliver economic, and even security, improvements to the population, especially in the rural areas; and the insurgents are increasingly able to exploit the frustration.<sup>186</sup>

The intensity of the insurgency has not been lessened by an announcement of amnesty for rank-and-file Taliban in January 2005. Although the terms of the amnesty were rather extensive, with only a core of about 150 Taliban leaders not being able to qualify for amnesty, the program has apparently not made much of a difference in quenching the insurgency.<sup>187</sup> Moreover, the insurgency has been adapting to coalition countermeasures. Instead of massing in large bands of up to several hundred to attack coalition forces, the insurgents have shifted their strategy to attacking vulnerable targets, such as NGOs and local government officials, in smaller units, an approach that allows them to blend in among the population and avoid detection. They also continue to threaten and intimidate the local population, such as by burning down co-ed schools.<sup>188</sup> Several times, they have managed to take over and hold several towns. Furthermore, the insurgents have adopted Iraqi jihadist methods, including roadside remotely-detonated bombs and especially suicide bombings. The insurgents have managed to seed effective fear among the rural population while the government or the coalition forces have not been able to provide adequate levels of security in vast segments of the territory. The

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<sup>185</sup> N.C. Aizenman, “Afghans Look Back to the Taliban,” *Washington Post*, March 20, 2005.

<sup>186</sup> Barnard.

<sup>187</sup> Under the Afghan electoral law, former Taliban who had given up their links to armed groups and did not have a criminal record could even participate in the parliamentary elections. However, according to Afghan officials, only a few fighters took advantage of the amnesty while many fighters did not trust the terms and feared being sent to Guantanamo or Bagram. Author’s interviews with Afghan officials who had interrogated some of the captured Taliban fighters, Winter 2005.

<sup>188</sup> So far, the Taliban has managed to close down 200 schools.

U.S. has reacted quickly with overwhelming levels of airpower when it encounters a Taliban group, but has not been able to field sufficient troops to patrol the situation on the ground and provide basic security in the rural villages and increasingly even in cities in the Pashtun belt.<sup>189</sup> NATO, which under British leadership had taken over the counterinsurgency mission in the south of Afghanistan in summer 2006 and is supposed to transition into take over the counterinsurgency and stabilization operations through the entire country, has been trying to redress this problem, and bring security to greater parts of the south. But, despite several large-scale operations and large numbers of the Taliban killed, it continues to face a serious and extensive challenge from the Taliban.

Crucially, the insurgency has also managed to capitalize on drug eradication. Forceful eradication and interdiction not only alienated the rural population from the Kabul government and resulted in instability, but it also led to a reintegration of the Taliban into the drug trade. During the 2004-05, a major forced eradication campaign was undertaken again by regional governors and officials and also by the Afghan police and the Central Poppy Eradication Force. The Central Poppy Eradication Force, trained by Dyncorp and preferred by the U.S. as the main eradication instrument, eradicated 217 hectares, retreating from Kandahar after it faced armed opposition by angry peasants.<sup>190</sup> In the Maiwand and Panjwayi districts of Kandahar province, protesters blocked roads and opened fire on the eradication teams. In fact, the attempt at eradication generated almost a provincial revolt, and the eradication teams did not dare to come back.

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<sup>189</sup> Despite the increasing insecurity, the United States is planning to reduce its presence in Afghanistan by 4,000 to 6,000 during 2006 as NATO takes over counterinsurgency operations in the south and increases the number of its forces.

<sup>190</sup> The Central Poppy Eradication Force efforts ended up costing at least \$100,000 per every hectare eradicated. See, "After Victory, Defeat," *Economist*, 376 (8435), July 16, 2005.

The U.S. Embassy in Kabul blamed the Karzai government. In a memo sent from the United States Embassy in Kabul in advance of Karzai's visit to Washington and leaked to the *New York Times*, the U.S. Embassy officials criticized Karzai for being "unwilling to assert strong leadership" in eradication and doing little to overcome the resistance of "provincial officials and village elders [who] had impeded destruction of significant poppy acreage." The memo went on to criticize Karzai for being unwilling to insist on eradication "even in his own province of Kandahar."<sup>191</sup> Western diplomats admitted that Karzai did not want to generate further instability before the September 2005 parliamentary elections. Meanwhile, the local Kandahari leaders who opposed eradication acquired large political capital with the local population, even if antagonizing Kabul and the international community. After Karzai placed a new governor in the Kandahar province, the governor-led eradication in 2005-06 appeared to increase, and the total area of cultivation decreased by 3 percent.<sup>192</sup>

Deployed in safer areas, the Afghan National Police eradicated 888 hectares in 2004-05, while the provincial government eradication efforts, especially in Nangarhar, resulted in 4,007 hectares of poppy eradicated during the 2004-05 season.<sup>193</sup> In 2004-05, eradication in the Helmand suppressed the area of cultivation by 30-40 percent. In the way it was conducted, it followed the pattern of compensated eradication. Local Helmand officials in charge of counternarcotics used eradication to eliminate competition while boosting their opium profits, by pushing prices up. Provincial government authorities would also impose a "double" tax on cultivation: first, a tax not to eradicate early in the

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<sup>191</sup> David S. Cloud and Carlotta Gall, "U.S. Memo Faults Afghan Leader on Heroin Fight," *New York Times*, May 22, 2005.

<sup>192</sup> UNODC (September 2006).

<sup>193</sup> United Nations Drug and Crime Office, *The Opium Situation in Afghanistan*, August 29, 2005, UNODC (2005).

season, and then a second tax at the time of crop harvest.<sup>194</sup> The selective enforcement of eradication has also resulted in a significant vertical integration of opium production in the hands of a few large traders with good connections to (if not outright positions in) provincial government. The ability to selectively impose eradication increases not only the financial profits of the local authorities, but also their political capital. Local authorities obtain political capital by choosing not to eradicate the poppy fields of their fellow tribesmen, thus reinforcing their legitimacy based on tribal affinity while undermining other tribal drug competition. They also choose not to eradicate the poppy field of those who support them or whom they seek to coopt, including local influentials.

Carried out by local authorities also, the intensified interdiction is similarly manipulated to acquire control over the industry, displace intermediaries, and buy specific political allegiance. Local authorities tax both bazaars and traffic. One protection fee is paid to government authorities to avoid seizures by government authorities, and another protection fee is paid to government authorities to secure their protection from drug trafficking rivals who try to rob the drug cargo.<sup>195</sup> Local officials are also widely reputed to capture trading convoys, take half of the opium, sell it to other traders, and release the remaining opium and the captured traders for a fee. In one reported case, a ton of opium was seized and then appeared to be publicly burned while in fact, the burnt product was a substitute and the genuine opium was sold to traders.<sup>196</sup> The targeting of smaller traders and collection of protection fees and political IOUs from bigger traffickers who frequently come from politically influential and economically powerful elites with tribal followings once again leads to the displacement of local intermediaries,

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<sup>194</sup> Pain.

<sup>195</sup> Ibid.: 19-21.

<sup>196</sup> Ibid.: 21. See also Burns.

the vertical integration of the opium economy, and the concentration of power in the hands of provincial elites. Like eradication, interdiction carried out by such provincial elites thus allows them to acquire not only increased profits, but also increased political capital. At the same time, the elites blame the need to carry out eradication on the national government in Kabul, channelling peasant anger toward the capital.

Although interdiction conducted by national government forces – whether Task Force 333 or Afghan Narcotics Police -- also takes place, it suffers from a similar selectivity problem. Rather than targeting a specific ethnic group or specific political opponents or economic rivals, it frequently targets smaller traffickers and local bazaars, while ignoring powerful ex-warlords cum important government figures. The latter are still too powerful militarily and politically -- not incidentally as a result of their deep and frequently long connection to the drug trade – to be frontally confronted and arrested.<sup>197</sup> Furthermore, involvement with the narcotics trade is massively pervasive at all levels of the state – village, provincial, and national. Karzai's amnesty scheme to traffickers who come clean and invest their profits in local development was driven by the inability to take on the drug traffickers in any systematic way.<sup>198</sup> Consequently, national interdiction efforts target mainly lower level traffickers and small local bazaars or key traffickers with links to the Taliban and without a major current political and military base. Hence the arrests and extradition to the United States of Haji Bashir Noorzai, Haji Baz Mohammad, and Bashir Ahmad Rahmany. The effect of national interdiction operations is thus once again the displacement of small level-local traffickers and the concentration of control over the trade in the hands of powerful political elites.

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<sup>197</sup> Moreover, because of the slow rebuilding of the judiciary, it is not clear whether even if indicted, such prominent traffickers could in fact be tried and sentenced. See, for example, Goodson (2005).

<sup>198</sup> Author's interviews with U.S. and Afghan officials, Summer 2004 and Fall 2005.

The selective attacks on the drug business competition through the subversion of eradication and interdiction have resulted in a new alliance between the attacked opium traders and the Taliban. This alliance is especially prominent in Helmand, but increasingly emerging in the greater Pashtun belt. The Taliban has built new inroads to local elites affected by selective eradication and interdiction. These local elites are frequently important regional power-brokers with substantial clout among the local population whom they can encourage to help the Taliban insurgency. At least some elders in the area have openly declared themselves sympathetic to the Taliban, accusing the provincial government of being corrupt, exploitative, and robbing them of their livelihood. Elders in the Sangin regions even admitted to joining the Taliban, angry at the local government for preying on them and robbing them.<sup>199</sup> The Taliban has also been hired by the drug traffickers to provide protection for drug convoys and poppy farms. Prior to eradication and extensive interdiction, these elites-cum-opium traders did not need the Taliban for protection since the playing field was largely level. But eradication has driven them to embrace and hire the Taliban. Thus, the first mechanism by which the Taliban has been able exploit eradication to obtain political capital is to obtain political support from local elites – traditional, elected, or criminal. Needless to say, by providing its protection to these elites, the Taliban is once again reaping large financial revenues from the drug trade.

The Taliban has capitalized on widespread resentment toward eradication and offered itself as a protector not simply to the opium traders, but also to poor opium farmers. The group has sought to capture and transform the large uncoordinated and spontaneous protests against eradication into organized activity under its leadership. In

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<sup>199</sup> Carlotta Gall, "Taliban Rebels Still Menacing Afghan South," *New York Times*, March 2, 2006.

southern Afghanistan, the Taliban has hammered posters on walls offering to protect the poppy fields and warning eradication forces against destroying the crops.<sup>200</sup> The Taliban has killed several members of the eradication teams. The Taliban have been most active in major poppy-growing regions, such as the Helmand, and in major trading areas subject to interdiction, such as Sangin. As a result of the Taliban's increased military activity, opium poppy cultivation in the Helmand increased from 26,500 in 2005 ha to 69,324 ha in 2006 or by 162%, despite the fact that eradication efforts in the province also increased (from 1046 ha eradication in 2005 to 4973 eradicated in 2006). The Taliban's protection for the traders and the farmers and the overall increase in its military activity overall significantly hampered eradication efforts in Helmand. The Taliban has thus been able to demonstrate not only its desire to protect the population against eradication, but also its potency.

The awareness of the Taliban to the political costs of interfering with the opium economy and the political capital to be generated by positive engagement in the illicit economy is demonstrated by the following episode. In the spring of 2006, the Taliban came to a village near Kandahar and informed the villagers to pack up and leave since there was going to be fighting.<sup>201</sup> The villagers approached the Taliban fighters and asked them to postpone the operation for a few weeks so the fighting did not prevent them from harvesting their opium crop. Amazingly, the Taliban agreed, retreated, and came back to the village only after the crop was harvested. The second mechanism by which the

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<sup>200</sup> "5 Afghan Officers Die in Opium Area Attacks," *Boston Globe*, March 12, 2006. The other component of the insurgent forces in the south, HIG, has also actively attacked counternarcotics officials.

<sup>201</sup> I am grateful to Sarah Chayes for this information. Because of the possible threats to local Afghans, both the names of the village and its inhabitants are not used.

Taliban acquires political capital as a result of the government eradication is to obtain legitimacy with and support from the local population.

But blanket, nonselective eradication has equally generated political capital for the Taliban. The dramatic eradication in Nangarhar, which has been hailed as a major success, generated the third way in which the Taliban can once again derive political capital and physical resources from the illicit economy. Under the supervision of governor Mohammad Din and police chief Hazrat Ali, cultivation of opium poppy fell by an impressive 95 percent during the 2004-05. With the promises of international aid, the threat of poppy field destruction, and imprisonment of violators, the local authorities managed to persuade many farmers not to cultivate opium poppy and destroyed the fields of those that did not comply.<sup>202</sup> Yet the economic consequences for the population in Nangarhar were devastating. The Cash-for-Work designed to meet some of the economic consequences failed to reach the poorest and most vulnerable farmers.<sup>203</sup> The loss of on-farm and off-farm income for the rural population resulted in household income losses of as much as \$3,400, equivalent of 90 percent of their total cash income.<sup>204</sup>

Overall, alternative livelihoods programs have been slow to reach the population, especially the ones most dependent on the opium poppy economy.<sup>205</sup> Only small progress has been achieved on providing alternative microcredit system to the population and on

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<sup>202</sup> Ali, a major trafficker himself, was cutting profits on traffic in the north of Afghanistan while eradicating in the east. Author's interviews in Afghanistan, September 2005.

<sup>203</sup> Mansfield (2005).

<sup>204</sup> Ibid.

<sup>205</sup> Furthermore, like in Latin America, the United States is once again devoting only a small portion of the overall counternarcotics aid to Afghanistan to alternative development. For 2005, for example, out of the \$780 million for counternarcotics, \$660 million were for eradication and interdiction, and only \$120 million for alternative development. See, Aizenman (2005). Finally, because of the scale of the devastation of the Afghan economy, alternative development will inevitably take a long time and major investments. See, Vanda Felbab-Brown, "Afghanistan: When Counternarcotics Undermine Counterterrorism," *Washington Quarterly*, Fall 2005: 55-72.

rebuilding infrastructure and irrigation. Work of agencies tasked with alternative development, such as USAID and Chemonics, have been complicated by attacks by the Taliban and HIG. In regions with the Taliban's intense military activity, namely Helmand, alternative livelihoods programs have been altogether halted because of the insecurity in the region and threats to Westerners and Afghan employees of international and foreign organizations.<sup>206</sup>

The suppression of the opium base of the overall economy in Nangarhar also resulted in downturns in overall trade in various sectors, including transport, construction, and retail.<sup>207</sup> The pauperization of the rural population was significant. The peasants were profoundly alienated from the local authorities and the Kabul government and intended to go back to growing poppy in the following season. The ban and eradication also undermined the authority of *local* pro-Kabul leaders. Shah Mahnoud, an influential tribal leader in Nangarhar, explained: "I made the decision this season that it would be forbidden to plant poppy. So none of us did. Now I'm not so happy about that. [Disappointed with lack of government aid], farmers will grab my collar and say, You said that we could get aid for not growing poppy and we got nothing!"<sup>208</sup> The undermining of the pro-Kabul provincial leaders and the widespread resentment directly play into the hands of the Taliban. In 2006, cultivation in Nangarhar increased by 346%, the largest increase in the country.

The fate of Hazrat Ali himself is a demonstration of the very large political costs of sponsoring eradication. While supervising eradication, Ali ran for national parliament

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<sup>206</sup> See, for example, Joel Hafvenstein, "Afghanistan's Drug Habit," *New York Times*, September 13, 2006.

<sup>207</sup> Mansfield and Pain: 5-7.

<sup>208</sup> N.C. Aizenman, "Afghan Report Decline of Poppy Crop, Officials Credit Karzai's Appeals, but Warn Aid Is Needed to Ensure Success," *Washington Post*, February 6, 2005.

from Nangarhar. Despite having a strong tribal base in Nangarhar, spending lavishly on the campaign and, as shown before, having previously accumulated considerable political capital from sponsoring the illicit economy in the region, Ali barely eked out a victory in the election. Unlike other traditional warlords and prominent provincial figures, such as Mohammad Muhaqeq and Burhannudin Rabbani, who won with 10-15% of the vote, Ali won only 3.44 percent. Moreover, he performed barely better than several female candidates in Nangarhar despite the fact that Nangarhar is a very conservative province and powerful prominent men such as Ali were expected to perform considerably better than any female candidate.<sup>209</sup> Ali's poor performance amidst his supervision of the extensive eradication reveals the acute political costs of eradication. Thus the third way that eradication generates political capital for the Taliban is by discrediting local pro-Kabul elites that embrace eradication.

Despite intensified counterinsurgency efforts, including on-foot patrols in local villages, the local population has not provided intelligence on the Taliban insurgents. In the majority of cases, U.S. troops have returned from local information-gathering missions only with vague promises of cooperation and staunch denials of having any information on the Taliban. In fact, the U.S. military has even resorted to threatening to cut off aid to local areas if information was not provided.<sup>210</sup>

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<sup>209</sup> For election results analysis, see, Andrew Wilder, *A House Divided? Analyzing the 2005 Afghan Elections*, AREU Research Paper, December 2005, <http://www.areu.org.af/publications/A%20House%20Divided.pdf>, downloaded January 08, 2006; and Ockenden International, *Parliamentary and Provincial Council Results in Afghanistan: An Analysis*, <http://www.ockenden.org.uk/index.asp?id=1648>, downloaded May 18, 2005.

<sup>210</sup> See, for example, Pareti; Pamela Constable, "Afghan Villagers Greet US Hunt for Insurgents with Polite Silence," *Boston Globe*, April 20, 2006; Declan Walsh, "Afghan Civilians Accuse US-led Soldiers of Abuse," *Boston Globe*, June 25, 2006.

On the other hand, the Taliban has been successfully using its opposition to counternarcotics operations to build up a local information network and boost its legitimacy. In a village near Kandahar,<sup>211</sup> the Taliban handed out its phone number to the local people to contact them if they faced problems with U.S. or Afghan soldiers or the Afghan government. About a week later, the villagers caught on to a counternarcotics sting operation in which a prospective opium trader made several visits to the village to buy opium only to be followed with a raid on the villagers' opium crops. So the villagers phoned the Taliban. The Taliban instructed them to invite the suspected informant back and pretend they were interested in selling him more opium. The Taliban then caught him and made him call in the police. When the police came, the Taliban attacked them and killed several policemen, including the police chief. The Taliban has clearly offered itself as a security provider to the local population, while using the relationship to gather intelligence against government officials. The fourth way the Taliban is thus capitalizing on its opposition to eradication is by obtaining intelligence from the local population. At the same time, intelligence-gathering of the counterinsurgency forces are severely hampered by eradication.

The final way in which the Taliban derives political capital and increased military capabilities from eradication is from migration to Pakistan caused eradication. Nangarhar in 2005 once again provides an illustration. The widespread impoverishment of the rural population as a result of the 2005 eradication in Nangarhar led to a large-scale migration into Pakistan. As the peasants were unable to repay their debts because of the suppression efforts, they faced three possibilities: death from the hands of the local trader; liquidation

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<sup>211</sup> I am grateful to Sarah Chayes for this information. Because of the possible threats to local Afghans, both the names of the village and its inhabitants are not used.

of their productive assets and sales of livestock and daughters (as young as three) to generate income to cover the debt; or absconding into Pakistan. Having to give daughters away of course generates further resentment.<sup>212</sup> Even more significant for the Taliban insurgency is the migration to Pakistan. The shelters most easily available to the new economic refugees are the Deobandi madrasas that swelled the ranks of the Taliban in the early 1990s. The Taliban is easily capable of agitating against the Kabul government and its foreign sponsors among the already-alienated people.<sup>213</sup> Once again, these networks in Pakistan are replenishing the Taliban ranks today.

To recap, eradication and the selective interdiction have resulted in the ability of the Taliban to once again inject itself into the drug trade, consistent with the predictions of my theory of political capital of illicit economies. Eradication has antagonized the local population, increased instability and civic unrest, undermined the national government in Kabul, and allowed the Taliban to derive political capital from protecting the drug trade. Selective eradication and interdiction also pushed the traffickers targeted by local law enforcement into an alliance with the Taliban, thus allowing the Taliban to once again collect large financial revenues from protecting the drug trade. The chosen counternarcotics policies have also allowed local ex-warlords cum local government officials to derive both political capital and financial resources from the drug trade, thus consolidating their political power as well as their control over the drug industry – further supporting the theory of political capital of illicit economies. On the other hand, the prediction of the conventional view that eradication will severely limit the belligerents’

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<sup>212</sup> See, for example, Farah Stockman, “Women Pay A Price in War on Afghan Drug Trade,” *Boston Globe*, September 28, 2005.

<sup>213</sup> Vanda Felbab-Brown, “Hasty Eradication Can Sow More Problems,” *Christian Science Monitor*, March 23, 2006. See, also, Carlotta Gall, “Another Year of Drug War, and the Poppy Crop Flourishes,” *New York Times*, February 17, 2006.

physical resources without effecting the political capital of the belligerents, the national government, and the counterinsurgency forces have failed to materialize.

### **Al Qaeda and Afghan Drugs**

Despite frequent claims by U.S. officials that al Qaeda is immensely financial profiting from drug cultivation in Afghanistan,<sup>214</sup> the connection between al Qaeda and the drug cultivation in Afghanistan is actually rather murky. Belligerent groups such as warlords, local terrorists, and insurgents generally profit in one of three ways: by either taxing production or processing, providing protection for traffickers and taxing them for this service, or engaging in money laundering. Taxing production and processing requires at least partial control of the territory engaging in cultivation, which Al Qaeda does not have in Afghanistan today. Similarly, direct trafficking and providing security for traffickers within the source country require an intimate and up-to-date knowledge of territory and of the location of counternarcotics forces and ease in moving through the territory. Some analysts maintain that al Qaeda is making money off of this aspect of the drug trade by supplying gunmen to protect drug labs and convoys.<sup>215</sup> Although some al Qaeda members no doubt have knowledge of Afghanistan's territory, given U.S. anti-al-Qaeda efforts in Afghanistan, it is much easier for non-al-Qaeda actors to provide such services and a much riskier investment for regional drug barons to hire these actors for traffic within Afghanistan. Moreover, as the Taliban has been providing such services, it

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<sup>214</sup> See, for example, Karen Tandy, Drug Enforcement Administrator, "United States Policy Towards Narco-Terrorism in Afghanistan," Testimony to the Committee on International Relations, U.S. House of Representatives, February 12, 2004; Ehrenfeld (2005).

<sup>215</sup> Mirwais Yasini, head of the Afghan government's Counternarcotics Directorate, quoted in McGirk (2004), p. 41. Author's interviews with U.S. and Afghan government officials did not generate any concrete indication of such al Qaeda involvement in the drug economy in Afghanistan.

is not clear how much space al Qaeda has to provide such services, unless one assumes that there is no longer any meaningful distinction between the Taliban and al Qaeda. Although the Taliban is learning from jihadists returning from Iraq, such as in the use of improvised explosive devices and suicide bombing and although leadership structures of both al Qaeda and the Taliban are in hiding in Pakistan and in contact, the focus of the Taliban continues to be solely on Afghanistan and is not fundamentally part of al Qaeda's global operations. Thus, although the Taliban's leadership may coordinate or receive advice from al Qaeda's leadership, there is no evidence that the Taliban participates in al Qaeda's international terrorist operations beyond Afghanistan. It is not clear why the Taliban should be transferring a part of its profits to al Qaeda, instead of keeping it for its own operations.

The best available evidence, however, does seem to indicate that al Qaeda may have penetrated some transit segments of the drug routes outside of Afghanistan. A Baluchistan trafficker linked to al Qaeda's financing, Haji Juma Khan, is believed to be employing a fleet of cargo ships to move Afghan heroin out of the Pakistani port of Karachi. The arrest of Afghanistan's number one drug dealer, Haji Bashir Noorzai, in New York at the end of April 2005 was surrounded by reports that Noorzai had hired al Qaeda operatives to transport heroin out of Afghanistan and Pakistan.<sup>216</sup> It is also possible that al Qaeda could profit from drug-related money laundering, such as through the *hawala* channels. Combating money-laundering from the Afghan opium economy remains the weakest, most underemphasized, and also hardest issue in counternarcotics efforts in the region. In fact, it has not been the mode of al Qaeda's core to collect rents

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<sup>216</sup> Julia Preston, "Afghan Arrested in New York Said to be a Heroin King," *New York Times*, April 26, 2005.

from affiliated or friendly terrorist groups. If anything, al Qaeda has encouraged self-financing.

## **VII. Conclusions**

As in the previous two Latin American cases, in the case of Afghanistan, my theory of political capital of illicit economies performed overwhelmingly better than the conventional view of narcoterrorism and narcoinsurgency. A detailed analysis of over a hundred years of the interaction of military conflict and illicit economies in Afghanistan examined the phenomenon in the context of three major illicit economies – illicit narcotics economy, illicit smuggling with illicit goods, and illicit logging – and various armed groups with different ideologies, goals, and organizations. The analysis found only a few data points that were consistent with the predictions of the conventional view. All of these data points were also consistent with my theory of the political capital of illicit economies. In addition, however, my theory was supported by additional data that clearly contradicted the conventional view. Thus, my theory passed several critical tests that the conventional view failed.

The first data point supporting the conventional view is the desire of British colonial forces to prevent the access of Pashtun belligerents to the drug trade in the 19<sup>th</sup> and early 20<sup>th</sup> century, expecting that the belligerents would increase their strength if benefiting from the economy. This evidence is equally consistent with my theory of political capital of illicit economies. In fact, through the use of interdiction, Britain succeeded in greatly limiting the opium economy in the contested Pashtun areas. But this

did not bankrupt the Pashtun belligerents as the conventional view predicts. Instead, consistent, with my theory the belligerents found other ways of financing and carried on with their insurgency and attacks.

During the 1980s and 1990s, the various mujahideen who became positively involved in the illicit economy obtained not only financial resources, as predicted by the conventional view, but also freedom of action and political capital. Through their positive involvement in the illicit economy, the mujahideen commanders were able to present themselves as new distributors and patrons of the tribes and regions under their command, displacing traditional elites and transforming themselves from warriors to also governing elites. The distribution of the gains from the illicit economy allowed them to obtain legitimacy. They invested a portion of their profits from the illicit narcotics economy into the provision of social services, such as schools, clinics, and local administration. Clearly, such actions were not motivated by a desire to increase financial profits as argued by the conventional view, but by a desire to obtain political capital.

Nor can conventional view easily explain why even warlords who did not need money from the illicit economy because they had income from the trade with gems and in fact objected to drugs on moral grounds, such as Massoud, did not eradicate the illicit narcotics economy in their region or in the region of their opponents. Clearly, pecuniary motives could not have been their motivation, but rather the sensitivity to the political costs of eradicating. In fact, warlords who attempted to eradicate, Nasim Akhundaza and Abdul Qadir, lost large political capital and had to reversed their policy, once again supporting my theory.

As predicted by my theory, positive involvement in the illicit economy also facilitated information gathering of the mujahideen. The mujahideen relied on local inhabitants to provide adequate warning about advancing Soviet forces to such an extent that they often failed to post their own security guards. In areas where the population had fled or were tired of the war, the mujahideen were had essentially no intelligence on Soviet movements. Thus, had the mujahideen eradicated, the population would have been unable to make ends meet, leave the area, and the mujahideen would have been left without intelligence.

Also as predicted by my theory, mujahideen commanders and warlords who were involved in labor-intensive aspects of the illicit economy, such as Nasim Akhundaza, obtained greater popular support than commanders who were only involved in labor-non-intensive aspects of the drug trade, such as Gulbuddin Hekmatyar.

The conventional view cannot account for the Taliban's original impulse to eradicate the illicit drug economy in 1994. More importantly, it cannot account for the reversal of the policy on the part of the Taliban. The only way the conventional view could account for such a reversal is for the Taliban to call off eradication for pecuniary reasons, a motivation that the conventional view singles out as the only reason why belligerents groups embrace illicit economies. Yet, the Taliban clearly did not need the financial income from drugs in 1994 and 1995. It already accessed the illicit smuggling with legal goods, an illicit activity that generated a vast financial income for the Taliban. Instead, as predicted by my theory, the Taliban reversed its policy because of the large political costs: a loss of legitimacy, and, in fact, a physical loss of control over the territory where it carried out eradication. Only after the Taliban abandoned eradication,

was its control over the most naturally pro-Taliban Pashtun south consolidated. As predicted by my theory, the rural population vastly praised the Taliban for sponsoring the illicit economy.

This episode also confirms another argument of my theory – namely, about the effect of the character of the illicit economy on the size and scope of political benefits. Even though the Taliban sponsored the illicit smuggling with legal goods under ATTA while eradicating, this labor-non-intensive illicit economy did not generate the sufficient employment opportunities for the population and political capital for the Taliban to offset the political costs of eradication.

Neither my theory nor the conventional view predicted the 2000 eradication by the Taliban. What is consistent with my theory, however, is the fact that the Taliban was only eradicating in regions where it had firm control, but that elsewhere, such as with the Shinwari tribe, it used bribes; that its prohibition of cultivation started breaking down within a year; and, crucially, that it called off eradication and prohibition on cultivation in September 2001 as the U.S. invasion loomed imminent. Clearly, financial profits were not the reason for calling off eradication, since the Taliban's heroin stockpiles would have allowed it to maintain very large financial income while maintaining eradication. The speed with which the Pashtun south fell during the U.S. military invasion – possibly driven by the alienation of the peasants due to eradication – is also consistent with my theory. However, this evidence is only circumstantial, and sufficient detail for confirming it is lacking. Nonetheless, what is more clearly supportive of my theory are reports of peasants being deeply antagonized by the Taliban's eradication and cooperating with the

anti-Taliban forces on the premise that they would be allowed to grow poppy in exchange for helping to topple the Taliban regime.

In the post-Taliban period, the evidence once again decisively supports my theory. First, the counterinsurgency forces – the U.S. military – adopted tacit acquiescence to the illicit economy. U.S. and British military leaders argued that such a policy was necessary for information gathering, the facilitation of military operations against the Taliban, and for winning the hearts and minds of the local population. In fact, tacit acquiescence did generate such provision of intelligence and other cooperation from various warlords. Even as large political pressures for eradication have built up in other U.S. agencies and institutions, the U.S. military has refused to directly participate in eradication.

Local warlords who have been positively involved in the illicit economy have derived not only large financial benefits from it, but also substantial political capital. The population has praised them for their sponsorship of the illicit economy. On the other hand, the population has condemned eradication. Eradication has led to protests, riots, and social instability. Local elites who have embraced eradication, such as Hazrat Ali in Nangarhar, have suffered severe losses of legitimacy and support, and barely managed to hold on to their traditional power base.

Contrary to the predictions of the conventional view, eradication has failed to bankrupt warlords who benefit from the drug economy. In fact eradication has enhanced not only the warlords' financial profits, but because of its selective nature, also their political capital. Local elites in charge of eradication learned how to manipulate eradication and interdiction to their advantage. They have destroyed only the poppy fields

of their opponents – political competitors or rival tribes – while protecting the illicit economy of their loyalists and tribal supporters, thereby cementing their power base and consolidating their political capital. Moreover, the selective eradication also enhanced their financial profits by allowing them to sell their opium stocks at high prices. They manipulated the counternarcotics operations to remove local traders from the opium economy, thus consolidating their control over the economy and facilitating its vertical integration. Their behavior and the popular reaction to their selective eradication once again supports my theory and disconfirms the conventional view.

Eradication also has failed to bankrupt the Taliban insurgency. The frequency and scale of Taliban attacks have increased while eradication has also intensified. In fact, eradication and the way interdiction have been carried out have had the opposite effect than predicted by the conventional view. During 2001-2003, the military pressure on the Taliban resulted in the Taliban's loss of control over the drug economy, while allowing individual traffickers and local political elites to rise. However, the subsequent eradication has allowed the Taliban to reinsert itself into the illicit economy because local traders as well as the larger population are in need of the Taliban's protection against the eradication teams. As these policies increased the demand for belligerents' protection services for local elites participating in the illicit economy, the traffickers, as well as the broader rural population, they allowed the Taliban to inject itself back in the illicit economy after 2002. The Taliban is thus once again collecting large rents from its protection of the illicit economy. As predicted by my theory, enhanced suppression measures have thus strengthened the previously loose connections between the Taliban and the traffickers and also between the Taliban and the population. More importantly,

eradication has pushed the rural population into the hands of the Taliban. Local elites affected by eradication have come out in support of the Taliban.

The Taliban has been able to translate its protection against eradication into acquiring intelligence. On the other hand, the intelligence provision by the population on the Taliban to U.S. and NATO forces is poor. Eradication also has directly strengthened the Taliban insurgency by causing economic outmigration from Afghanistan to Pakistan, with many of the new refugees refilling Deobandi madrasas and the ranks of the Taliban.

Providing financial compensation for eradication did not redress the counterproductive effects of eradication. Although some of the problems of compensated eradication efforts in Afghanistan were specific to their flawed design – namely, a lack of funds, inappropriate assessment and disbursement procedures, and fraud – and could potentially be overcome by a smarter design, other problems were more permanent and more difficult to eliminate. These include moral hazard – inadvertently motivating peasants to grow more poppy in order to collect greater compensation – and, crucially, the ability of traffickers to outbid the financial compensation offered by the government. Compensation frequently failed to reach those who eradicated, being stolen by local officials in charge of disbursing it, and if it did, the disbursed amount was too small to offset the financial losses of eradication. Like uncompensated eradication, the compensated eradication scheme thus generated widespread protests.

In sum, regardless of their ideology, ethnicity, and internal organization, the various belligerent groups discovered that sponsorship of illicit economies, especially labor-intensive one such as opium poppy cultivation, brings them great political benefits, in addition to financial profits. Thus, since the 1980s various mujahadeen commanders,

warlords, and the Taliban embraced the illicit narcotics economy. Their involvement in the illicit economy followed a learning curve, with individual warlords, mujahideen, and the Taliban becoming progressively more enmeshed in the economy while at the same time providing an example to other belligerent groups to emulate and attracting new entrants into the opium economy.

Belligerent actors also quickly learned that the suppression of the illicit economy is extremely costly politically and very hard to sustain. In the absence of alternative livelihoods in place, eradication alienated, antagonized, and radicalized local populations, making it difficult for local elites to retain control without engaging in extensive repression.

Invariably, eradication failed to bankrupt the belligerent groups participating in the illicit economy. Either they adapted by obtaining funding from other sources, or eradication, paradoxically, increased their financial profits from the illicit economy.

The following chapter provides a summary conclusion. It reviews the central tenets of the two theories – the conventional view of narcoterrorism and narcoinsurgency and the political capital of illicit economies. It summarizes the cumulative evidence from the three cases and evaluates the validity of the two theories. It also highlights other lessons of the study. Finally, the chapter also discusses the contribution of the study to security studies, political economy, and the study of failed states.

## CHAPTER SEVEN - Conclusions

### I. Introduction

The study explored the nexus between illicit economies and military conflicts. It investigated when and how access by belligerents to the production and trafficking of illicit substances affects the strength of belligerents and governments. It showed:

- *through which processes* access to illicit economies affect the strength of belligerent groups;
- *what conditions* influence the size and scope of the benefits (and costs) belligerent groups derive (and incur) from their interaction with illicit economies; and
- how *government policies toward the illicit economies* affect the strength of belligerents and, ultimately, limit, contain, or exacerbate military conflicts.

The study presented a general theory of the relationship between illicit markets and military conflict – *the political capital of illicit economies* -- and contrasted it with the conventional view of the connections between drug trafficking and military conflict. Although the narcotics trade was the predominant focus of the study because it is the most profitable illicit economy and has received the most attention from both policymakers and academics, the drug trade was situated in the study within the larger class of markets for illicit products and services. The study explored the validity of the two competing theories – the conventional wisdom and the political capital of illicit economies theory – through a case-study analysis of Peru, Colombia, and Afghanistan. In these cases, the study examined a variety of belligerent actors covering the ideological spectrum as well

as several illicit economies -- namely, the cultivation of illicit crops, the smuggling with illicit narcotics, illicit smuggling with legal goods, and illicit logging.

In this chapter, I first briefly recapitulate the two competing theories. Second, I summarize the empirical evidence from the three principal cases studies, showing that in each case, the theory of political capital of illicit economies performs considerably better than the conventional view of narcoguerrilla/narcoterrorism. Third, I present additional lessons of the study. Fourth, I discuss the contribution of the study to academic discourse.

## **II. The Conventional View versus the Political Capital of Illicit Economies: The Theories and the Empirical Evidence from the Cases**

### ***The Two Competing Theories***

The conventional view of the relationship between illicit economies and military conflict focuses on the belligerents' physical resources. Informed by both U.S. government analyses<sup>1</sup> and academic literature on narcoterrorism,<sup>2</sup> "greed versus grievance,"<sup>3</sup> the French view of counterinsurgency and its U.S. equivalent "the cost-

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<sup>1</sup> See, for example, Rand Beers, Assistant Secretary for International Narcotics and Law Enforcement Affairs, "Narco-Terror: The Worldwide Connection Between Drugs and Terrorism," a hearing before the U.S. Senate Judiciary Committee, Subcommittee on Technology, Terrorism, and Government Information," March 13, 2002; <http://judiciary.senate.gov/hearing.cfm?id=196>, downloaded April 10, 2003; and Robert Charles, U.S. Policy and Colombia, Testimony before the House Committee on Government Reform, June 17, 2004, <http://reform.house.gov/UploadedFiles/State%20-%20Charles%20Testimony.pdf>, downloaded June 20, 2004.

<sup>2</sup> For example, James Adams, *The Financing of Terror* (London: New English Library, 1986); Rachel Ehrenfeld, *How Terrorism Is Financed and How to Stop It* (Chicago: Bonus Books, 2005); Douglas J. Davids, *Narco-terrorism* (Ardley: Transnational Publishers, 2002).

<sup>3</sup> For example, Paul Collier and Anke Hoeffler, "On the Economic Causes of War," *Oxford Economic Papers*, 50 (4), October 1998: 563-573; Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil Wars," October 21,

2001, [http://econ.worldbank.org/files/12205\\_greedgrievance\\_23oct.pdf](http://econ.worldbank.org/files/12205_greedgrievance_23oct.pdf), downloaded May 18, 2003; David Keen, *The Economic Functions of Violence in Civil Wars*, Adelphi Paper No. 320 (Oxford: IISS/Oxford University Press, 1998); *War* (Boulder: Lynne Rienner, 2000); Mats Berdal and David Keen, "Violence and Economic Agendas in Civil Wars: Some Policy Implications," *Millennium: Journal of International Studies*, 26 (3), 1997: 795-818; and Ross, Michael L. "Oil, Drugs, and Diamonds: The Varying Roles of Natural Resources in Civil Wars," in Karen Ballentine and Jake Sherman, *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 47-72.

benefit school of counterinsurgency,”<sup>4</sup> and the “eradication school of counterterrorism,”<sup>5</sup> the conventional view argues that belligerent groups derive large financial profits from illicit economies. With these large financial profits, terrorists, warlords, and insurgents buy weapons and hence expand conflict, while the government’s relative capabilities vis-à-vis the belligerents shrink. Consequently, the government needs to focus on redressing this change in relative power by eliminating the physical resources of the belligerents through the elimination of the illicit economy.

Moreover, the conventional view frequently maintains that whether or not the belligerent groups ever had any ideological goals, once they interact with the illicit economy, they lose all but pecuniary motivations. Profiting immensely from the illicit economy, they have no motivation to achieve a negotiated settlement with the government.<sup>6</sup> Thus, the appropriate government strategy for defeating the belligerents is to destroy the illicit economy and defeat the then-weakened belligerents.

The conventional view argues that if the government eradicates the illicit economy – sprays the coca plants, burns down the poppy fields – the resources of the insurgents and the warlords will dry up. The belligerent groups will go bankrupt and will be significantly weakened if not altogether defeated. An additional claimed benefit of eradication is that with the drugs no longer entering the global market, consumption will fall dramatically in consumer countries, such as the United States.

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<sup>4</sup> For example, Georges Bonnet, *Les guerres insurrectionnelles et révolutionnaires* (Paris: Payot, 1958); Roger Trinquier, *Modern Warfare* (London: Pall Mall Press, 1964); and Nathan Leites and Charles Wolf Jr., *Rebellion and Authority: An Analytical Essay on Insurgent Conflicts* (Chicago: Markham Publishing Company, 1970).

<sup>5</sup> Walter Laquer, *The Age of Terrorism* (Boston: Little, Brown, 1987); Neil C. Livingstone, “Death Squads,” *Journal of World Affairs*, 4 (3), Winter 1983/84: 239-248.

<sup>6</sup> Collier and Hoeffler (1998); Collier and Hoeffler (2001).

The conventional view also holds that the interaction of belligerents with the illicit economy transforms their identities and goals to such an extent that they are no longer distinguishable from pure criminals. Since they both operate in a global deregulated environment, it makes no sense to treat the terrorist groups and trafficking criminal organizations as two separate and distinct phenomena. Despite some variations, the prevailing conventional view is one of a new conglomerate actor that has emerged out of two once separate types of actors, belligerents and criminals, with virtually identical and unified set of goals and interests. Consequently, it is argued that these actors also need to be fought together and that belligerent groups cannot be defeated in the absence of eliminating the criminal organizations with whom they have merged and/or the illicit economies from which they profit.<sup>7</sup> And aggressive law enforcement against the criminals and the illicit economy will undermine the alliance between the traffickers and the belligerents and turn them against each other.<sup>8</sup>

My theory, *the political capital of illicit economies*, offers an alternative view of the nexus between illicit economies and military conflict and of the strategic interactions between belligerents, traffickers, the population, and the government and explains the dynamics ignored by the conventional view. Informed by various academic critiques of counterdrug policies,<sup>9</sup> literature on transnational crime and criminology,<sup>10</sup> the British

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<sup>7</sup> Rollie Lal, "South Asian Organized Crime and Terrorist Networks," *Orbis*, 49 (2), Spring 2005: 293-304.

<sup>8</sup> Mónica Serrano and María Celia Toro. "From Drug Trafficking to Transnational Organized Crime in Latin America," in *Transnational Organized Crime and International Security: Business as Usual?* Mats Berdal and Monica Serrano, eds. (Boulder: Lynne Rienner, 2002): 141-154.

<sup>9</sup> For example, Peter Reuter "The Limits of Drug Control," *Foreign Service Journal*, 79 (1), January 2002: 18-23; Robert J. MacCoun and Peter Reuter, *Drug War Heresies: Learning from Other Vices, Times, and Places* (Cambridge: Cambridge University Press, 2001); Francisco E. Thoumi, *Illegal Drugs, Economy, and Society in the Andes* (Baltimore: John Hopkins University Press, 2003); C. Peter Rydell, C.

school of counterinsurgency and the “hearts and minds” literature,<sup>11</sup> literature on peasant rebellions,<sup>12</sup> and “the legitimacy school of counterterrorism,”<sup>13</sup> the political capital of illicit economies theory argues that belligerent groups exploiting illicit economies do in fact derive large financial benefits from these illicit economies, and hence increase their strength. However, my theory also, and crucially, maintains that belligerents obtain much more than simply financial profits from exploiting illicit economies and that the resulting increase in the strength of belligerents is much larger and more multifaceted than

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Peter and Susan S. Everingham, *Controlling Cocaine: Supply Versus Demand Programs* (Santa Monica: RAND, 1994); Coletta A. Youngers, and Eileen Rosin, eds. *Drugs and Democracy in Latin America* (Boulder: Lynne Rienner, 2005); Ted Galen Carpenter, *Bad Neighbor Policy* (New York: Palgrave Macmillan, 2003); Cynthia McClintock, “The War on Drugs: The Peruvian Case,” *Journal of Interamerican Studies and World Affairs*, 30 (2 and 3), Summer/ Fall 1988: 127-142; Richard Clutterbuck, *Drugs, Crime and Corruption* (New York: New York University Press, 1995); “Was Failure Avoidable? Learning From Colombia’s 1998-2002 Peace Process,” *The Dante B. Fascell North-South Center Working Paper Series*, Paper No. 14, March 2003, <http://www.miami.edu/nsc/publications/NSCPublicationsIndex.html#WP>, downloaded August 20, 2004; Rensselaer W. Lee, III, *The White Labyrinth: Cocaine and Political Power* (New Brunswick: Transaction Publishers, 1989); and Patrick L. Clawson and Rensselaer W. Lee, III. *The Andean Cocaine Industry* (New York: St. Martin’s, 1996).

<sup>10</sup> For example, Peter Reuter, *Disorganized Crime: The Economics of the Visible Hand* (Cambridge: MIT Press, 1983); Phil Williams, “Transnational Criminal Organizations: Strategic Alliances,” *The Washington Quarterly*, 18 (1), Winter 1994: 57-72; Louise Shelley, “The Nexus of Organized International Criminals and Terrorism,” *International Annals of Criminology*, 1 (2), 2002: 85-93; Diego Gambetta, *The Sicilian Mafia: The Business of Private Protection* (Cambridge: Harvard University Press, 1993); and Emilio C. Viano, José Magallanes, and Laurent Bridel, eds., *Transnational Organized Crime: Myth, Power, and Profit* (Durham: Carolina Academic Press, 2003).

<sup>11</sup> For example, Robert Thompson, *Defeating Communist Insurgency* (London: Chatto & Windus, 1966); Frank Kitson, *Low Intensity Operations* (London: Faber & Faber, 1971); John J. McCuen, *The Art of Revolutionary Warfare* (London: Faber & Faber, 1966); Riley Sutherland, *Winning the Hearts and Minds of the People: Malaya, 1948-1960*, RAND Document No. RM-4174-ISA (Santa Monica: RAND, 1964); Guy Parker, *Notes on Non-Military Measures in Control of Insurgency*, RAND Document No. P-2642 (Santa Monica: RAND, 1962); O’Neill, Bard E. *Insurgency and Terrorism: From Revolution to Apocalypse* (Washington, DC: Potomac Books, 2005).

<sup>12</sup> For example, James C. Scott, *The Moral Economy Peasant* (New Haven: Yale University, 1976); Samuel Popkin, *The Rational Peasant: The Political Economy of Rural Society in Vietnam* (Berkeley: University of California Press, 1979); Mark I. Lichbach, “What Makes Rational Peasants Revolutionary? Dilemma, Paradox, and Irony in Peasant Collective Action,” *World Politics*, 46 (2), April 1994: 383-418; Elisabeth Jean Wood, *Insurgent Collective Action and Civil War in El Salvador* (Cambridge: Cambridge University Press, 2003); Roger Petersen, *Understanding of Ethnic Conflict: Fear, Hatred, and Resentment in Twentieth-Century Eastern Europe* (Cambridge: Cambridge University Press, 2002), and Roy Licklider, “Peasants, Choice, and Civil War,” *International Studies Review* 7 (2), June 2005: 311-313.

<sup>13</sup> Martha Crenshaw, “Introduction,” in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 1-37; Christopher Hewitt, *The Effectiveness of Anti-Terrorist Policies* (Landham: University Press of America, 1984); and Richard E. Rubenstein, “The Noncauses of Modern Terrorism,” in Charles W. Kegley, Jr., ed. *International Terrorism: Characteristics, Causes, and Controls* (New York: St. Martin’s 1990): 127-34.

assumed in the conventional view. By providing a variety of protection and regulation services for the population involved in the illicit economy, belligerent groups also obtain political capital, which consists of legitimacy with local populations and support from local populations. These security and regulation services include: protecting the population against the government efforts to destroy the illicit economy and against the brutality of the traffickers, negotiating better prices on behalf of the peasants, and with the rents from the illicit economy providing otherwise absent social services to the population.

The belligerents' ability to derive these material and political benefits from illicit economies is not uniform and is crucially influenced by a set of structural and policy factors. I do not assume any particular motivation on the part of the actors, beyond the elemental goals of the government to suppress the violent opposition,<sup>14</sup> of the belligerents not to be defeated, and of the traffickers to profit from the illicit economy. I offer a set of general rules that causally relate structural and policy variables to outcomes.

The political capital of illicit economies theory holds that belligerents' involvement in illicit economies affects the strength of belligerents, in both its military and political components. The type of involvement can be *positive involvement*, *negative involvement*, and *no involvement*. Positive involvement<sup>15</sup> means that the belligerents sponsor the illicit economy. This sponsorship includes simple protection of the illicit economy against other actors who are attempting to destroy it as well as direct forms of belligerents' participation in the illicit economy, such as direct trafficking. Negative

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<sup>14</sup> I am thus assuming that the local government is not only motivated to suppress the illicit economy, but is also and primarily interested in eliminating the violent opposition.

<sup>15</sup> By using the terms *positive* and *negative involvement*, I am not making any judgment regarding the moral desirability or policy appropriateness of the behavior. I only use the terms as descriptors of whether the belligerents are embracing and exploiting the illicit economy or attempting to destroy it.

involvement means efforts by the belligerent group to destroy the illicit economy, such as prohibition or eradication. Non-involvement, or neutrality, means that the belligerent group has a laissez-faire policy toward the illicit economy. It does not sponsor the illicit economy in any way, including not providing protection for it, nor does it attempt to destroy it.

The dependent variable “strength of belligerents” comprises two main components: I. *military capabilities* and II. *political capital*, each of which comprises two subcomponents. The subcomponents of belligerents’ military capabilities are: IA) physical resources (money, weapons, and numbers of belligerents) and IB) freedom of action (the ability to optimize tactics with strategy and the available scope of tactical and strategic options). The subcomponents of political capital are: IIA) legitimacy (perception in the population that the actions of the belligerents are beneficial to the population and thus justified) and IIB) support from the population, crucially manifested in a willingness to deny intelligence on belligerents to the government.<sup>16</sup>

Belligerents’ positive involvement in the illicit economy increases the strength of belligerents. In fact, it increases all four elements of strength: physical resources, freedom of action, legitimacy, and support. Belligerents’ negative involvement in the illicit economy decreases the strength of belligerents along these dimensions. Non-involvement in the illicit economy on the part of the belligerents leaves their strength unaffected.

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<sup>16</sup> I recognize that there are interaction effects among the various components of strength. Greater political capital derived from positive involvement in the illicit economy, with a larger segment of the population more intensely supporting the belligerents, will of course also further increase the belligerents’ freedom of action since the belligerents need not fear that the population will provide intelligence on them to the government. Similarly, greater military capabilities allow belligerents to protect a larger area with the illicit economy and to protect it more effectively, thus further increasing their political capital.

The magnitude and scope of the increase in strength of the belligerents resulting from their positive involvement in the illicit economy frequently allow the belligerent group to become entrenched. The group becomes difficult to defeat and gains the potential to expand conflict. Exploitation of illicit economies thus vastly increases the staying power of belligerent groups.

Four factors crucially influence the extent and scope of the change in belligerents' strength as a result of their involvement in the illicit economy. These factors apply both to belligerents' increase in strength resulting from their positive involvement in the illicit economy, as well as to the decrease in their strength resulting from their negative involvement in the illicit economy. These factors are: a) *the state of the overall economy in the region*; b) *character of the illicit economy*; c) *the presence of thuggish traffickers*; and d) *government response to the illicit economy*. These factors function as amplifiers of the overarching causal relationship, i.e. they determine the magnitude of increase (or decrease) in the strength of belligerents. These factors are not on-and-off switches: the posited relationship takes place no matter what value the factors take on, even though under certain combinations of the factors, the increase or decrease in strength is very small.

*The state of the overall economy in the region* is a structural condition outside of the immediate control of the government or the belligerents. This factor captures the level of poverty in the region, the availability of alternative means of subsistence for the population outside of the illicit economy, and the extent to which the local population is dependent on the illicit economy for basic survival. If the economy is poor and a large segment of the population is vitally dependent on the illicit economy, the belligerents

derive large political capital from their sponsorship of the illicit economy. If the economy is rich, the population has plentiful alternative means of subsistence, and the belligerents derive only small political capital. Conversely, if the overall economy is poor and belligerents attempt to destroy the illicit economy, their loss of political capital is large.

The second factor, the *character of the illicit economy*, indicates the extent to which the illicit economy is or is not labor-intensive. This factor thus captures the extent to which the illicit economy generates reliable livelihood for the local population. If the illicit economy is labor-intensive and hence satisfies the livelihood needs of a large segment of the population, it generates large political capital for the belligerents. If the illicit economy is not labor-intensive and hence provides livelihood for only a small segment of the population, it generates only small political capital for the belligerents. Conversely, if the belligerents attempt to destroy a labor-intensive illicit economy, they suffer large losses of political capital, while their negative involvement in labor-non-intensive illicit economies will generate only small losses of political capital.

This factor is one over which the belligerents have a degree of control. Although they cannot dictate whether a particular illicit economy is labor-intensive or not (a structural condition), they can and will choose whether or not to participate in a particular illicit economy. Thus, in deciding whether to sponsor (or destroy) a labor-intensive or a labor-non-intensive illicit economy, the belligerents have some influence over the political capital they will obtain.

The third factor, *the presence of thuggish traffickers*, influences the extent to which the local population needs the protection of the belligerents against the traffickers. If thuggish traffickers are present, belligerents can protect the population against the

abusive traffickers and thus increase their political capital. If thuggish traffickers are absent, belligerents cannot function as an agent improving the conditions of the peasants, and hence their political capital is relatively smaller. Similarly, if traffickers are present, but are not thuggish, that is, they care about the peasants' well-being, do not abuse them, and pay large compensation to the peasants, the belligerents cannot perform the regulatory role and their political capital is relatively smaller.

Traffickers' presence or absence also partially influences the size of the belligerents' financial benefits. If traffickers are absent, the belligerents take over the lucrative role of the traffickers. If the belligerents perform the trafficking function well, their financial profits increase substantially. If belligerents fail to perform the trafficking tasks well, the illicit economy in the region could substantially decrease, and hence the belligerents' financial profits will substantially plummet.

Belligerents thus face a strategic choice of whether or not to eliminate the traffickers from the regional illicit economy. This strategic choice involves a tradeoff between the belligerents' political capital and financial profits. The elimination of traffickers and the belligerents' subsequent takeover of the trafficking function may increase the belligerents' financial profits, but will relatively decrease their political capital because, obviously, they cannot provide regulatory services against themselves.

The fourth factor, *government response to the illicit economy*, represents a strategic choice for the government. Actions by the government, both in deciding whether an economy is licit or illicit and in adopting a particular policy toward the illicit economy, determine how crucial a role the belligerent group plays in the illicit economy. In other words, the government response to the illicit economy influences how critically

dependent the two other main actors in the illicit economy – the overall population and the traffickers – are on the belligerent group for the preservation of the illicit economy. Government actions thus increase or decrease the demand for belligerents' services to the illicit economy and the value belligerents' services have for the population and the traffickers.

If the government engages in suppression policies that threaten the illicit economy (such as eradication or interdiction), both the population and the traffickers become more dependent on the belligerents for the preservation and protection of the illicit economy, and thus the belligerents' political capital increases. Meanwhile, suppression policies have only limited effects on the physical resources of the belligerents since in the absence of reduction in demand for the illicit commodity (an exogenous variable), the belligerents (and the traffickers and the population) can adapt in a variety of ways to counteract the impact of the suppression policies. Thus, although suppression policies are highly unlikely to make a significant dent in the finances of the belligerents, they definitely alienate the population from the government and push it more firmly into the hands of the belligerents. Suppression policies that target and negatively affect the population thus result in a decline of support for the government (including denial of intelligence on the belligerents) and in increased support for the belligerents. Interdiction, which does not directly target the peasants' crops, results in a significantly less pronounced effect of strengthening the bond between the population and the belligerents than eradication does, even though interdiction tightens the bond between the traffickers and the belligerents.

If the government response to the illicit economy is one of *laissez-faire* or legalization (tacit acquiescence, licensing, or full legalization), the traffickers' and

population's need for the belligerents' services decreases, and hence the political capital of the belligerents is reduced. Tacit acquiescence decreases the bond between the population and the belligerents to such an extent that the population is willing to provide intelligence on the belligerents to the government and otherwise weakens support for the belligerents. However, the physical resources of the belligerents are unaffected or even increased, depending on the level of international demand saturation. Licensing of production for legitimate purposes not only greatly decreases the political capital of the belligerents and increases both the political capital and the physical resources of the state that taxes the legitimate production, but it can also significantly diminish the financial resources of the belligerents if diversion of licensed production into illicit uses is prevented.

Among the four factors that have a significant effect on the magnitude of increase or decrease in belligerents' strength as a result of their involvement in the illicit economy, the most important factor is the state of the overall economy since it determines how many people are dependent on the illicit economy for basic livelihood and hence how they view government response to the illicit economy. The second most important factor is the character of the illicit economy since it determines the extent of the population's positive or negative view of the government on the basis of its response to the illicit economy. The presence/absence of traffickers is the weakest factor influencing the belligerents' political capital since it affects the producers' (farmers') profits and work conditions, but not the importance of the illicit economy to the population. Although the government response to the illicit economy is only the third most important overall, from the point of view of the government, it is, of course, the most important factor since this

is the only factor over which the government has an immediate and direct control. In the cases of large labor-intensive illicit economies in poor countries, those most dramatically associated with prominent military conflict, the government response to the illicit economy is an essential and weighty determinant of the belligerents' political capital and the course of the conflict.

### *Empirical Evidence from the Cases*

In all three principal cases, my theory of political capital of illicit economies performed considerably better than the conventional wisdom. In all three cases, belligerents obtained not only financial resources, but also political capital from their sponsorship of the illicit economy. The increases in the belligerents' political capital were especially pronounced if they were involved in labor-intensive illicit economies in poor regions. In all three cases, belligerents who became negatively involved in the illicit economy attempting to suppress it failed to build up political capital and frequently also increase their military capabilities (unless they could exploit another illicit economy).

Across the cases, crop eradication failed to bankrupt the belligerent groups and weaken them sufficiently to lead to the victory of the government. At the same time, eradication always strengthened the political capital of the belligerents. During periods and in places where interdiction was undertaken without eradication, and especially during periods and locales where tacit acquiescence and de jure legalization were undertaken, the belligerents' political capital declined, the population's cooperation with the government (or governing force in the case of Afghanistan) increased and resulted even in intelligence provision to the government by the population (and even the traffickers) on the belligerents.

These effects -- posited by my theory and contradicting the conventional view -- took place even though the illicit economy had very different impact on power relations in each of the countries. In Peru, traffickers were mostly small and medium intermediaries in the jungles, who never rose to the prominence of the Colombian capos nor exercised comparable power. Consequently, they never really threatened the Peruvian elite. What threatened the Peruvian elite was the Shining Path, and especially its urban campaign. When large traffickers emerged in Peru, such as Montesinos, they were already members of the elite.

In Colombia, the new illicit drug elite was both ostentatious and threatening to the traditional landowning elite since it used land expropriation from the traditional elite (as well as from the rural lower classes) as a way to launder its illicit profits. Moreover, the drug elite became very visibly desirous of acquiring legitimation and coercing its way into the established political system. This dual threat to the traditional elite led to an internalization of the international anti-narcotics norms promoted by the United States and the acceptance of eradication as the appropriate response to a much greater degree than either in Peru or Afghanistan. Moreover, this internalization was enhanced by U.S. financial inducements for implementing eradication.

In Afghanistan, since the mid-1980s, there have been only a few power structures and elite individuals who did not have ties to the drug trade. Since legitimacy and prominence have traditionally been based on patronage, and since the Soviet counterinsurgency policy of destroying the countryside virtually eliminated the ability of traditional tribal elites to distribute goods among the population, the traditional elite became discredited. The only available source of patronage became various illicit

economies. Therefore those who wanted to remain or become members of the elite had to participate in one or another of the illicit economies – most often and easily in the drug economy.

### *Peru*

The case of Peru supports the validity of my theory of political capital of illicit economies and critically undermines the validity of the conventional view. In addition to obtaining large financial profits from the illicit narcotics trade on the order of tens to hundreds of millions of dollars a year, the Shining Path (a.k.a. Sendero), the most prominent leftist guerrilla group in Peru, also derived considerable freedom of action and large-scale political capital from its positive involvement in the illicit economy. Contrary to the conventional view, the defeat of the Shining Path took place without eliminating the group's income source.

Until the Shining Path obtained access to the illicit narcotics economy in the mid-1980s, its operations were confined to isolated attacks against military and police outposts to secure weapons, to robberies to secure immediate finances, and to selective killings and political assassinations. But it was only after it tapped into the drug economy in the mid-1980s that the guerrilla group was able to expand the scope of its belligerency. The Shining Path could then undertake large engagements with military units.

Crucially, the Shining Path derived large political benefits from sponsoring the illicit economy. Consistently, the peasants condemned the government for eradication and praised Sendero for protecting them against eradication. The Shining Path actively exploited such sentiments by portraying the government as impoverishing the population

and carrying out economic genocide against the population. Sendero also obtained nationalist legitimacy by stressing the role of the United States in demanding eradication. The Shining Path was consistently more popular and had greater support in the drug regions than elsewhere in the country. In the drug regions, Sendero also had to resort to less brutality to control the population than elsewhere in the country, thus avoiding antagonizing the population.

The unsustainable political costs of prohibiting the illicit economy – Sendero’s first ideologically-driven impulse – was what motivated the group to reverse its earlier decision to prohibit the illicit economy. When Sendero prohibited the illicit economy in the early 1980s while the military adopted a tacit acquiescence policy toward counternarcotics, the population stopped supporting the belligerents, and Sendero was driven out of its stronghold in the Upper Huallaga Valley. It was only after Sendero reversed its policy toward drugs and embraced the illicit economy that it was able to recapture the coca-growing regions.

Eradication and the failure of alternative livelihood programs radicalized the population, but *cocaleros*’ representation by non-guerrilla groups proved ineffective in protecting the peasants’ interests. As the legitimacy of *cocaleros*’ self-defense organizations and traditional politicians faded, Sendero was able to step in and offer itself as an effective defender of the peasants’ interests. When eradication was at its most intense, such as during the trial use of the herbicide Spike, Sendero’s political capital was at its greatest. It was also at that time – the only time – that the peasants actively fought alongside the Shining Path.

The relationship between the peasants, the traffickers, and Sendero also contradicts the conventional wisdom. Although Sendero protected the traffickers from government interdiction and the coca fields from eradication, Sendero never morphed into a unified entity with the traffickers nor did the two actors develop identical goals. In fact, since Sendero also protected the peasants against the traffickers and attempted to displace the traffickers from aspects of the illicit drug trade, the two groups had highly competitive interests and even fought each other. Crucially, when eradication and interdiction lessened, such as under the leadership of generals Carbajal and Arciniega, and early in Alberto Fujimori's administration in the Campanilla area prior to the Air Bridge Denial interdiction operation, the traffickers were willing to provide key intelligence on Sendero to government units. Similarly, the traffickers fought against the MRTA, the other main guerrilla group, when it attempted to penetrate the drug trade.

The large and multidimensional increase in the strength of the Shining Path, derived from its positive involvement in the illicit economy, crucially contributed to Sendero's ability to expand conflict, both in terms of the scale of attacks and in terms of the area and theater of operation.

The case of Peru also reveals the importance of government counternarcotics policies for the overall effectiveness of the counterinsurgency policy. Again, the evidence clearly supports my theory while disconfirming the conventional view. When eradication was undertaken, during the early 1980s and again mid-1980s, the military lost ground to Sendero. The belligerents were able to capture the peasants' allegiance and make major inroads in the countryside, fundamentally destabilizing the rural areas. When, as under generals Carbajal and Arciniega, eradication was halted and the military did not allow the

police to interfere with the peasants' illicit livelihood, both the peasants and the traffickers were willing to provide vital intelligence to the military and the military scored key successes against the Shining Path. The importance of tacit acquiescence by the government in winning the hearts and minds of the rural population and the resulting improvements in military effectiveness against the insurgents is further underscored by the fact that General Carbajal was able to secure information and sufficient loyalty from the population to expel Sendero from the Upper Huallaga Valley even during the height of the military's brutality toward the peasants.

In fact, it was tacit acquiescence to the illicit economy that allowed the military to win the countryside back. Since the peasants no longer needed Sendero for vital protection of their basic livelihood, they were willing to provide the military with the necessary information on Sendero's movements and the government was able to effectively strike at Sendero. The role of peasants' self-defense units, *rondas campesinas*, was also important in reclaiming the countryside back from Sendero, but many *rondas* in the Upper Huallaga Valley directly overlapped with the *cocaleros'* previous anti-eradication defense committees, and the strength and effectiveness of these units was crucially dependent on the military's anti-eradication posture. Sendero was defeated in the countryside as a result of a tacit acquiescence policy toward narcotics cultivation being adopted by the military and the government (and later supplemented by interdiction). Meanwhile, an intelligence operation in the urban theater where Sendero moved led to the capture of Guzmán, the leader of the Shining Path, and the subsequent collapse of the Shining Path. Only after Sendero was defeated, the illicit economy was significantly diminished as a result of interdiction and the emergence of a fungus.

To some extent, interdiction of the drug trade by the government also created opportunities for Sendero to obtain important political capital, but to a considerably smaller degree than did eradication. Between 1989 and 1990, interdiction was effective in temporarily driving coca leaf prices down. As traffickers' activities were hampered, their demand for coca leaf fell. Interdiction thus antagonized the population from the government and allowed Sendero to step in and demand greater prices to be paid by the traffickers to the peasants. But this level of political alienation was not sufficient to allow Sendero to obtain necessary political capital to expand anew, and Sendero continued losing ground in the countryside.

Since the mid-1990s, the remnants of Sendero have been financing their activities through illicit logging. By its participation in the illicit logging economy, Sendero was able to avoid bankruptcy even when the major illicit economy -- drugs -- was declining and when the group was no longer able to penetrate the drug economy to the same extent as it did during the 1980s. Government laxity in enforcing prohibitions against illicit logging, as well as the small numbers of the remaining Senderistas, have prevented the Shining Path from rebuilding its political capital through the exploitation of the illicit logging economy, even while keeping remnants of the group financially afloat.

After the suspension of aerial interdiction in 2002 and a renewed strong focus on forced eradication, Sendero has once again offered itself as a defender of the *cocaleros* against eradication and as a protector of traffic in drugs against land interdiction. Today, eradication is again antagonizing and radicalizing the *cocaleros*. The case of Peru thus clearly shows how, contrary to the conventional view, eradication is counterproductive in the counterinsurgency effort.

## *Colombia*

Despite Colombia being the poster case of the conventional view, a detailed examination of the case since the 1960s through the current period greatly undermines the validity of the conventional view and supports the validity of my theory of political capital of illicit economies. The belligerent groups examined– the FARC, the paramilitaries, the M-19, and the ELN – obtained not only physical resources from their positive involvement in various illicit economies, but the belligerents that participated in labor-intensive illicit economies, such as the cultivation of illicit crops, also gained substantial political capital.

The FARC, the largest guerrilla group, spent its first fifteen years not involved in an illicit economy, relying on local banditry for food and supply acquisition and on isolated attacks against the military to obtain weapons. Not only did the FARC fail to grow during that period, it also alienated the local population. Then, when the FARC first encountered drug cultivation, it sought to suppress the illicit narcotics economy. Its negative involvement in the illicit narcotics economy, however, alienated the local population and its control over the regions where it operated became threatened. Seeing the substantial alienation of the local population and fearing the loss of control to the drug traffickers and their own security forces, the FARC reversed its policy and came to positively sponsor the illicit economy. The FARC subsequently grew from a band of a few hundred guerrillas on the run in the southern jungles of the country into a 20,000 strong guerrilla group, largely controlling the southern and south-central parts of the country, and present in at least 60 percent of the country.

As a result of its positive involvement in the illicit economy, the FARC was able to vastly enlarge the scope and magnitude of its operations. Most importantly, it developed a secure base among the rural population dependent on the illicit economy. The FARC protected the population against the abuses of the traffickers and the eradication teams, provided a regulatory framework for the illicit economy, and used the illicit economy to provide social services to the population. Contrary to the predictions of the conventional view, but consistent with the predictions of my theory, the FARC's strongest support has consistently been in the drug-cultivation regions.

The paramilitaries' positive involvement in the illicit narcotics economy supports another aspect of my theory: the importance of the amplifying factor, "presence/absence of traffickers" for the belligerent group's ability to obtain political capital. The paramilitaries obtained large physical resources from the illicit economy, growing from a few hundred in the mid-1980s to almost 30,000 in 2006, and they were also able to obtain some political capital from the illicit economy. Nonetheless, their political capital remained limited, because the paramilitaries were frequently identical to the traffickers and hence did not provide a variety of regulatory services to the farmers, such as bargaining for better prices for the farmers and ameliorating the violence exacted by traffickers on the rural population.

Moreover, even when the paramilitaries were distinct and separate from the traffickers and when traffickers were present in the territories they controlled, the paramilitaries' political capital remained limited. This is because the paramilitaries' primary audience was the traffickers, not the population. Consequently, the paramilitaries failed to provide numerous regulatory and protection services to the population, with the

exception of delivering social services. FARC's elimination of small and medium traffickers from areas under their control by the late 1990s also supports the prediction of my theory regarding the absence of the traffickers. When the FARC eliminated the cartels' intermediaries and itself began buying coca paste from farmers and selling it to the trafficking organizations and even the paramilitaries, it stopped providing a host of regulatory services to the peasants and became more brutal. Its political capital decreased substantially, and the population became largely indifferent in its support between the paramilitaries and the FARC.

The relationship between the belligerents and the traffickers also clearly supports my theory and weakens the validity of the conventional view. The relationship between the FARC and traffickers deteriorated very rapidly in the early 1980s. The traffickers soon became fed up with the FARC's interference in the management of the drug trade and hired the paramilitaries to displace the traffickers. Subsequently, even the relationship between the traffickers and the paramilitaries has deteriorated, as predicted by my theory, and internal infighting, violence, and competing interests among the groups and their various factions became endemic. Infighting also characterized the state of relations among the major traffickers and cartels of the early era of the Colombian drug trade in the early 1980s. The Medellín and Cali cartels sought to eliminate each other and frequently fought each other. Far from there being a great crime alliance to battle the state, there was business as usual among the cartels and the traffickers: competition and violence.

The examination of the cartels also undermines another claim of the conventional view – namely, that when groups lose ideology, they lose legitimacy and support. The

cartels never had any real ideology; but despite that, through their provision of a variety of social services, they did build up political capital. Hence, even though Pablo Escobar, the head of the Medellín cartel, was a brutal thug who had scores of people murdered, the local population from Medellín did not provide intelligence on him to law enforcement officials. He was ultimately captured by intelligence provided by the Cali cartel.

The positive involvement of two other belligerent groups, the M-19 and the ELN, in Colombia's illicit economies, supports the arguments of my theory regarding the importance of the character of illicit economies in determining the scope and magnitude of belligerents' gains. The M-19 was involved in the illicit narcotics economy, but not in the labor-intensive cultivation aspects of the economy. At first, the group became involved in extorting payoffs from the drug traffickers by kidnapping their family members. Not only did this activity fail to generate any political capital for the group, it also failed to generate physical resources, and the group suffered large physical losses at the hands of the traffickers and their security forces, the MAS. Later, the M-19 switched to providing protection services to the traffickers, such as opposing extradition and destroying judicial evidence against the traffickers. Since the group operated in relatively wealthy Bogotá, its positive involvement in the labor-non-intensive aspects of the illicit economy not only failed to generate political capital for the group, but widely antagonized the urban audience of the group that previously constituted its support base. Moreover, since the M-19 did not have access to the labor-intensive aspects of the drug trade, it never managed to capture or build connections to the rural population.

The ELN, on the other hand, operated in the rural areas of Colombia where the state of the overall economy was poor. Even so, its participation in a labor-non-intensive

illicit economy – namely, the extortion of payoffs from landowners and major businesses, especially oil companies – failed to generate much political capital for the group. The ELN did obtain vast financial resources from its extortion business, at the rate of \$150 million a year, and did invest some of these profits in the provision of social services. But since its involvement in kidnapping and extortion did not generate many employment opportunities for the rural population, the group nonetheless failed to build up substantial political capital. Moreover, the group lost political capital by its negative involvement in the illicit narcotics economy, which it tried to suppress for religious reasons.

Finally, the case of Colombia also illuminates the role of government response to the illicit economy. Despite eradication being conducted for almost thirty years, with the last six featuring the most intensive aerial fumigation in history, the policy has failed so far to accomplish either of its two promised goals: Although the area under cultivation has decreased, there has not yet been a substantial decline in the supply of Colombian cocaine or heroin. Nor has eradication – even at the scale that it has been undertaken – managed to bankrupt the FARC or the demobilizing paramilitaries. There is no indication that either group is hurting financially. The FARC has been under serious military pressure from the Colombian government, but the successes against it cannot be attributed to eradication. Despite eradication, the demobilizing paramilitaries, now deeply penetrated by drug traffickers, have managed to preserve, if not consolidate, their involvement in the narcotics economy.

Meanwhile, as predicted by my theory, eradication has generated new political capital for the belligerents. Although the FARC has lost most of its legitimacy, it still remains strongest in the drug regions. The local population's cooperation with the

government is minimal if not altogether non-existent. Information-provision by the population to the government continues to be poor, and the military is lacking intelligence on the FARC. Eradication has deeply antagonized the local population from the government.

### *Afghanistan*

The analysis of over a hundred years of the interaction of military conflict and illicit economies in Afghanistan also supports the theory of political capital of illicit economies and disconfirms the validity of the conventional view. Pashtun belligerents first interacted with the illicit drug economy in the 19<sup>th</sup> and early 20<sup>th</sup> century. Fearing the increase in the strength of the belligerents, Britain used interdiction to weaken the belligerents. Although the policy succeeded in substantially limiting the drug economy, it failed to bankrupt and weaken the belligerents, and Britain was not able to defeat them, an outcome directly contradictory to the central claim of the conventional view but consistent with the political capital of illicit economies.

The mujahideen's involvement in the drug trade in the 1980s provides further evidence for my theory. Even warlords, such as Ahmed Shah Massoud, who did not need money from the illicit economy because they had income from the trade with gems and objected to drugs on moral grounds, did not eradicate the illicit narcotics economy. Nor did they tax it. Clearly, pecuniary motives could not have been their motivation, but rather the sensitivity to the political costs of eradicating and the desire to enhance information gathering. Access to the illicit economy not only facilitated information

gathering by the mujahideen, but also improved their freedom of operation, once again, supporting my theory.

Nor can the conventional view account for the Taliban's original impulse to eradicate the illicit drug economy in 1994 and the reversal of its policy. The Taliban clearly did not need the financial income from drugs in 1994 and 1995. It was already profiting from lucrative illicit smuggling with licit goods. But this labor-non-intensive illicit economy could not generate the same level of political capital that the very labor-intensive cultivation of poppy provided. Instead, the Taliban reversed its policy because of the large political costs: a loss of legitimacy, and, in fact, a physical loss of control over the territory where it carried out eradication. Only after the Taliban abandoned eradication, was its control over the most naturally pro-Taliban Pashtun south consolidated, not to mention the non-Pashtun regions.

Neither my theory nor the conventional view predicted the 2000 eradication policy of the Taliban. Several crucial facts about the conduct and outcome of the eradication campaign, however, clearly support my theory: The Taliban was only eradicating drug crops in regions where it had firm control, but that elsewhere, such as in the area of the Shinwari tribe, it used bribes. Although imposed through the use of high levels of brutality, its prohibition of cultivation started breaking down within a year. Crucially, the Taliban called off eradication and prohibition on cultivation in September 2001 as the U.S. invasion loomed imminent. Financial profits were not the reason for calling off eradication, since the Taliban's heroin stockpiles would have allowed it to maintain very large financial income while maintaining eradication. The speed with which the Pashtun south fell during the U.S. military invasion – possibly driven by the

alienation of the peasants due to eradication – is also consistent with my theory.

However, this evidence is only circumstantial, and sufficient detail for confirming it is lacking.

In the post-Taliban period, the evidence once again decisively supports my theory. First, the counterinsurgency forces – the U.S. military – adopted tacit acquiescence to the illicit economy. They argued that such a policy was necessary for information gathering, the facilitation of their military operations, and winning the hearts and minds of the local population. Even as large political pressures have built up in other U.S. agencies and international institutions, the U.S. military has refused to directly participate in eradication.

Second, local warlords who participate in the illicit economy have derived not only large financial benefits, but also political capital. The population has praised them for their sponsorship of the illicit economy. On the other hand, the population has condemned eradication. Eradication has led to protests, riots, and social instability. Local elites who have embraced eradication, such as in Nangarhar, have suffered severe losses of legitimacy.

Eradication also has failed to bankrupt warlords who benefit from the drug economy. Contrary to the predictions of the conventional view, eradication has enhanced not only the warlords' financial profits, but because of its selective nature, also their political capital. Local elites in charge of eradication have destroyed the poppy fields of their opponents – political competitors or rival tribes – while protecting the illicit economy of their loyalists, thereby cementing their power base and consolidating their political capital.

Finally, eradication has also failed to bankrupt the Taliban insurgency. Instead, eradication allowed the Taliban to inject itself back in the illicit economy after 2002, and has strengthened the previously loose connections between the Taliban and the traffickers. Eradication also has resulted in economic outmigration from Afghanistan to Pakistan. Most importantly, eradication has generated vital political capital for the Taliban, allowing the group to offer itself as a protector of the population against eradication and capitalize on the resentment generated by eradication.

The provision of financial compensation for eradication did not redress these counterproductive effects of eradication. Although some of the problems of compensated eradication efforts in Afghanistan were specific to their flawed design – namely, a lack of funds, inappropriate assessment and disbursement procedures, and fraud – and could potentially be overcome by a smarter design, other problems appear to be of a more permanent nature. These include moral hazard – inadvertently motivating peasants to grow more poppy in order to collect greater compensation – and, crucially, the ability of traffickers to outbid the financial compensation offered by the government.

In sum, in all three cases, the theory of political capital of illicit economies performed considerably better than the conventional view of narcoinsurgency and narcoterrorism. In each case, belligerents obtained not only financial resources, but also, and crucially, political capital from their positive involvement in the illicit economies and suffered large costs in terms of their political capital when they adopted negative involvement in the illicit economy. These changes in political capital were especially prominent if the belligerents became involved in labor-intensive illicit economies in poor regions. In such contexts, government eradication policy greatly increased the

belligerents' political capital, motivating the population to withhold intelligence on the belligerents, while it failed in its objective of cutting the belligerents off from resources and weakening them. When policies that threatened the rural population less were adopted – interdiction and especially tacit acquiescence -- the bond between the belligerents and the rural population was loosened, intelligence provision by the population to the government forces improved, and belligerents were severely weakened.

### **III. Other Lessons of the Study**

#### *Learning Curve*

In response to the government's policies and to the population's reactions, belligerents go through a process of learning and adaptation. Their attitudes to the illicit economy change over time as they learn how to most effectively exploit it. The first impulse of many belligerent groups is to prohibit and attempt to eradicate the illicit economy because they consider the existence of the illicit economy inconsistent with their political ideology or religious beliefs. This was the case of the Shining Path in Peru, the FARC and the ELN in Colombia, and the Taliban in Afghanistan. But as belligerents whose ideology initially disposed them to attempt to destroy an illicit economy encounter fierce resistance from the local population that relies on the illicit economy for its basic livelihood, they learn that at minimum they need to tolerate it.<sup>17</sup> A failure to respond to

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<sup>17</sup> My analysis of the learning curve and the costs of the failure to learn expands upon a seminal work on terrorist movements by Martha Crenshaw. See, for example, Martha Crenshaw, "Introduction," in Martha Crenshaw, ed., *Terrorism, Legitimacy, and Power: The Consequences of Political Violence* (Middletown: Wesleyan University Press, 1983): 29. Crenshaw argues that the terrorist group's relative capabilities and its ideology greatly affect the choice of methods and targets: for example, revolutionary-socialist terrorists will strike at capitalist and imperialist targets, but eschew attacking working-class victims. What the interaction between the drug economy and the belligerents reveals, however, is that both the benefits of participating in the illicit economy and the costs of failing to do so are so large and multifaceted that

such resistance from the local population can severely undermine the efforts of the belligerent group in a stage when both its military capabilities and its political capital are very limited. Tolerating the illicit economy thus becomes a crucial component of the belligerents' effort to ensconce themselves among the local population. The consequences of the failure to at least tolerate the illicit economy become so severe that belligerent groups eventually learn to embrace it regardless of their ideology, goals, political persuasion, deeply-held or outright fanatical religious beliefs, and other inhibitors. If they fail to learn, they become unable to compete with other belligerent groups that adopt positive involvement in the illicit economy.

This frequent tension between the group's ideology and the practical necessity of tolerating the illicit economy is especially acute in the case of drugs since the ideological inhibitions toward tolerating the drug trade are frequently very substantial: drugs are prohibited by Islam, considered anti-Marxist, and are universally seen as having devastating effects on their users. Such ideological inhibitions are frequently much smaller with respect to other illicit economies. Most belligerent groups, for example, would have little problem with the moral and ideological dimensions of the illicit manufacture of passports. The acuteness of the contradiction between the group's original ideology and the large pressures to accommodate to the illicit economy are yet another reason why concentrating on the drug economy among the variety of illicit economies is especially illustrative of the complex dynamics in the interaction of illicit economies and military conflict.

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belligerent groups sacrifice their ideology or reformulate it in ways to accommodate the need to tolerate the economy.

Summarizing the typical learning curve: First, belligerents learn that they must tolerate the illicit economy. They abandon their own suppression efforts (negative involvement) and become positively involved in the illicit economy. Once they are tolerating the illicit economy, they may as well as tax it. The subsequent step is to further penetrate and exploit the illicit economy by participating in other phases of processing and illicit traffic and providing a host of services to the local population involved in the illicit economy. As belligerents accumulate both financial and political capital, they extend their services even to those not directly involved with illicit economies, such as by providing otherwise absent social services, financed with profits from the illicit economy, to the broader population. Finally, belligerent groups frequently branch out into a variety of other illicit economies. Belligerent groups thus tend to exploit illicit economies opportunistically rather than starting out with the exploitation of the illicit economy as a central feature of their grand strategy, even though the illicit economy may eventually become a prominent feature of the conflict.

### ***Modus Operandi Contagion Effect***

The multiple forms of gains belligerents derive from drugs and other illicit economies are so large that they motivate other belligerent groups in the conflict to emulate their competitors' policies toward the illicit economy. This contagion effect takes place even if the belligerents had not originally sought to exploit the illicit economy and had "stumbled on it by accident." This does not mean that new belligerent groups necessarily emerge in the conflict. Rather, the existing belligerent groups will emulate the successful practices of their competitors or will otherwise lose out to those that do. The

FARC's positive involvement in the drug economy motivated the M-19 and the ELN to follow suit and also gave rise to the paramilitaries and their deep involvement in the illicit economy. Similarly, Sendero's positive involvement in the illicit economy in Peru provided an example for the MRTA. In Afghanistan, positive involvement in the illicit drug economy spread throughout the 1980s and early 1990s onto the vast majority of the mujahideen commanders and warlords, and ultimately was adopted even by the Taliban.

#### **IV. Broader Fallacies of the Conventional View**

The conventional view thus contains two larger fallacies that go beyond the narrow interaction between drugs and conflict and, in fact, beyond the interaction between illicit economies and military conflict in general.

##### ***Fallacy of Oversimplification***

The first fallacy of the conventional view is the failure to understand the full scope of what constitutes strength of belligerent groups. The strength of a belligerent group lies not only its physical resources as is frequently assumed (namely, money and weapons) – an assumption at the core of the conventional view's arguments and prescriptions -- but also in its political capital. Whether or not belligerent groups interact with illicit economies, they have the potential to build up such political capital through a variety of tactics, such as the use or nonuse of brutality toward the population, the provision of resources to satisfy the needs of the population, and the fulfillment of various roles that the state is not fulfilling adequately.

However, while belligerent groups can obtain political capital from a variety of activities, a lesson too frequently forgotten, positive involvement in illicit economies presents unique opportunities for belligerents to greatly enhance their political capital. This is because illicit economies present the belligerents with a unique opportunity to take on the roles of protectors and regulators. By definition, since the economy is illicit, the state is absent from regulating it. To the extent that the state's official presence exists at all, it is frequently limited to state efforts to suppress the illicit economy. At minimum, belligerents encounter a lacuna of regulation and protection of the illicit economy and hence can offer their regulatory and protection services to the population and the traffickers. Or they encounter government efforts to destroy the illicit economy, a situation that only enhances the value of the belligerents' protection to the population and the traffickers, and hence the belligerents' political capital.

Unofficial state presence, in the form of corrupt government officials who collect protection rents for not suppressing the illicit economy, paradoxically limits to some extent the ability of belligerents to penetrate the illicit economy. Since because of corruption suppression efforts are sporadic and limited, the need for the belligerents' protection services is reduced. However, apart from reducing the authority of the state with the international community and also with the domestic population, this unofficial presence is frequently arbitrary, capricious, unreliable, and limited to selective suspension of suppression measures for hefty bribes. Belligerents can still offer their services by offering greater stability and consistency of protection, lower protection rents, and an expanded menu of regulatory and protection services, including against the criminal traffickers and the corrupt government officials themselves.

In short, access by belligerents to illicit commodities and economies strengthens both the military capabilities of the belligerents and their political capital. Illicit economies present a unique opportunity for belligerents to offer protection and regulation services to the population and the traffickers. From this positive involvement they derive large political capital, especially as they can offer such services to extensive labor-intensive economies in poor countries. Moreover, the conventional view has even a too narrow conception of military capabilities, focusing simply on physical resources (money and weapons), and ignoring the freedom of action. Such freedom of action is also enhanced by the belligerents' positive involvement in illicit economies as well as through other means. However, it is the political capital of the belligerents that is especially significant for state efforts to suppress the belligerent group as it crucially influences the extent to which local population supports the belligerents and withholds intelligence on the belligerents from the government. A key fallacy of the conventional view is thus to doggedly support suppression efforts toward illicit economies regardless of the belligerents' political capital and the conditions that influence the extent of this political capital.

### ***Fallacy of Unity***

A second key fallacy of the conventional view is to assume a unity of purpose if not a unity of identity between the belligerents and the criminal trafficking organizations or individuals. But the fact that belligerent groups profit from illicit economies and interact with criminal organizations also participating in the illicit economies does not by itself mean that they become merged into a unified actor. Mutual interaction, including

temporary cooperation, does not inevitably imply that the various actors involved have managed to form a strong alliance or have merged into one unified group. Just because the belligerents and the criminals know each other and establish some connections between them does not mean that they have become soul brothers and comrades in arms.

In fact, as the analysis of the cases shows, belligerents and criminals exhibit at least as much conflict in their relations as cooperation. They face different audiences and have frequently directly contradictory interests. Regardless of their ideological inclinations, belligerents at minimum attempt to extract as high protection rents as possible from the traffickers while the traffickers want to pay as low protection rents as possible. As belligerents also face a different audience -- namely, the local population -- they infringe upon the interests of the traffickers also in bargaining on behalf of the population for better prices and otherwise in limiting the traffickers' control of the population. It is thus not unusual for trafficking groups to end a cooperative relationship with one belligerent group and hire another one to rid them of the presence of the first group.

The assumption that belligerents and criminal organizations have merged into a unified actor and can no longer be dealt with separately is analogous to the fallacies that Communism was monolithic during the Cold War or that Islamism/ jihadism is monolithic today. This assumption deprives policymakers, militaries involved in operations against belligerents, and law enforcement officials involved in efforts against criminal organizations of opportunities to pit the various actors against each other and obtain intelligence from one actor on the other. Unnecessarily, the two actors are forced into a more united posture against the government than would naturally be the case.

When eradication and interdiction efforts lessened up in Peru, the traffickers provided important intelligence on the Shining Path. Similarly, the bond between Afghanistan's traffickers and the Taliban became strengthened only after interdiction and eradication measures were undertaken in 2003.

It is, of course, possible that under some specific circumstances the criminal organization and the belligerent group are so intermeshed that the defeat or negotiations with one inevitably involves the same approach to the other. Or in the course of a prolonged conflict, terrorists may abandon their political cause and become simply drug traffickers—the FARC in Colombia is frequently pointed to as an example of such a transformation. The reverse is also not unheard of—i.e., traffickers who were originally not driven by any political motivations, but purely by financial profits come to embrace a political cause in order to elevate their status and gain political legitimacy. Colombia, once again, provides an example: some members of the AUC paramilitaries were originally simply drug barons who, fearing extradition to the United States under drug trafficking charges, bought themselves commander position in the AUC in order to advantageously negotiate with the Colombian government and avoid extradition.

Moreover, the need to preserve and protect the continuation of one's economic profits may require the acquisition of political power. Pablo Escobar's systematic attack on the Colombia state and his effort to get people loyal to him elected to the legislature in the 1980s -- i.e., his acquisition of political power -- were meant to secure his immunity from prosecution and prevent a disruption of his economic activities. As Rensselaer Lee puts it, "narco-elites ..., in fact, behave politically very much like traditional economic

elites.”<sup>18</sup> In the case of belligerent groups, profit is the means to political power, in the case of economic elites – illegal or not -- political power is the means to profit.

That said, the study shows that the default state of relations between the traffickers and the belligerents is competition and conflict. This natural lack of unity and the propensity to fight one another exist not only among belligerents and criminal organizations, but also among the criminal organizations themselves. Although criminal organizations sometimes cooperate with each other, they at least as frequently fight each other, seeking to eliminate their opponents, to gain great control of the illicit economy, and to reap larger financial profits. Because of the multiple audiences of belligerent groups, alliances and tactical cooperation between belligerent groups and criminal organizations are even more fraught with conflict, and hence are even more fragile.

## **V. Contribution to the Academic Discourse**

The study addressed key and emerging questions in several areas of international relations and comparative politics: the role of drugs and resources in conflict; the effects of international markets and regulation on conflict; the efficacy of various counterinsurgency/ counterterrorism strategies; and the impact of state failure and ways to mitigate against it.

The academic literature is still in an initial phase of developing an understanding of the relationships between illicit economies and military conflict. The overwhelming

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<sup>18</sup> Rensselaer W. Lee III, “Transnational Organized Crime: An Overview,” in Tom Farer, ed. *Transnational Crime in the Americas* (New York: Routledge, 1999): 4.

focus is on how drugs, and other resources, fund military conflict.<sup>19</sup> Little distinction is made between licit or illicit exploitable resources. The dominant recommendation is thus that governments should suppress the illicit economies, such as to eradicate illicit crops, in order to deprive the belligerents of resources. The political effects of belligerents' exploitation of illicit economies are mentioned rarely, mainly as country-specific critiques of the war on drugs.<sup>20</sup> Although the nexus between illicit economies and military conflict has become an important feature of conflict in the post-Cold War era, there is a glaring lack of systematic general theory regarding the scope, size, and character of gains belligerent groups derive from their participation in illicit economies.

The study fills the analytical void by showing how positive involvement by belligerents in illicit economies earns them not only financial gains that enhance their physical capabilities, as most of the literature stresses, but also freedom of action, an important component of military capabilities, and, crucially, political capital. The study identifies specific mechanisms by which belligerents obtain these benefits. Moreover, the study specifies a set of structural and policy variables that influence the size and scope of the belligerents' gains – both military and political – from their involvement in illicit economies. The study revealed the unique properties of the *illicitness* of the discussed economies in generating both political capital and high profits for the belligerent groups

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<sup>19</sup> Gabriela Tarazona-Sevillano, with John B. Reuter, *Sendero Luminoso and the Threat of Narcoterrorism* (Washington, DC: Center for Strategic and International Studies, 1990); Davids; Adams; Collier and Hoeffler (2001).

<sup>20</sup> McClintock (1988); Clutterbuck; Isacson (2003); Nazih Richani, *Systems of Violence: The Political Economy of War and Peace in Colombia* (Albany: State University of New York Press, 2002); Gustavo Gorriti, *The Shining Path A History of the Millenarian War in Peru*, Robin Kirk, trans. (Chapel Hill: University of North Carolina Press, 1999); José E. Gonzales, José E. "Guerrillas and Coca in the Upper Huallaga Valley," in *Shining Path of Peru*, David Scott Palmer, ed. (New York: St. Martin's Press, 1994): 123-144; Román D. Ortiz, "Insurgent Strategies in the Post-Cold War: The Case of the Revolutionary Armed Forces of Colombia," *Studies in Conflict and Terrorism*, 25, 2002: 127-143; Gutiérrez Sanín, Francisco. "Criminal Rebels? A Discussion of Civil War and Criminality from the Colombian Experience," *Politics and Society*, 32 (2), June 2004: 257-285; Lee (1989); and Clawson and Lee.

that exploit such economies. It thus contributes a new dimension to the analysis of the role of markets in violence and the costs and benefits of specific regulation for conflict limitation.

The study also analyzes the role of criminal organizations (and traffickers) and their relationship to belligerent groups. It shows that the common assumption of a unity of purpose, if not a unity of identity,<sup>21</sup> between the traffickers and the belligerents is frequently misguided. Furthermore, the study reaffirms the need for a broader concept of power,<sup>22</sup> moving beyond the belligerents' physical resources to encompass also their political capital, not only in the case of states, but also in the case of substate and transstate actors.

The study also contributes new insights on the role of illicit economies and criminal actors in the field of security studies, joining the lasting debate in the counterterrorism and counterinsurgency literature between those who advocate a hearts and minds approach and those who argue for cutting off the belligerents' resources.<sup>23</sup> The study elucidates both the extraordinary difficulty in attempting to cut the belligerents off resources by suppressing the illicit economy and the likely futility of such an effort as well as its counterproductive nature in terms of increasing the belligerents' political capital and alienating the population. The study shows that when military and political decision-makers are aware of the political gains belligerents obtain from their positive involvement in illicit economies and adopt strategies that do not threaten the population's

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<sup>21</sup> Shelley (2002); Lal (2005); H. Richard Friman and Peter Andreas, "Introduction," in H. Richard Friman and Peter Andreas, eds., *The Illicit Global Economy and State Power* (Lanham: Rowman and Littlefield, 1999): 1- 23.

<sup>22</sup> Seyom Brown, *The Faces of Power* (New York: Columbia University Press, 1994); and Joseph S. Nye, *Soft Power: The Means to Success in World Politics* (New York: Public Affairs Press, 2004).

<sup>23</sup> Bonnet; Trinquier; Laquer; Leites and Wolf Jr.; McCuen; Thompson; and Crenshaw.

livelihood, they are able to score important success against the belligerents. On the other hand, when they ignore the political aspects of the nexus between illicit economies and military conflict, they push the population into the hands of the belligerents and deprive themselves of intelligence. The study thus provides a test of competing schools of counterinsurgency: the French view of counterinsurgency (on occasion combined with applying conventional warfare methods to counterinsurgency operations) versus the British or hearts and minds school of counterinsurgency, showing the greater effectiveness of the latter approach. The study further distinguishes between various suppression methods and their differing impact on the belligerents' political capital and specifies under what set of structural factors the trade-off between the desire to limit the resources of the belligerents and the desire to win support of the population for the government's to suppress the conflict is starkest and when it is weakest.

The study also informs the literature on failed states,<sup>24</sup> showing how the misallocation of resources by weak states in their counterdrug/ counterinsurgency efforts leads to a further deterioration of their governance capacity. It affirms the negative effect of state absence in a territory in fostering the emergence of both illicit economies and military conflict. But it also highlights the counterproductive effects of establishing the first state presence in such a region by destroying the illicit economy on which the local population is dependent for basic livelihood. The population then develops a negative view of state presence and rejects the state.

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<sup>24</sup> Robert I. Rotberg, ed., *State Failure and State Weakness in a Time of Terror* (Washington, DC: Brookings Institution Press, 2003); I. William Zartman, ed. *Collapsed States: The Disintegration and Restoration of Legitimate Authority* (Boulder: Lynne Rienner Publishers, 1995), Rice, Susan. "Strengthening Weak States: A 21<sup>st</sup> Century Imperative," <http://www.securitypeace.org/pdf/rice.pdf>, downloaded September 10, 2005; and Stephen D. Krasner and Carlos Pascual, "Addressing State Failure," *Foreign Affairs*, 84 (4), July/August 2005: 153-163.

The last chapter draws on the theoretical and empirical lessons of the study to tease out implications for government policies toward illicit economies when a primary purpose is the limitation of military conflict. It also shows the implications for military policy when a corollary or primary objective is the suppression of illicit economies. The chapter identifies conditions and strategies under which the suppression of illicit economies, such as the eradication of illicit crops, will be most effective and lasting. It also extends the analysis to several other cases, not covered in the study in detail, but which nonetheless further confirm the validity of the theory of political capital of illicit economies and provide important lessons for policy implications. The study concludes by providing a set of policy recommendations for governments and international organizations.



## **CHAPTER EIGHT - Evidence from Other Cases & Policy Implications**

### **I. Introduction**

The dissertation has explored the connection between illicit economies and military conflict primarily in the context of poor regions. In such a context, the local governments face the starkest trade-off between the desire to limit the belligerents' resources (and also to please the United States and comply with the international regime against narcotics) by suppressing the illicit economy and the desire to win the hearts and minds of the population by tolerating the illicit economy. To fully evaluate the importance of the structural factor, the state of the overall economy, the dissertation also explored the case of Colombia's M-19, which was involved in the drug trade in the context of the relatively rich Bogotá and other Colombian cities. As predicted by my theory of political capital of illicit economies, the M-19's participation did not lead to a significant increase in its political capital.

In this last chapter, I extend the analysis briefly to several other cases to offer further elaboration on the impact of two of the amplifying factors -- state of the overall economy and government response toward the illicit economy -- on the basic relationship posited in the dissertation. I also use these cases to draw further policy implications and recommendations. First, I explore the effect of the state of the overall economy in the context of military conflict in a rich developed Western country, Northern Ireland. Second, I use the case of Burma to further show how tacit acquiescence to the cultivation of illicit crops can be exploited by governments to end conflict. The case of Burma is also useful to further illustrate why eradication is extremely unlikely to bankrupt belligerents

even when successful in drastically reducing the cultivation of illicit crops. Third, I recap why belligerents profiting from the drug trade will not likely be bankrupted by eradication and outline when eradication is successful in limiting the cultivation of illicit crops in a particular locale, if not in bankrupting belligerents. Fourth, I explain why not all belligerent groups are running drugs, even though the illicit narcotics economy is by far the most lucrative illicit economy and one that frequently brings large political capital to belligerents who are positively involved in it. Fifth, I draw policy implications of the study and offer policy recommendations.

## **II. Belligerents and Drugs in Rich Developed Countries – the Case of Northern Ireland**

The nexus between drugs and military conflict is most prominent in the case of underdeveloped countries, frequently on the borderline of state failure, that contain regions without state presence, with extensive poverty, extensive illicit economies, such as drug cultivation and trafficking, and intense military conflict. But there are examples of belligerent groups participating in the drug economy in developed Western countries where the state of the overall economy is rich. Belligerents in these countries, such as various republican and loyalist groups in Northern Ireland and Euskadi Ta Askatasuna (ETA or Basque Homeland and Freedom) in Spain, have not participated in the labor-intensive extensive cultivation of illicit crops. Rather, they are positively involved in the final aspect of the drug traffic within their countries and in the distribution of illicit drugs. In these cases, the belligerents have not been able to obtain significant political capital from their positive involvement in the drug trade.

As the dissertation has argued, in countries where the state of the overall economy is rich and there are plentiful means of subsistence, the segment of the population that is dependent on the illicit economy for basic livelihood is very small, and consequently the population overall has no interest in preserving the illicit economy. Frequently the few individuals who are dependent on the illicit economy for basic livelihood (as opposed to enrichment beyond immediate necessity) are poor illegal immigrants or denizens of urban ghettos. Moreover, moral inhibitions on the part of the wider population toward the illicit economy play a greater role in developed countries. For a poor peasant in the hill regions of an underdeveloped country, such as Laos, forgoing growing opium poppy may well result in his inability to provide for himself and his family, if not outright starvation. Hence, choosing not to participate in the cultivation of opium for moral reasons, because somewhere downstream his opium will cause a devastating heroin addiction of someone or because there is an international prohibition against growing poppy, is a luxury that he frequently cannot afford and which he needs to balance against the moral implications of his failing to provide for his family.

On the other hand, the moral choice of participating in the illicit economy is considerably different for an individual in a developed country with plentiful alternative means of subsistence. The choice the overall population faces is not drugs and food versus no drugs and starvation, but rather making more money from the illicit economy than from legal activities. The moral restraints that arise from feeling a personal responsibility for the suffering of the addicts and the destructive impact of drug addiction on society as well as the reprobation of the community will play a much larger role.

These personal moral restraints and community reprobation may be amplified by other ideological factors, such as religious prohibitions.

Furthermore, the penalty for acting against the law, such as imprisonment, is also likely to play a greater role in developed countries than in poor regions. First of all, enforcement is likely to be considerably more effective since the state is stronger, thus increasing the chances of the individual getting caught. Second, the deterrent effect of law enforcement is also likely to be stronger in rich countries since the alternative (eschewing participating in an illicit economy and obeying the law) nonetheless leads to a reasonably comfortable lifestyle, not to mention not being in jail. On the other hand, imprisonment in an unpleasant Third World jail may not be radically more uncomfortable for the poor peasant in Laos than his and his families' starvation in the hills, a fact that decreases the deterrent effect of law enforcement in the poor regions. Thus, in addition to the simple relationship posited in the dissertation between the material needs of the population, the significance of the illicit economy for the population's subsistence, and consequently the exploitability of the illicit economy by belligerents for political capital, moral and law-enforcement inhibitors are likely to further diminish the ability of belligerents in rich countries to obtain political capital from illicit economies, especially the drug trade.

The case of Northern Ireland serves as an illustration. Both the Irish Republican Army groups -- the Provisional IRA (PIRA) and its post-1997 splinter the Real IRA (RIRA) -- and various loyalist paramilitary groups, such as the loyalist Ulster Defense Association (UDA) and Ulster Volunteer Force (UVF), faced the question of whether or not to participate in the drug trade to raise finances. As these various groups dabbled in

the drug trade, obtaining large financial resources, they not only failed to increase their political capital, but, in fact, suffered substantial losses of political capital. The groups that wanted to avoid these losses of political capital subsequently significantly curtailed their participation in the drug trade.

The Provisional IRA became temporarily involved in the drug trade in the late 1970s and 1980s.<sup>1</sup> But although the narcotics economy was extremely lucrative, in the context of a rich state of the overall economy, the participation failed to generate any political capital. In fact, PIRA faced serious loss of political capital with the local Catholic communities who were deeply opposed to drug consumption. Seeking to avoid this loss of political capital, PIRA subsequently decided to abort its participation in the drug trade. A former PIRA member, Eamon Collins, commented on the PIRA decision:

The IRA – regardless of their public utterances dismissing condemnations of their behavior from church and community leaders – tried to act in a way that would avoid severe censure from within the ... community; they knew they were operating within a sophisticated set of informal restrictions on their behaviour, no less powerful for being largely unspoken.<sup>2</sup>

The IRA thus never officially sanctioned or tolerated the drug trade. In fact, it significantly curtailed its participation in the drug trade, systematically repressing splinter groups, such as the Irish People's Liberation Organization (IPLO) that failed to respect its prohibition and continued to jeopardize the PIRA's political capital. By the mid-1990s, PIRA even moved against criminal, nonpolitical drug dealers in Northern Ireland, waging

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<sup>1</sup> Author's interview with Cindy Fazey, Professor of International Drug Policy, University of Liverpool, December 2005.

<sup>2</sup> Eamon Collins with Mick McGovern, *Killing Rage* (London: Granta, 1997): 29.

an intimidation campaign against them.<sup>3</sup> Instead of drug trafficking, PIRA used armed robberies as its means of financing.<sup>4</sup>

The Real IRA, a republican group that rejected the PIRA's 1997 ceasefire and splintered off from PIRA, appears to be involved with drug trafficking and distribution. Numbering perhaps less than 100, the group has much weaker ties to the Irish Catholic communities than PIRA, a relationship further weakened by its explicit rejection of the ceasefire and its effort to disrupt it. Largely unconcerned with its political capital -- minimal to start with -- the Real IRA has thus not been deterred from participating in the drug trade to raise money. Even so, it has gone to considerable lengths to hide and deny its participation.

The loyalist groups have obtained their finances from a variety of illicit (and semi-licit) activities, such as robberies, tax fraud, smuggling, counterfeiting, collecting rents from criminal gangs, drinking clubs, and drug dealing. As in the case of the republican groups, in the context of a country with a rich overall economy, participation in the drug trade failed to generate political capital for the loyalist belligerents. Straddling the boundary of licit and illicit activities, drinking clubs were the loyalists' biggest sources of finances until about the early 1990s. The clubs themselves were legal; however, paramilitaries siphoned off large amount of undisclosed and untaxed money. By the time the authorities began to shut down these clubs in the 1990s, the paramilitaries had earned tens of millions of dollars from this illicit activity.<sup>5</sup> However, this successful

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<sup>3</sup> Andrew Silke, "Drink, Drugs, and Rock 'n' Roll: Financing Loyalist Terrorism in Northern Ireland – Part Two," *Studies in Conflict and Terrorism*, 23 (2), April-June 2000: 112.

<sup>4</sup> John Horgan and Max Taylor, "Playing The Green Card: Financing Provisional IRA – Part 1," *Terrorism and Political Violence* 11 (2), Summer 1999: 1-38.

<sup>5</sup> Silke: 108.

elimination of the semi-licit economic activity did not dry up the loyalists' resources for long. In fact, it pushed the loyalists into the drug trade.

As the 1990s progressed, various sources claimed that the loyalists, especially, the UDA and UVF, controlled up to 60% of North Ireland's drug trade.<sup>6</sup> Whether their drug operations were so extensive and effective is a matter of debate. Nonetheless, the loyalists progressively not only taxed the local drug dealers operating in their territories, but ultimately took over traffic from Britain, forcing the drug dealers in their territories to buy supplies from them.<sup>7</sup> But once again, such activity did not generate political capital for the belligerents, and despite its high profitability, the majority of the loyalists opposed the activity and the trade remained largely a domain of individual groups, such as Billy Wright's Mid-Ulster UVF, rather than an officially sanctioned policy of the umbrella organizations. As Andrew Silke points out, the loyalist "leadership and the connected political parties are painfully aware that the practice carries the heaviest political cost of all of the various fund-raising activities."<sup>8</sup> In fact, the political costs have been so large that the loyalists have sought to curtail the participation of their various groups in the drug trade since the mid/late 1990s, stepping up instead their loan sharking activities and moving into counterfeiting, fuel rackets, and other frauds.

Several important conclusions can thus be drawn from the case of the Northern Ireland belligerent groups interacting with the drug trade. First, the case affirms the critical importance of the state of the overall economy. Although in this rich region, the drug trade still generated vast financial resources for the belligerents, it not only failed to

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<sup>6</sup> See, for example, Anna-Marie McFaul, "Godfathers 'now control illegal drug trade,'" *Irish News*, August 30, 1995.

<sup>7</sup> *Ibid.*

<sup>8</sup> Silke: 117.

increase the groups' political capital, but in fact resulted in direct losses of political capital. The population was not dependent on the illicit economy for livelihood, and the illicit economy did not bring any benefits to the community, but rather generated costs in terms of addiction and crime. Thus, the population sympathizing with both the republican groups and the loyalist paramilitaries condemned and censured the groups' drug trafficking activities, ultimately resulting in the groups' curtailing their drug activities. Only groups that were not concerned with their political capital, such as the Real IRA, continued with traffic, and even they at least attempted to hide it.

Second, the case once again underscores the difficulty of trying to cut belligerents off from resources, even in rich developed countries where state presence and law enforcement are extensive and where the state has a myriad of surveillance and enforcement mechanisms at its disposal. As the authorities successfully turned off the loyalists' financing from the drinking clubs, the loyalists turned to drugs. When the loyalists abandoned drugs, they turned to other illicit economic activities for their financing – loan sharking, counterfeiting, and various frauds.

The difficulties facing governments in poor countries attempting to turn off the flow of cash to the belligerents from various illicit activities are immeasurably greater. State presence and law enforcement are weaker, the myriad of possible evasion activities on the part of the belligerents to preserve the resource flow increases, and the scope of available illicit economies and activities remains large.

### **III. Eluding Bankruptcy by Switching to Other Illicit Activities and a Twist on Tacit Acquiescence - The Case of Burma/Myanmar**

The case of Burma shows how even in the rare circumstance where eradication does actually succeed in significantly limiting the extent of illicit crop cultivation in a particular locale, belligerents do not go bankrupt but simply switch to other illicit economic activities. Moreover, it shows that effective eradication comes only after the military conflict has ended. Once again, in the case of Burma, as in the cases of Peru and Afghanistan, a key to government success in ending military conflict was a tacit acquiescence to illicit crop cultivation on the part of the government. But the Burma case reveals a new twist on tacit acquiescence where tacit acquiescence is not designed primarily to win the hearts and minds of the population, but rather to buy off the belligerents themselves.

Grown in Burma, a part of the Golden Triangle, for centuries, opium poppy cultivation increased greatly after Burma's independence in 1948. Almost instantaneously several insurgencies broke out. These included ethnonationalist insurgencies, such as the Shan, Karen, and Kachin, seeking autonomy, independence, and the reconfiguration of the administrative boundaries; a communist insurgency supported until the 1980s by China and led by Communist Party of Burma (CPB); and an invasion of the Chinese nationalist Kuomintang (KMT) driven into the Shan State from the Yunnan Province in China.<sup>9</sup> Overall, more than forty belligerent groups emerged during the course of the fifty years of conflict, some, such as the CPB and the Mong Tai Army (MTA) of the notorious opium warlord Khun Sa, numbering around 15,000 men, while

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<sup>9</sup> For the most comprehensive accounts, see Martin Smith, *Burma and the Politics of Insurgency* (New York: Zed Books, 1999) and Bertil Lintner, *Burma in Revolt: Opium and Insurgency Since 1948* (Bangkok: Silkworm Press, 1999).

others, such as the Kayan Newland Party (KNLP), numbering just barely over hundred. All of the insurgencies, as well as the government-sponsored paramilitaries Ka Kwe Ye (KKY), became positively involved in a variety of illicit economies, such as drugs, illicit logging, illicit mining and smuggling with gems, illicit smuggling with licit luxury goods as well basic food products. Drugs deeply permeated all aspects of politics and conflict in Burma and the Golden Triangle, with various insurgency groups deriving both physical resources and political capital from positive involvement in the illicit economy and growing in strength and with various druglords buying themselves armies to control land and narcotics production.

The military government adopted a counterinsurgency policy designed to cut the belligerents off from resources. Introduced in the late 1960s, this so-called “Four Cuts” policy was meant to cut off the rebels’ supplies of food, funding, recruits, and intelligence. It included both forced relocation of the population and eradication of opium, carried out by government and by the United States via aerial spraying. But this counterinsurgency policy systematically failed to limit the resources available to the belligerents. In fact, the main insurgencies kept steadily growing.

It is important to note that all along, the Burmese military government manipulated eradication to selectively hurt its opponents and pay off supporters. Thus, at times, the government did not eradicate the crops of rebels who were at that time aligned with the government and who agreed to battle the government’s opponents. Nonetheless, for over forty years, the government was unable to put down the insurgencies and establish control throughout the territory.

In the late 1980s, two crucial changes took place. First in 1988, anti-government protests fueled by a collapsing economy and desire for democracy broke out throughout the country, including, and crucially, in the central part of Burma and in Rangoon. As a result, the military government of Ne Win was replaced by a new junta, the State Law and Order Restoration Council (SLORC)<sup>10</sup> that brutally put down the demonstrations. Second, the Communist Party of Burma, since 1981 no longer receiving support from China, splintered in 1989 along ethnic lines into five major factions: the 12,000-strong United Wa State Army (USWA), the 2-000-strong (Kokang) Myanmar National Democratic Alliance (MNDAA), and three smaller groups in the Kachin and Shan states.

Fearing that the new insurgencies would join forces with the pro-democratic movement and protesters in the center, the junta proceeded to negotiate cease-fires with the various insurgencies. It did so by de facto giving licenses to the various insurgent groups to trade with whatever they wanted as an incentive to agree to the ceasefire and, despite U.S. protests, drug decertification and economic sanctions, suspending eradication of illicit crops.<sup>11</sup> In the background of the ceasefire negotiations was a major push for the modernization of the armed forces and for improvements in their counterinsurgency skills and force structure. This push did result in improved logistics and mobility and in greater government presence throughout the territory. Overall, it enhanced the efficacy of the government's counterinsurgency operations.<sup>12</sup>

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<sup>10</sup> To improve its image, SLORC was renamed in the mid-1990s to the State Peace and Development Council (SPDC).

<sup>11</sup> Robert S. Gelbard, "Burma: The Booming Drug Trade," in Robert I. Rotberg, ed., *Burma: Prospects for a Democratic Future* (Washington, DC: Brookings Institution Press, 1998): 185-197.

<sup>12</sup> Frank S. Jannuzi, "The New Burma Road (Paved by Polytechnologies?)" in Robert I. Rotberg, ed. *Burma: Prospects for a Democratic Future* (Washington, DC: Brookings Institution Press, 1998): 197-208.

However, the centerpiece of the ceasefires was the junta's acquiescence to the belligerents' continued trade with any goods in their territories. In the Kachin state, the various rebel groups – Kachin Defense Army (KDA), New Democratic Army, Kachin (NDAK), and Kachin Independence Organization (KIO) -- were allowed to harvest timber and opium poppy and mine gems and gold. In the Karen state, the Democratic Karen Buddhist Army (DKBA) also taxed opium poppy cultivation and trafficked with opium and timber. In the Shan state, the UWSA, the Shan State National Army (SSNA), the MNDAA, and the MTA were given similar tacit acquiescence toward the trade with drugs.<sup>13</sup> Moreover, in the cease-fire areas, the junta legalized cross-border trade with China, Thailand, and India on condition that government checkpoints were established and taxes collected on trade. (Drugs were officially not taxed, but also not interdicted. Various local government officials nonetheless cut profits on the drug trade.) In some cases, such as in the case of insurgent leader and drug trafficker Sai Lin and his special region No. 3, these harvesting and trading licenses were complemented by various degrees of autonomy. The junta also struck a similar bargain with the most prominent druglords, including Khun Sa and Lo Hsing-han, allowing them to invest their profits into legitimate businesses, such as construction, paper mills, beer factories, banking, and food supermarkets.<sup>14</sup> The traffickers-turned-businessmen also provided repairs of ports and construction of major roads, such as between Lashio and Muse.<sup>15</sup>

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<sup>13</sup> Jake Sherman, "Burma: Lessons from the Cease-fires," in Karen Ballentine and Jake Sherman, eds., *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder: Lynne Rienner, 2003): 225-255.

<sup>14</sup> For example, Khun Sa thus came to operate a major company, Good Shan Brothers; Lo Asia World, Asia Wealth, and Kokang Import Export Co. As the country's economy continued to crumble as a result of decades of mismanagement and the economic sanctions imposed on Burma by the United States and Europe, the significance of these illicit profits for the overall economy continued to grow and became more and more officially sanctioned. The government de facto agreed to absorb the illicit money to keep the overall economy afloat. For details, see, Robert S. Gelbard, "SLOCR's Drug Links," *Far Eastern*

The case of Burma thus represents a twist on tacit acquiescence. The junta did not use tacit acquiescence to win the hearts and minds of the population, to stop their support for the rebels, and to provide the government units with intelligence. Rather, the junta used tacit acquiescence to the illicit economies to buy off the insurgents themselves and make it materially advantageous for them to stop their fight. These ceasefires have held for over ten years, in some cases for almost fifteen, essentially ending five decades of conflict. Today only few rebels engaged in active fighting remain in the Mon state in the south of the country and in the remote regions along the border. Various rebel groups and leaders, however, continue to exercise autonomy in parts of the country. Moreover, as ceasefires went on, the government progressively successfully pressured major belligerent groups into disarming and handing over their weapons, making it less and less viable for them to return to conflict.

The tacit acquiescence policy surprisingly did not result a massive increase in cultivation. Between 1991 and 1996, cultivation and production levels stayed at about the same level (160,000 hectares or 2,350 tons in 1991 and 163,100 hectares or 2,560 tons in 1996).<sup>16</sup> Under pressure from the United States -- and also China that began to experience not only growing addiction rates but also a growing threat to the Chinese Communist Party authority in the border regions from the increasingly powerful Chinese drug traffickers -- the junta finally undertook large-scale eradication efforts in the late 1990s and early 2000s. It also forced the disarmed rebels in their autonomous territories, such as

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*Economic Review*, November 21, 1996; Anthony Davis and Bruce Hawke, "Burma -- the country that won't kick the habit," *Jane's Intelligence Review*, March 1998; and Bertil Linter, "Drugs and Economic Growth: Ethnicity and Exports," in Robert I. Rotberg, ed., *Burma: Prospects for a Democratic Future* (Washington, DC: Brookings Institution Press, 1998): 165-183.

<sup>15</sup> These roads not only facilitated the spread of state presence and the increase of overall economic activities, but also the efficiency of the drug traffic.

<sup>16</sup> U.S. Department of State, *International Control Strategy Reports*, 1984-2006, (Washington, DC: U.S. Department of State, various years).

Sai Lin in his Special Region No. 3 and the United Wa State Army in its area, to carry out similar eradication. Facing local populations tired of war and happy with the peace that the ceasefires brought, dependent on wider trade with China, and having disarmed, the belligerents agreed and carried out extensive eradication. Under DEA supervision, Special Region No. 3 was essentially cleared off poppy.<sup>17</sup> Overall, production fell to 30,800 hectares or 312 metric tons in 2005.<sup>18</sup> The rural population was hit hard by eradication, having food security for only eight months a year. Many people left the regions, and even basic social services collapsed. As a result of the eradication causing tremendous economic and social hardship for the population dependent on opium poppy cultivation, the political capital of the belligerents greatly decreased.<sup>19</sup> But since the central government was no longer in competition for the hearts and minds of the population at the time when the belligerents themselves undertook eradication, the population has been forced to put up with eradication, either leaving the regions or surviving four months a year only on foreign food aid distribution.<sup>20</sup>

Meanwhile, the belligerents-cum-leaders of their autonomous regions have not gone bankrupt. Although the population is starving, and increasingly turning to

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<sup>17</sup> With a good sense of humor, U Sai Lin, one of the world's biggest drug traffickers, even opened a large drug eradication museum in the "capital" of his autonomous region, in Mong La.

<sup>18</sup> United Nations Office on Drugs and Crime, *Myanmar – Opium Survey 2005*, [http://www.unodc.org/pdf/Myanmar\\_opium-survey-2005.pdf](http://www.unodc.org/pdf/Myanmar_opium-survey-2005.pdf), downloaded September 10, 2006.

<sup>19</sup> This only compounded the decline of the belligerents' political capital as the belligerents became synonymous with the traffickers, thus resulting in the condition, "absence of traffickers," and failing to perform regulatory functions on behalf of the population. For details on the eradication policy and the resulting effects on the population, see Transnational Institute, *Drugs and Conflict in Burma (Myanmar): Dilemmas for Policy Responses*, TNI Briefing Series, No. 9, December 2003, <http://www.tni.org/reports/drugs/debate9.pdf>, downloaded, November 13, 2005. See also, International Crisis Group, *Myanmar: Aid to Border Areas*, Asia Report No. 82, September 9, 2004, [http://www.crisisgroup.org/library/documents/asia/burma\\_myanmar/082\\_myanmar\\_aid\\_to\\_the\\_border\\_areas.pdf](http://www.crisisgroup.org/library/documents/asia/burma_myanmar/082_myanmar_aid_to_the_border_areas.pdf), downloaded, February 2, 2005.

<sup>20</sup> The leadership of these regions, such as the UWSA, is itself engaged in forcible relocation of the population from the unproductive hill regions into more agriculturally productive lower-altitude regions within the territory it controls to maintain eradication. See, for example, Transnational Institute (June 2005).

unrestrained logging and illicit trade with wildlife for livelihood, the former belligerents have managed to maintain their income by switching to the production of synthetic drugs, mainly methamphetamines. Sai Lin, Khun Sa, the United Wa State Army, MNDAA, and others have become fully involved in the production and traffic with meth, locally known as *yaa baa*. In the Shan state alone, over 50 meth factories have been discovered.<sup>21</sup>

Unlike opium poppy fields, such factories are exceedingly easy to hide, and consequently, difficult to destroy. But since the production of synthetic drugs is not-labor intensive, this illicit economy is providing no relief to the economic destitution of the population. The political capital of the belligerents is further diminishing. Possibly over time, this lack of political capital will threaten the belligerents' very hold on power even in their autonomous regions without the presence of the central state.

The case of Burma is thus yet another case where tacit acquiescence to the existence of a variety of the illicit economies, including the cultivation of opium poppy, was central to the government's ability to end military conflict. However, the case of Burma provides a new twist on tacit acquiescence: tacit acquiescence was not used by the government to win the hearts and minds of the population, but rather to buy off and coopt the belligerents and the traffickers themselves. Eradication which resulted in a very large decrease in crop cultivation was effectively carried out after the ceasefires were in place for several years (even though eradication caused major hardship to the rural population). Moreover, in addition to the central government, the belligerents themselves carried out eradication, and hence greatly diminished their political capital. However, the final important lesson of the case of Burma is that even then, despite the very effective

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<sup>21</sup> Sherman: 251.

eradication, the former belligerents have not gone bankrupt. They simply switched to other illicit economies, including the production and traffic of synthetic drugs.

#### **IV. Limits of Eradication: Why It Won't Bankrupt Belligerents and When It Is Effective in Limiting Illicit Crop Cultivation in *Particular* Locales**

##### ***Effectiveness of Eradication in Weakening Belligerents***

The cases explored in the dissertation have shown that efforts to suppress illicit economies, such as illicit crop eradication, in order to bankrupt the belligerents and defeat them have not succeeded. The following discussion recaps why: Suppression efforts raise the price of illicit commodities, thus, in the cases of only partial suppression of production, frequently resulting in little change in the belligerents' income. Given stable international demand for an illicit commodity, full and permanent suppression is extraordinarily hard to achieve. The extent of the belligerents' financial losses from suppression of illicit economies depends on the adaptability of the belligerents, traffickers, and peasants. Adaptation methods available are plentiful, especially in the case of illicit drugs, but more broadly as well. Belligerents can store drugs, which even in their semi-finished state are essentially nonperishable. Belligerents can put some money away, saving it for times when fresh income is limited.<sup>22</sup> Peasants can replant after eradication. They can increase number of plants per acre to offset losses from areas eradicated. Peasants, traffickers, and belligerents have the ability to shift production to areas that are not being eradicated and where detection is difficult, such as deeper into the

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<sup>22</sup> Paradoxically, unless laundered off into a bank or business, money can be more perishable than the actual drug. The 1980s Colombian drug traffickers, for example, made so much money that they were unable to rapidly launder it through the Colombian economy and resorted to even burying barrels of dollars in the ground in the jungle. As they had so much income coming in, they would rarely have to dig up the barrels, and on occasion, the money would simply rot, eaten away by tropical fungi.

jungles under tree cover, or into higher elevation under cloud cover. Traffickers can provide peasants with genetically-altered high-yield, high-resistance crops that do not die after being sprayed. Traffickers can switch their trafficking routes to other areas and other their means of transportation to other methods, to name just a few of the evasion adaptations.

The history of drug control policies is a history of extraordinary adaptiveness on the part of traffickers and peasants both toward eradication policies and toward interdiction. What temporarily seems like great successes of law-enforcement and counternarcotics policies frequently lasts for only a brief period, resulting in production popping up somewhere else, the so-called “balloon effect.” Coca and opium processing are archetypal footloose industries: They require little capital, few labor skills, and the needed technologies are simple and well-known. Source-country suppression policies, eradication and interdiction, have at most succeeded in generating a two-year lag before production and supply recovered.<sup>23</sup>

Thus, the destruction of the French connection and the interruption of heroin smuggling from Asia through Turkey accompanied by the licensing of Turkish opium cultivation for medical purposes in the late 1970s resulted in major heroin production appearing in Mexico. The subsequent eradication campaign dried up heroin from Mexico and allowed for the rise of the Golden Crescent and increase in production in the Golden Triangle. Meanwhile, Mexican farmers shifted to cultivating marijuana. A subsequent eradication campaign with the herbicide paraquat, which was believed to have carcinogenic effects, scared off U.S. users from Mexican marijuana, thus allowing for a major take off in marijuana production elsewhere in Latin America. This expansion in

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<sup>23</sup> Kevin Jack Riley, *Snow Job?* (New Brunswick: Transaction Publishers, 1996): 93.

marijuana cultivation, accompanied by a vast increase in demand for drugs in the United States, also paved the way for a major increase coca cultivation and cocaine production in the late 1970s and early 1980s.<sup>24</sup> Since then, eradication and interdiction efforts in the Andean region, for example, have been largely a shell game, with production being suppressed in one of the producing countries while increasing elsewhere and the total production being remarkably stable at around 200,000 hectares of coca cultivation for the past twenty years.<sup>25</sup> Although they are premised on the idea that effective suppression will reduce consumption by increasing street prices, eradication efforts have failed in both objectives. The consumption of cocaine and heroin has been stable in the West, while consumption of marijuana and methamphetamines has increased. Many non-Western countries have faced large increases in the consumption of a variety of narcotics.<sup>26</sup> Prices have continued to fall in the West. In the United States, retail heroin prices steadily fell from \$1974.49 per gram in 1981 to \$361.95 per gram in 2003 while cocaine prices fell from \$544.59 per 2 grams in 1981 to \$106.54 per 2 grams in 2003, while the purity of both has not declined.<sup>27</sup> Similar decline in prices and stability in purity is also seen in Europe. New sources of production have always managed to fill any existing gap in supply.

Occasionally seemingly successful policies actually result in a more difficult law enforcement problem: success in destroying the Medellín and Cali cartels led to the emergence of numerous “boutique” cartels against which it is much more difficult to

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<sup>24</sup> Peter Reuter, “Eternal Hope: America’s Quest for Narcotics Control,” *Public Interest*, (79), Spring 1985: 79-95.

<sup>25</sup> U.S. Department of State, *International Control Strategy Reports, 1996-2004*, and Center for International Policy, *Andean Coca Cultivation*, <http://www.ciponline.org/colombia/cocagrowing.html>.

<sup>26</sup> United Nations Office on Drugs and Crime, *2006 World Drug Report*, [http://www.unodc.org/pdf/WDR\\_2006/wdr2006\\_volume1.pdf](http://www.unodc.org/pdf/WDR_2006/wdr2006_volume1.pdf), downloaded September 24, 2006.

<sup>27</sup> ONDCP data obtained by WOLA under the Freedom of Information Act and available at [http://www.wola.org/ddhr/ddhr\\_data\\_measures2.htm](http://www.wola.org/ddhr/ddhr_data_measures2.htm).

carry out effective interdiction and which are very hard even to detect. Of course, the reduction of power of organized crime vis-à-vis the Colombian state was an important benefit of the elimination of the cartels. Large and aggressive, the Medellín and Cali cartels attempted to acquire significant political power. The Medellín cartel also engaged in a terrorist campaign against the state. Their elimination no doubt benefited the Colombian state and society, even though subsequent counternarcotics measures became more difficult.

Yet even if counternarcotics policies broke with the historic record and miraculously succeeding in permanently wiping out illicit crop cultivation in particular regions, belligerents always have the possibility of switching to other illicit economies, such as extortion, illegal logging, and other illegal traffic. Most easily and conveniently, they can switch to cooking synthetic drugs, such as methamphetamines.

Finally, groups rarely rely on drugs to provide their entire income. Even the prototypical groups obtaining large profits from drugs, such as the FARC and the AUC in Colombia, derived only 50% and 80% of their finances from drugs respectively. Moreover, these large percentages are more of an exception than the rule. Even if eradication were to permanently wipe out the entire cultivation of illicit crops in a particular locale and the belligerent group failed to adapt, the group would still suffer only a partial loss of income.

It is highly questionable whether the consequent loss of financial resources would be enough to paralyze the belligerent group's military operations. Much would depend on the group's subsequent budgeting and minimum necessary yearly outlay. The group could, for example, choose cheaper military tactics, such as the use of primitive explosive

devises. Although the belligerent group may face difficulties in procurement and logistics, it is not inevitable that all equipment will need to be replaced on a yearly basis. It is quite possible that even in the absence of new income, the belligerent group may well be able to carry on with a destructive and deadly military campaign for a number of years.

This problem becomes especially acute for governments when they attempt to use the suppression of illicit economies not for defeating insurgent groups with large armies numbering in the thousands and are trying to take over a territory, but for defeating terrorist groups numbering in the hundreds or less and engaging in sporadic, albeit spectacular and destructive attacks. Al Qaeda, to which policymakers and analysts frequently point to justify the need for illicit crop suppression efforts in Afghanistan (and worldwide), provides a pertinent example.<sup>28</sup> Al Qaeda's 9-11 attacks were estimated to cost between \$300,000 to \$500,000.<sup>29</sup> Eradication supposedly will deprive al Qaeda of financial resources and hence severely downgrade its operational capacity. However, a moderately competent terrorist group that taxes some processing plants or engages in trafficking will be able to derive millions (if not tens of millions) of dollars from the drug trade. Even if the group has access to the drug trade for only one year, and even if its competence is very limited, it still will be able to earn enough money to carry out at minimum several operations as costly as 9-11. For example, at the 2003 wholesale price

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<sup>28</sup> Al Qaeda here is used only as an illustration since it is frequently used as justification for eradication efforts in specific countries or more broadly. There is no indication that al Qaeda has any distribution networks in the United States or Europe. The best available evidence suggests that it has contacts with drug traffickers operating in Pakistan and Afghanistan.

<sup>29</sup> U.S. Department of Treasury, *The National Money Laundering Strategy for 2003* (Washington DC: U.S. Department of Treasury, 2003), footnote 50, Peter Reuter and Edwin M. Truman, *Chasing Dirty Money* (Washington, DC: Institute for International Economics, 2004): 143.

for heroin (\$139.22 for less than ten grams),<sup>30</sup> the terrorist group would have to sell about 36 kg of heroin to a major dealer in the consumer country to earn the necessary outlay. Even at considerably smaller wholesale prices higher upstream in the production-trafficking chain where the vast majority of insurgent and terrorist groups operate, a terrorist group could easily acquire the necessary finances for an operation as costly as 9-11 from a very limited and short-term involvement in the illicit drug economy.<sup>31</sup>

In fact, there has not been one case when eradication bankrupted a belligerent group to the point of eliminating it or even severely weakening it. Eradication and broader suppression efforts toward illicit economies have failed to do so in the case of large insurgent armies with yearly outlays in the millions, and they are even less likely to succeed in the case of small, albeit lethal terrorist groups.

### ***Effectiveness of Eradication in Suppressing Illicit Crop Cultivation in Particular Locales***

Although eradication has not been effective in bankrupting and paralyzing belligerent groups or suppressing overall production of any major drug during the past thirty years, it has nonetheless on occasion succeeded in suppressing production in a particular locale. The previous section provided examples of eradication temporarily curtailing production in specific countries. The cases discussed in the dissertation also analyzed instances of eradication significantly reducing production in specific locales: Afghanistan in 2000 and Burma during the past several years. (Interdiction in Peru

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<sup>30</sup> Ibid.

<sup>31</sup> Of course, the operational requirements to carry out such attacks go considerably beyond the necessary finances. The analysis here is meant only to show that attempting to suppress the illicit narcotics economy to prevent even large (not to mention smaller) terrorist attacks is extremely unlikely to succeed.

between 1995 and 1999 was also similarly effective in limiting production.) Another example not discussed in the dissertation is Bolivia between 1995 and 2000.

For eradication to be effective in reducing cultivation in specific areas, several conditions need to be met. First and foremost, if a government's goal is to suppress production in the entire country, then it needs to have control over the entire country. It must have a detailed knowledge of where production is shifting as a result of eradication and be able to counter this trend. It must also have a continuing presence on the ground to prevent replanting. It cannot face an armed opposition able to exploit eradication. The Taliban had such control over where it eradicated in 2000. The Burmese junta had similar control over the territory where it eradicated, and the former belligerents had control over their semi-autonomous regions where they agreed to eradicate. When Peru undertook (along with the U.S.) its effective Air Bridge interdiction program, Sendero was already defeated. The thicker the state presence on the ground, the greater the chance of success.

In addition to firm government control throughout the country, one of two conditions is required for eradication to be effective in reducing illicit crop cultivation in underdeveloped countries where the vast majority of illicit crops (with the exception of marijuana) is located: 1) The government needs the will and capacity to be very harsh to the population -- ignoring their destitute economic plight that is worsened by eradication; cracking down on protests and rebellions against eradication; and removing any opposition leaders who embrace the counter-eradication cause and could effectively mobilize against the government. And the government needs to be willing to carry out such repression on a repeated basis for years to come. Needless to say, such a policy is

blatantly inconsistent with democracy and human rights. Or 2) Comprehensive alternative livelihoods programs, covering all major structural causes of production, need to be in place, not simply promised.

The repression model has so far been successful only on a temporary basis, and, inevitably has broken down within a few years. Poppy cultivation in Afghanistan picked up within one year, despite the Taliban's prohibition. And despite a combination of repression and localized alternative development programs in Bolivia,<sup>32</sup> production has been increasing since 2000. Forced eradication also contributed to instability in Bolivia and the election of a *cocalero* leader Evo Morales in 2005. Morales then suspended forced eradication. So far, forced eradication appears to be holding in Burma, despite the tremendous hardship on the affected population, largely because Afghanistan's higher yield opium has displaced Burma's in the international market.

The second model, based on alternative livelihoods programs, has been no more successful nation-wide, partially because alternative livelihood programs have been neither sufficiently lasting nor well-funded nor well-managed.<sup>33</sup> Thailand provides the most significant example of success. There, three decades of comprehensive, well-funded, and well-managed rural development since the 1970s -- *significantly* accompanied by an overall very impressive economic growth of the country -- led to a

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<sup>32</sup> See, for example, *Illegal Drugs, Economy, and Society in the Andes* (Baltimore: John Hopkins University Press, 2003); Kevin Healy, "The Coca-Cocaine Issue in Bolivia: A Political Resource for All Seasons," in Madeline Barbara Léons and Harry Sanabria, eds., *Coca, Cocaine, and the Bolivian Reality* (Albany: State University of New Press, 1997): 227-242; Eduardo A. Gamarra, "Fighting Drugs in Bolivia: United States and Bolivian Perceptions at Odds," in *ibid.*: 243-252; Madeline Barbara Léons, "After the Boom: Income Decline, Eradication and Alternative Development in the Yungas," in *ibid.*: 139-168; Kathryn Ledebur, "Bolivia: Clear Consequences," in Coletta A. Youngers and Eileen Rosin, eds., *Drugs and Democracy in Latin America*, (Boulder: Lynne Rienner, 2005): 143-182; and Michael Painter, *Institutional Analysis of the Chapare Regional Development Project (CRDP)*, Working Paper No.59. (Binghamton: Institute for Development Anthropology).

<sup>33</sup> See, for example, Thoumi (2003).

major decrease in the cultivation of opiates.<sup>34</sup> In fact, the cultivation of opiates was just about wiped out: falling from 17,920 hectares at its peak in 1965/66 to 330 hectares in 1999/2000.<sup>35</sup> It is important to point out that cultivation at its peak was only 17,920 hectares, well below the size of the problem in Afghanistan today or (in the case of coca) in Latin America. Moreover, Thailand continues to have flourishing traffic in synthetic drugs as well as in opiates from other countries.<sup>36</sup>

For alternative livelihoods programs to be effective in reducing the extent of illicit crop cultivation in a lasting way, good security needs to be established in the rural regions. In other words, military conflict needs to be ended. Moreover, alternative livelihoods programs cannot be simply limited to crop substitution. Even if the replacement crop is lucrative, price profitability is only one factor driving the cultivation of illicit crops, with other structural economic conditions playing crucial roles. Moreover, it is a common fallacy to assume that farmers will not participate in licit production simply because the illicit production is more profitable. Even in rich Western countries, cultivation of illicit marijuana (not to mention other more lucrative illicit economies) is more profitable than the vast majority of legal jobs, yet the vast majority of the population chooses to obtain legal employment. The key for alternative livelihoods should not be to match the prices of the illicit commodity, a losing game, but rather to create such economic conditions that allow the population to have a decent livelihood without having to resort to the illicit economy. For alternative livelihoods to have any chance to take off, they must encompass infrastructure building, distribution of new

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<sup>34</sup> For a good overview, see, Ronald D. Renard, *Opium Reduction in Thailand, 1970-2000: A Thirty-Year Journey* (Bangkok: UNDCP Silkworm Books, 2001).

<sup>35</sup> *Ibid.*: 36.

<sup>36</sup> Pierre-Arnaud Chouvy, "Drugs and War Destabilize Thai-Myanmar Border Region," *Jane's Intelligence Review*, April 01, 2002.

technologies, such as fertilizers and better seeds, marketing help, the development of local microcredit, and the establishment of access to land without the need to participate in the illicit economy, to name a few of the most prominent components. As such alternative livelihoods programs require a lot of time and resources as well as essential stability in the area where they are undertaken.

## **V. Why Not Every Belligerent Group Is Running Drugs**

Given that belligerent groups derive such large and multifaceted benefits from the illicit economy and that they face significant losses of relative power compared to other belligerent groups that are positively involved in the illicit economy, why would some belligerent groups not become positively involved? Although since the end of World War II, the number of belligerent groups that have tapped into the drug trade and other illicit economy have greatly surpassed conventional expectations -- see Appendix I for a comprehensive list of cases -- not all belligerent groups do. The obstacles and constraints to participation are sometimes large.

In the case of illicit-crop cultivation, the most basic limitations and obstacles are natural endowments and the level of law enforcement. Although cannabis and opium poppy are plants that can grow in a variety of conditions, coca is more restricted to specific temperature and humidity conditions, and in the absence of creating special artificial conditions through the use of greenhouses, fertilizers, and other agronomic technologies cannot be grown simply anywhere.<sup>37</sup> Such specific natural resource endowments are lacking in some regions. But even the cultivation of more flexible plants,

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<sup>37</sup> Although mainly associated with the Andean region, coca has also been grown in Asia, notably in Japan and Taiwan. Parts of Africa would also be suitable for its cultivation.

such as cannabis and opium poppy, faces the issue of comparative advantage: differences in climatic conditions in Burma/Myanmar and Afghanistan result in significantly greater opium yields per capsule and greater potency for Afghan opium than for Burmese. Consequently, traffickers and users prefer Afghan opium. As cultivation of opium in Afghanistan has expanded, Burmese cultivation has steadily shrunk in response to the reduced demand for Burmese opium. Even if the remaining belligerents in Burma wanted to expand cultivation, they would run into the limiting market forces of weak demand for their opium.

A second constraint is the level of law enforcement and government control over territory. Strong states with effective and large military and law-enforcement capacity not only make it hard for belligerent groups to emerge, but also inhibit the emergence and spread of a large-scale illicit economy.

Third, at least in the initial stages, belligerent groups rarely have the resources and know-how to set up a large illicit economy. In the case of drugs, they frequently lack contacts with criminal trafficking networks for selling at least the basic raw materials to the traffickers, let alone the knowledge and precursor agents to refine raw materials into medium-stage products, such as coca paste. Although the labor-intensiveness of producing synthetic drugs is very small, the know-how demands and the necessity of start-up access to controlled precursor agents, such as pseudoephedrine required for the production of methamphetamines, frequently make it very difficult for nascent belligerent groups to establish such economies from scratch. Much more likely, belligerent groups will first learn how to exploit an existing illicit economy and acquire the knowledge and

contacts necessary for managing the existing economy before they attempt to set up a new illicit economy.

A fourth crucial constraint on the belligerents' ability to participate in certain illicit economies is the level of saturation of the international market for the illicit commodity and the size of demand for it. Traffickers may not be interested in abandoning their established ties to traditional producers for new inexperienced, untested ones, and there may not be enough demand to allow the existence of both new and traditional suppliers to produce the same commodity. Inevitably, the relative stability of the international market for narcotics results in production shifting among various countries, depending on their comparative advantage at a particular time, but not in new large increases in total world's production. Thus, the cultivation of coca has been shifting between Bolivia, Colombia, and Peru, at various times allowing for increases in a particular country while production decreases in a competing country. But there is not an unconstrained simultaneous expansions of production in all three countries nor is there an unconstrained entrance of new large-scale producers, such as Venezuela, Ecuador, or Brazil. Only suppression of production in a particular locale due to bad weather conditions or eradication, , for example, or a major new expansion of demand for narcotics, such as experienced in the West in the 1960s and 1970s, will allow new entrants to penetrate the market while allowing traditional suppliers to continue the scale of their production. For example, production of opiates in the Golden Crescent emerged in the late 1970s as a result of a large increase in demand for opiates in the West and the suppression of production in the Golden Triangle due to drought.<sup>38</sup> In short, not only will

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<sup>38</sup> Scott B. MacDonald, "Afghanistan," In Scott B. MacDonald and Bruce Zagaris, eds. *International Handbook on Drug Control* (Westport: Greenwood Press, 1992): 315-324.

belligerents likely at first lack the skills and connections to set up a new illicit economy in their locale, but with satiated demand, they will also lack the market opportunity.

The fifth constraint on belligerents' participation in a particular illicit economy is the presence of other competing belligerent groups that may crowd out the participation of new entrants. Large-scale cultivation of illicit crops may well allow for the participation of several belligerent groups – in Colombia, for example, the leftist FARC and ELN and the rightist paramilitaries, the AUC all participate in the illicit economy. Similarly, in Burma, the majority of the seventeen major insurgency groups and many minor ones managed to participate in the drug trade. However, in small illicit economies or in economies strongly dominated by one belligerent group, other belligerent groups may not be able to participate. The Peruvian Shining Path, for example, largely pushed out the MRTA from the drug trade.

Sixth, belligerent groups may also face ideological and religious restraints – both internal to the group and coming from the larger community -- on participating in the illicit economy. As the example of Northern Ireland shows, the pressure from the larger community will be much more prominent in rich developed countries. In poor countries, the fact that even groups ideologically opposed to a particular illicit economy will learn not to suppress it in order to avoid alienating the local population does not necessarily mean that they will actively choose to participate in it and materially profit from it. (Although that is what in fact takes place in the vast majority of cases). Especially if the group has an assured income from other sources -- other illicit economies, some legal economic activity, or foreign sponsors -- and if it has other sources of political capital, it may well forgo its participation in a particular form of illicit economy. In such a case,

strong views regarding ideology, religion, and morality may well inhibit particular groups from actively participating in the illicit economy even though the group, in order not to antagonize the local population, does not attempt to suppress it. This will be especially the case in countries with rich overall economies and labor-non-intensive illicit economies.

Similarly, a group may well need to balance the need to satisfy its internal constituents with the need to please a powerful external sponsor. If the external sponsor for some reason disapproves of the group's participation in the illicit economy and the belligerent group is dependent on the external sponsor for either financial resources and/or safehavens, the belligerent group may well choose to minimize damage to its ability to persist and expand by refraining from participating in the illicit economy. Although the population's negative response to suppression will dissuade the belligerents from attempting to destroy the illicit economy, they may well choose a hands-off approach rather than positive involvement.

## **VI. Policy Implications and Recommendations**

### ***Implications***

The study has shown that in responding to the nexus of belligerency and illicit economies, governments face a trade-off between the desire to limit the belligerents' resources by eliminating the illicit economy and the desire to win the hearts and minds of the population that also participates in the illicit economy. The more the government suppresses the illicit economy, the greater the alienation of the population from the government and the weaker the cooperation of the population with the government in the effort to defeat the belligerents. Furthermore, the analysis showed that it is extraordinarily

hard to succeed in actually cutting the belligerents off from resources since they have a host of adaptation measures easily available within a particular illicit economy and since they can fairly easily switch to other illicit economies.

However, the extent of the tradeoff is crucially dependent on several factors that the dissertation identifies. Thus when deciding how to respond to the nexus of illicit economies and military conflict, it is first of all necessary to identify whether the state of the overall economy is poor, with a large segment of the population unable to access licit livelihoods necessary for basic livelihood, and whether the illicit economy in which the belligerents are involved is labor-intensive or not. In poor countries with large labor-intensive illicit economies, suppression efforts, such as eradication of illicit crops, will fundamentally antagonize the population and severely hamper intelligence-gathering and overall efforts to suppress the belligerents. However, in the case of a rich country with a labor-non-intensive illicit economy, suppression of the illicit economy will alienate only very few people, and hence the trade-off between limiting resources and winning hearts and minds of the population will be minimal, if not altogether disappear. In that case, efforts to suppress the illicit economy may in fact be an appropriate policy during conflict.

In either case, efforts to suppress the illicit economy will very rarely, and only under the most favorable circumstances, result in any significant limitation of the belligerents' resources and their ability to operate. But the impact on the belligerents' and the government's political capital will be fundamentally different. In the case of poor countries with labor-intensive illicit economies, suppressing such illicit economies will not only fail to bankrupt the belligerents, it will also generate large political costs for the

government. In the case of rich countries with labor-non-intensive illicit economies, suppressing the illicit economy will also be unlikely to bankrupt the belligerents, but there are no significant political costs associated with the strategy.

What then are the policy alternatives for dealing with the starkest trade-off when a large labor-intensive illicit economy in a poor country interacts with military conflict? The dissertation shows in case after case that efforts to suppress the illicit economy in such situations fail to accomplish the goal of severely weakening the belligerents (and also the goal of curtailing the illicit economy), and only antagonize the population. Temporary tacit acquiescence to the illicit economy, however, crucially contributes to the government's ability to defeat the belligerents.

Alternative livelihood programs can accompany any policy toward illicit economies, whether the policy is eradication, interdiction, or tacit acquiescence. The dissertation, however, shows that when alternative livelihoods programs are combined with eradication during military conflict, the population is nonetheless antagonized from the government, even if less so than when eradication is adopted alone. When eradication is the dominant policy, the population does not cooperate with the government, and the relationship between the population and the belligerents is strengthened. Combining alternative livelihoods with eradication is thus less harmful to the military effort against the belligerents than undertaking eradication alone, but it is still more harmful than adopting a policy of temporary tacit acquiescence. When alternative livelihoods programs are combined with tacit acquiescence, the population is not antagonized and much more willing to support the government against the belligerents.

Licensing of the illicit economy for legitimate purposes is another nonrepressive policy alternative. Apart from the cases explored in the dissertation, licensing of opium poppy cultivation for medical opiates in Turkey, for example, eliminated the illicit economy. It did so after several years of eradication failed to limit production and generated large political instability. More significantly, belligerent groups, such as the Kurdistan Workers' Party (PKK) and terrorist groups, such as Dev Sol, never managed to penetrate the licit cultivation and derive either financial profits or political capital from it. They did, however, penetrate illicit traffic with opiates from Asia. Licensing is also being contemplated for preventing the illicit logging of tropical forests.<sup>39</sup>

Yet, the study should not be read as a blanket endorsement of laissez-faire, licensing or legalization of illicit economies. First, there are good reasons why some economies and activities remain illegal. The fact that murder is illegal creates demand for killers and establishes a highly lucrative market for professional hitmen. Belligerent groups who provide such hitmen services to the buyers will consequently be able to reap large financial profits (even though in this case, depending on the popularity of the targets, will likely not obtain much political capital with the larger population). The implication, of course, is not to legalize murder or outsource the protection of life to the private sector. Similarly, trade with WMD materials needs to remain prohibited and efforts need to be made to prevent smuggling with WMD materials since the consequences of such materials falling into the hands of terrorists may have catastrophic consequences.

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<sup>39</sup> For a discussion of a licensing system to limit illicit logging, see, "Down in the Woods," *Economist*, 378 (8470), March 25, 2006: 73-5.

Second, licensing or blanket legalization may result in the depletion of a resource that it is desirable and necessary to preserve. Illicit trade with wildlife is probably the second most lucrative illicit economy, and belligerent groups, such as UNITA, have profited from killing and selling wildlife, especially highly endangered species. Removing restrictions on the killing of wildlife, such as rhinos, or tacit acquiescence to poaching, may well reduce the belligerents' financial profits, but will also result in the irretrievable loss of the species.

Third, the fact that some form of licensing is feasible and effective in one context does not mean it would be equally effective in other contexts. Licensing of opium in Turkey proved a resounding success, but there were several auspicious factors from both an efficacy and legal standpoints: Turkey had a strong state that had a firm control over the territory where licensing was undertaken, a fact that crucially contributed to Turkey's ability to comply with the Single Convention on Narcotics Drugs, the cornerstone of the international narcotics regime. Also, Turkey was able to use a particular technology, the so-called poppy straw method, that makes diversion of morphine into the illicit trade very difficult. India's licensing system proved considerably less effective in preventing diversion of opium into illicit uses, as India never adopted the poppy-straw method.<sup>40</sup> In addition, Turkey had a guaranteed market for its opiates in the United States that under the so-called "80/20" rule agreed to purchase eighty percent of its medical opiates from traditional suppliers, Turkey and India. Nonetheless, both India and Turkey are being displaced from the licit market by new industrial suppliers of medical opiates, such as Australia. Trying to apply such a licensing scheme, say to Afghanistan today, would face

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<sup>40</sup> For analysis of licensing efficacy in India and Turkey, see, David Mansfield, "An Analysis of Licit Opium Poppy Cultivation: India and Turkey," <http://www.pachouvry.org/Mansfield2001AnalysisLicitOpiumPoppyCultivation.pdf>, downloaded, December 12, 2005.

a host of legal, political, and efficacy obstacles, foremost among them the lack of security and state presence, but also the lack of a guaranteed market, and a stiff international competition.

Fourth, even when licensing is possible, the existence of a licit economy does not translate necessarily into the elimination of the related illicit economy. Thus, a legal market for cars in the United States has not prevented the existence of an illicit market for cheaper stolen cars. Participating in such an illicit market with stolen cars remains a popular form of financing for many inner city gangs. But the fact that any government prohibition and regulation creates the potential for an illicit economy since someone will benefit from not complying with the regulation does not mean that governments should abdicate all regulation.

However, an important implication of the study is that when contemplating new regulations and prohibitions, such as economic sanctions against particular countries, governments and international organizations need to consider to what illicit economies such regulation will give rise. They also need to consider how exploitable the resulting illicit economy will be by terrorists and other belligerents and how difficult enforcement of the regulation will be. Carrying out interdiction and enforcing prohibitions on a host of illicit economies poses extraordinary physical difficulties. Preventing smuggling with anything is just very, very hard, especially in the context of today's global economy. When licensing is not feasible or desirable, frequently the only way to severely limit the illicit economy is to address demand for the commodity or service.

## ***Recommendations***

*Governments should not simply rely on suppression of illicit economies to defeat or even substantially weaken belligerents.* Most likely, belligerents will find a host of adaptations to escape from the resource-limitation trap, making the focus on limiting the belligerents' resources a highly risky strategy for the government. If a government seeks to achieve a preponderance of military power, it needs to do so through beefing up its own military resources.

*In the case of labor-intensive illicit economies in poor countries, governments should postpone suppression efforts toward the illicit economy, which target the wider population, until and after belligerents have been defeated or negotiated an end to the conflict.* Premature suppression efforts, such as eradication of illicit crops, will alienate the population and severely curtail the in-flow of intelligence on the belligerents from the population. It will lose the competition for the hearts and minds of the population and severely hamper the military effort against the belligerents. Governments should avoid unnecessarily cementing the bond between the population and the belligerents. Interdiction at borders and destruction of labs does not target the population directly. Consequently, it does not alienate the population to the same extent as eradication and is thus more easily compatible with the counterinsurgency and counterterrorism effort.

*If belligerents have not yet penetrated an illicit economy in a country -- for example, narcotics cultivation in a particular region -- governments should make every effort to prevent the belligerents from penetrating the economy, such as by establishing a cordon sanitaire around the region.*

*Efforts to limit the belligerents' resources should focus on mechanisms that do not harm the wider population, at least not directly, such as efforts against money-laundering.* Such measures against money-laundering cannot remain localized at the country level, but need to be strengthened on the global level.

*Governments should avoid unnecessarily strengthening the bond between the criminal traffickers and the belligerents by treating the two as a unified actor and should explore ways to pit the two actors against each other.* Far from being comrades in arms, the two actors have naturally conflicting and competing interests, and governments should avoid helping them to align their interests. One way may be to temporarily let up on the group that represents a smaller threat to the state and to exploit that group intelligence acquisition.

*Governments should also explore the possibilities of licensing of particular illicit economies.* Such measures can include converting illicit crops into legal uses or instituting a licensing system for the logging of forests. The licensing regime for the mining and trade with diamonds in Africa provides an example of how a licensing system can work in a particular economy.

*Governments should attempt to entice the belligerents into suppressing the illicit economy themselves, through promises, threats, or via a third actor that has influence over the belligerents, but only if the governments can distance themselves in the eyes of the population from the suppression of the illicit economy.* Such suppression policy would critically weaken the belligerents' political capital and facilitate the government's efforts to win the hearts and minds of the population. When such suppression efforts are undertaken by the belligerents, the belligerents are especially vulnerable, and the

government should intensify its military effort against the belligerents. However, if the government cannot guarantee that it will be able to distance itself from such a suppression policy, it should not encourage it.

*If the belligerents themselves undertake suppression of a labor-intensive illicit economy – whether through enticement or on their own -- the government should immediately step in and provide relief to the population.* It should also intensify the military effort against the belligerents.

*If the government itself undertakes suppression efforts toward a labor-intensive illicit economy, which target the wider population, it should at least complement such a dangerous policy by providing immediate relief to the population by way of humanitarian aid and alternative livelihoods programs.* Alternative livelihoods programs will not have a chance to really take off until conflict has ended and security has been established; but the government needs to demonstrate right away to the population that it is not indifferent to its plight. Otherwise it will push the population into the hands of the belligerents and eliminate any stake that the population may have in the victory of the government.

*Even after the conflict has ended, eradication of illicit crops should only be undertaken once the population has access to alternative livelihoods that address the entire scope of structural drivers of illicit crop cultivation.* A failure to provide such comprehensive alternative development will result in social instability, critically destabilizing the government immediately after conflict. In that case, the government will only be able to maintain eradication by resorting to very harsh measures toward the population and will have to maintain such repression for many years.

*Crucially, it is vital for governments and the international community to address the DEMAND for illicit commodities and contraband.* Although this policy will not be equally effective across the scope of illicit commodities, it is vital. Limitations to this approach arise especially in the case of illicit markets with only a few, but highly determined buyers, such as possibly in the case of terrorists seeking to obtain WMD materials. However, it promises high payoffs in the case of other illicit economies, especially in the case of narcotic drugs. Substantially addressing demand through treatment and prevention would go a great way not only to reduce consumption, but also to limit the resources and the political capital belligerents can obtain from this particular illicit economy. Demand reduction efforts, however, cannot be focused only on the traditional Western developed countries, but also must encompass developing countries, many of which have emerged as large secondary markets. Western counternarcotics efforts abroad are dominantly focused on eradication and interdiction and are critically lacking in helping source countries and other developing countries address their own demands for narcotics and other illicit commodities.

*Governments and international organizations also need to consider thoroughly to which areas suppression efforts toward the illicit economy, if successful, will shift production.* In the absence of a major change in global demand, suppression of production of a particular commodity will only shift production elsewhere. This balloon-effect becomes an acute problem especially in the case of footloose illicit economies, such as the cultivation of illicit crops. Governments and international organizations interested in suppressing an illicit economy in a particular locale need to consider whether such an effort will shift production to a more dangerous place; for example,

where a major terrorist group operates. Such a group would consequently have a major windfall, both in terms of its military capabilities and in terms of its political capital.

*Governments and international organizations need to consider what illicit economy will replace the existing one.* Even when suppression efforts toward a particular illicit economy in a particular locale are successful, criminal activity rarely disappears. Frequently, it is replaced with the production and smuggling of other illicit commodities. Suppression of illicit crop cultivation in Burma was replaced by the production of methamphetamines. Smuggling with licit goods in Colombia and Afghanistan mutated into the production and smuggling of drugs. Thus, in suppressing a current illicit economy, governments and international actors need to take maximum precautions to prevent the emergence of another one that could be even more pernicious and against which control efforts can be even more difficult.

*Finally, when deciding upon particular regulations and prohibitions, governments and international organizations need to seriously consider whether the harm resulting from such a prohibition and its enforcement is, in fact, smaller than the harm resulting from laissez-faire or licensing.* Among other things, they need to consider the nature and size of the illicit economy such a prohibition will generate; the ease with which belligerents will be able to exploit the resulting illicit economy; and the difficulties of enforcing the new regulation.



## APPENDIX I

### DATABASE OF CASES OF KNOWN INVOLVEMENT OF BELLIGERENT GROUPS WITH ILLICIT NARCOTICS

COUNTRY	BELLIGERENT GROUP	TYPE OF NARCOTICS	TYPE OF INVOLVEMENT	PERIOD
Afghanistan	Mujahideen	Opium, heroin	Taxation of cultivation; taxation of traffic; processing	1980s
	Warlords	Opium, heroin	Taxation of cultivation; taxation of traffic; processing	1990s
	Taliban	Opium, heroin	Taxation of cultivation; taxation of traffic; processing; encouragement of cultivation; international traffic?	1995-1999; 2001 - ?
	Northern Alliance	Opium, heroin	Taxation of cultivation; taxation of traffic; processing	1990s
	Warlords	Opium, heroin	Taxation of cultivation; taxation of traffic; processing; domestic traffic	2000s
	Al Qaeda?	Opiates	Traffic	2000s
Armenia	Armenian Secret Army for the Liberation of Armenia (ASALA)	Heroin	Traffic	1970s-1980s
Britain	British government & traders	Opium	Taxation of cultivation; traffic	Colonial era
Burma/ Myanmar	Communist Party of Burma (CPB)	Opiates	Taxation of cultivation; domestic traffic; processing	1970s-1980s

	KMT	Opiates	Taxation of cultivation; traffic	1950s-1980s
	Kachin Independence Organization	Opiates	Taxation of cultivation	1980s -
	Shan United Army (SUA)	Opiates; methamphetamines	Taxation of cultivation; processing; traffic Production; traffic	1980s -
	United Wa State Army (UWSA)	Opiates; methamphetamines	Taxation of cultivation; processing; traffic Production; taxation of traffic; traffic	1980s -
	Ka Kwe Ye (KKY)	Opiates	Taxation of cultivation; traffic	1960s-1970s
	Mong Tai Army	Opiates	Taxation of cultivation; processing; traffic	1989 – 1990s
	Myanmar Nat'l Democratic Alliance Army (MNDAA)	Opiates Synthetics	Taxation of cultivation; processing; traffic Production; traffic	1989-
	Democratic Karen Buddhist Army (DKBA)	Opiates	Taxation of cultivation and of traffic	1990s
	Shan State National Army (SSNA)	Opiates	Taxation of cultivation and of traffic	1990s
China	Anti-Manchu underground groups	Opium	Traffic; distribution	19 <sup>th</sup> Century
	Chiang Kai Shek	Opium	Taxation of cultivation, processing, sales	1920s – 1940s
	Mao	Opium	Tolerance, taxation (?)	1930s – 1940s
Colombia	FARC	Cocaine, marijuana, opium	Taxation of cultivation; taxation of processing and traffic; processing, traffic	1980s -

	AUC (paramilitaries)	Cocaine, marijuana, opium	Taxation of cultivation; taxation of processing and traffic; processing; traffic; international traffic	1980s -
	ELN	Marijuana, opium	Taxation of cultivation; lab protection	1990s-
	M-19	Cocaine	Protection/ facilitation of traffic	1980s
	Popular Liberation Army (EPL)	Cocaine, marijuana	Taxation of cultivation	1980s
Cuba	Omega 7	Cocaine, marijuana	Protection of traffic & distribution	1980s
Great Britain	Real IRA		Traffic; distribution	1990s -
	IPLO		Traffic; distribution	Early 1990s
	Ulster Defense Association		Traffic; distribution	1990s -
	Ulster Volunteer Force		Traffic; distribution	1990s -
India	British forces	Opium (licit cultivation)	Taxation; traffic; distribution	Until 1940s
	Sikhs in Punjab	Opiates	Traffic	1980s
	Kashmiri insurgents	Opiates	Traffic	1980s -
Indochina	French occupation forces	Opiates	Taxation of cultivation	Until 1950s
	Hill tribes	Opium	Cultivation	Until 1970s
Indochina	Independence movement	Opium	Trafficking	1945-49
Japan	Occupation forces in China	Opium	Taxation of cultivation; distribution	1930s- 1940s
Lebanon	Palestinian, Phalangist, Druze, Shiite factions during civil war	Hashish	Protection of traffic; traffic	1970s - 1980s

	Hezbollah	Hashish Heroin Cocaine Methamphetamines ?	Taxation of cultivation; traffic Taxation of cultivation; traffic Traffic from Latin America to Europe Taxation of distribution in Canada & the US?	1980s 1980s - 1990s 1990s - 1990s -
Nicaragua	Contras	Cocaine	Protection & taxation of traffic	1980s
Pakistan	Kashmiri militants	Opiates	Traffic	1990s -
	Baloch militants	Opiates	Traffic	2000s -
	Taliban	Opiates	Refining, traffic	2000s -
Palestinian Territory	HAMAS	Opiates Cocaine	Tri-Border Region taxation of traffic & distribution	1990s -
Peru	Shining Path	Cocaine	Taxation of cultivation; protection of traffic; processing; money-laundering; Protection of traffic	1980s- 1990s 2000s
	MRTA	Cocaine	Taxation of cultivation	1980s
Philippines	Abu Sayyaf Group			
	New People's Army	Marijuana	Taxation of cultivation; traffic; distribution	1980s -
	Moro Nat'l Liberation Front (MNLF)	Marijuana Methamphetamines	Taxation of cultivation Production	1990s
	Moro Islamic Liberation Front (MILF)			
Russia	Chechen mujahideen	Opiates	Traffic	1990s -
	Renegade Russian armed forces	Opiates	Traffic; distribution (?)	1990s -
Spain	Basque Fatherland and Liberty (ETA)	General	Traffic, distribution; money-laundering	1980s -

Sri Lanka	Liberation Tigers of Tamil Eelam	Heroin, methamphetamines	Traffic	1980s –
Turkey	Kurdistan's Workers Party (PKK)	Opiates	Taxation of traffic; processing; traffic; taxation of money-laundering	1980s -
	Dev-Sol	Heroin	Traffic	1970s – 1980s
	Gray Wolves	Heroin	Traffic	1970s – 1980s
Uzbekistan	Islamic Movement of Uzbekistan (IMU)	Opiates	Traffic	1990s -

? – indicates widespread allegations without clear tangible evidence



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