Winning the peace in Afghanistan depends in no small part on international and domestic efforts to transform the war economy into a peace economy. Based on international experience, this is unlikely to happen quickly. In other contexts, economic activity generated in conflict has persisted into “peacetime” conditions. This article puts forward a tentative framework for understanding the war economy and explores some of the implications for current efforts to build peace. While it focuses on how the Afghan economy has been “adjusted” by war, this process can only be understood with reference to the politics of state formation and state crisis in Afghanistan and the wider region. Four interrelated themes are highlighted. First, the war economy has been both a cause and a consequence of state crisis. Second, the war economy has empowered borderlands, transforming the politics of core-periphery relations in Afghanistan. Third, the war economy is part of a regional conflict system, with Afghanistan reverting to its pre-buffer state status of a territory with open borders, crossed by trade routes. Fourth, international actors helped create the war economy by supporting armed groups in the 1980s and adopting a policy of containment in the 1990s.

These themes will be explored through an analytical framework that subdivides the war economy into the combat, shadow and coping economies. Though they are interconnected, each involves different types of actors, incentives, commodities and relationships. It is argued that these economies are not only concerned with profit and predation but also with coping and survival. The war economy has contributed to processes of actually existing development, leading to the transformation of social and economic relations in Afghanistan. This suggests that the policy focus should change from its current emphasis on eradication and control to one that seeks to harness the energies of war in order to build long term peace and security.

**THE STATE, BORDERLANDS AND A REGIONAL CONFLICT SYSTEM**

The historical development of the war economy in Afghanistan has been dealt
Jonathan Goodhand

with elsewhere. The lack of serious research inside the country during the war years held back understanding, and reliable data is still difficult to come by. However, the following themes can be drawn from the literature and provide a useful starting point for analyzing the Afghan war economy.

First, to understand the economy one has to look at the Afghan polity. Many of the features of the current political economy have strong continuities with the past. The state in Afghanistan was built upon shaky foundations. Internal processes of colonization were never completed because rulers lacked the military force to subdue the tribes or withstand external aggression. Territorial sovereignty was an ideal to which Afghan rulers aspired but rarely if ever achieved in practice. In fact, for most of Afghan history there was no state in any robust sense of the term. There were instead multiple sovereigns including small-scale local chiefs, tribal confederations, bandits or warlords.

Second, one has to look “below” the state, to appreciate the relationship between the Afghan war economy and “non-state spaces.” Throughout Afghan history there has been an ongoing struggle between center and periphery, between a modernizing state and borderland communities attempting to remain beyond the reach of the state-building project. In this “conversation” between state and borderlands, violent conflicts have been defining moments of change, shifting the balance of power back and forth between core and periphery. Arguably, the borderlands were empowered by the Afghan wars and there is a need to rethink the nature of their relationship with the reemerging state.

Third, the analytical gaze needs to be directed beyond the state to appreciate the regional dimensions of the war economy. Afghanistan is part of a regional conflict complex, or a “bad neighborhood” which connects other latent and open conflicts within the region, including Kashmir, Tajikistan and the Ferghana Valley. The Central Asia conflict complex is one of 16 regionalized violent conflicts to have occurred since the Cold War. The outer borders of this complex are unclear, but for the purpose of this article the core Central Asian regional complex is defined as Afghanistan and the neighboring countries of Pakistan, Iran and all the Central Asian states, i.e. Tajikistan, Uzbekistan, Turkmenistan, Kyrgyzstan and Kazakhstan. The region includes close to 300 million people. Beyond this core regional complex, China, India, Kashmir, the Caucasus and the Middle East, particularly Saudi Arabia, are also significant.

Fourth, Afghanistan’s political economy has significant international dimensions. It includes drug dealers in London and Moscow and Islamic radicals in Chechnya and the Philippines. It has also been shaped by international policies, from the “sticks” of sanctions and drug eradication programs to the “carrots” of humanitarian and development assistance.
COMBAT, SHADOW AND COPING ECONOMIES IN AFGHANISTAN

The term “war economy” is used here to include all economic activities carried out in wartime. This can be further broken down into three types of economy that emerge in wartime conditions, namely the combat, shadow and coping economies, which enable different groups to wage war, profit, cope or survive. Each has its own dynamic and patterns of change. The main characteristics of these three economies are:

**Combat economy:** includes the production, mobilization and allocation of economic resources to sustain a conflict and economic strategies of war aimed at the deliberate disempowerment of specific groups. Whereas the former involves the generation of resources to wage war, the latter involves the destruction of resources to undermine the ability of opposing groups to wage war.

**Shadow economy:** refers to economic activities that are conducted outside state-regulated frameworks and are not audited by the state institutions. In most conflicts there are actors who profit from conflict. However, unlike the conflict entrepreneur, the economic entrepreneur operating as part of a shadow economy may have an interest in peace, if peace can enable the maintenance or increase of profits.

**Coping economy:** refers to population groups that are coping (i.e., maintaining their asset base) or surviving (i.e., undermining their asset base). These categories are not static and they change over time according to the influence of changing political regimes and various external shocks.

Table 1 presents a typology of these three economies. While this may be conceptually useful as an aid to analysis, in practice there is considerable overlap between these three categories.

CONTEMPORARY DIMENSIONS OF THE AFGHAN POLITICAL ECONOMY

In the following section some of contemporary features of the Afghan political economy are examined. The combat and shadow economies have persisted and, in some respects, they have been reinvigorated in the post-Taliban order. Afghanistan has reverted to the pattern of governance of the early 1990s, with regional warlords reestablishing control over personal fiefdoms. While warlords control the smuggling and drug trades, which in turn fund their own private militias, there are few incentives for engaging with the embryonic central state. In addition, many of the international/regional dimensions of the Afghan political economy are still present.

**Combat Economy**

The combat economy has global and regional dimensions. The strategies and processes by which states consolidate or strengthen their positions domestically within the international state system play themselves out beyond national borders. For
<table>
<thead>
<tr>
<th></th>
<th>The combat economy</th>
<th>The shadow economy</th>
<th>The coping economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key actors</td>
<td>equipment.</td>
<td>actors (truck drivers, poppy farmers)</td>
<td>To cope and maintain asset bases through low-risk activities, or to survive</td>
</tr>
<tr>
<td><strong>Why?</strong></td>
<td>To fund the war effort or achieve military objectives</td>
<td>To make a profit on the margins of the conflict.</td>
<td>through asset erosion</td>
</tr>
<tr>
<td>Motivations and</td>
<td>Peace may not be in their interest as it may lead to decreased power, status and</td>
<td>Entrepreneurs profit from the lack of a strong state and a highly liberal</td>
<td>Peace could enable families to move beyond subsistence</td>
</tr>
<tr>
<td>incentives for war</td>
<td>wealth.</td>
<td>economy</td>
<td></td>
</tr>
<tr>
<td>or peace</td>
<td>Fighters may have an interest in peace if there are alternatives sources of</td>
<td>Peace could be in their interest if it encourages long-term investment and licit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>livelihood.</td>
<td>entrepreneurial activity</td>
<td></td>
</tr>
<tr>
<td><strong>How?</strong></td>
<td>Taxation of licit and illicit economic activities (opium, smuggled consumer goods,</td>
<td>Opium economy</td>
<td>Employ diverse livelihood strategies to spread risk</td>
</tr>
<tr>
<td>Key activities and</td>
<td>lapis and emeralds, wheat, land tax).</td>
<td>Cross-border smuggling under Afghan Transit</td>
<td>Subsistence agriculture</td>
</tr>
<tr>
<td>commodities</td>
<td>Money, arms, equipment and fuel from external state and non state actors</td>
<td>Trade Agreement.</td>
<td>Petty trade and small businesses</td>
</tr>
<tr>
<td></td>
<td>Printing money</td>
<td>Mass extraction of natural resources (timber, marble)</td>
<td>On-farm and off-farm wage labor</td>
</tr>
<tr>
<td></td>
<td>Economic blockades of dissenting areas</td>
<td>Smuggling of high-value commodities (emeralds, lapis, antiquities, rare fauna)</td>
<td>Labor migration and remittances</td>
</tr>
<tr>
<td></td>
<td>Destruction of means of economic support</td>
<td>Hawaialla (currency order and exchange system)</td>
<td>Redistribution through family networks</td>
</tr>
<tr>
<td></td>
<td>Asset stripping and looting</td>
<td>Aid manipulation</td>
<td>Humanitarian and rehabilitation assistance</td>
</tr>
<tr>
<td></td>
<td>Aid manipulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>What effects?</strong></td>
<td>Disruption to markets and destruction of asset bases</td>
<td>Concentrates power and wealth</td>
<td>Coping may reinforce social networks, but survival may lead to negative or</td>
</tr>
<tr>
<td>Impacts</td>
<td>Violent redistribution of resources and entitlements</td>
<td>Inflationary effects</td>
<td>regressive coping strategies.</td>
</tr>
<tr>
<td></td>
<td>Impoverishment of politically vulnerable groups</td>
<td>Undermines patron-client relationships, increasing vulnerability</td>
<td>Lack of long-term investment</td>
</tr>
<tr>
<td></td>
<td>Out-migration of educated</td>
<td>Smuggling circumvents Pakistan’s customs duty and sales tax, impacting revenue</td>
<td>Long-term effects on human and social capital – lowering levels of health,</td>
</tr>
<tr>
<td></td>
<td>Political instability in neighboring countries e.g. circulation of small arms,</td>
<td>collection and undercutting local producers</td>
<td>education, strain on social networks etc.</td>
</tr>
<tr>
<td></td>
<td>growth of militarized groups</td>
<td>Increased drug use</td>
<td></td>
</tr>
</tbody>
</table>

instance, Pakistan’s attempts to become a friendly neighboring territory to give it greater strategic room for maneuver in relation to India has had profound implications for Afghanistan’s political economy. There have also been regional “blow-back” effects, most seriously in Uzbekistan, where the Islamic Movement of Uzbekistan (IMU) challenges the legitimacy of the state, and in Pakistan where armed proto-Taliban groups have caused growing instability and may threaten the long-term security of the state. Also important are the non-state transnational networks, which have sustained Islamic radicals, most notably Al-Qaeda, but also the IMU, outlawed Pakistani groups, Chechens and Chinese Uighurs. During the 1990s Afghanistan itself became a borderland, a place of refuge and training camp for global or regional jihad.

The regional dimensions of the combat economy appear to be deeply entrenched and have persisted beyond the Taliban phase of the conflict. In addition, warring groups continue to develop and utilize extremely sophisticated ways of operating in and exploiting regional and global economies. Duffield’s description of warlords who “act locally, but think globally” is an apt one here. These conflict entrepreneurs have developed their “asset portfolios” by building up a command over the means of violence and developing links to global markets.

International attention has tended to focus on drugs in relation to the war economy, but external resource flows including arms, ammunition, fuel and financial support from state and non-state actors in the region have probably been more significant than internally generated revenue. During the 1980s, Afghanistan received more than 3 million tons of military supplies, making the country the world’s largest per capita arms recipient. There are estimated to be around 10 million small arms and light weapons (SALW) currently in circulation.

Few warring groups have ever been purely self-financing, and most depend on external support from international and regional actors. There are indications that elements within Pakistan’s Inter-Services Intelligence (ISI) have continued to support Hekmatiya’s Hezb-i Islami and neo-Taliban forces. Russia has reportedly provided arms to the Shuri-nizar in the Northeast. Moreover, Operation Enduring Freedom (OEF) has involved US-financing of local warlords and their militias in the south and the East. These Pentagon-created warlords have been co-opted, at least temporarily, into the operation to hunt down Al-Qaeda and neo-Taliban forces that have regrouped in the Pashtun belt. While arming the borderlands follows a certain logic in the short term pursuit of US-led military goals, it threatens to undermine the longer term project of state building.

In addition to external assistance, warlords have utilized a variety of strategies to

Warlords control smuggling and the drug trade and there are few incentives to engage with the central state.
generate resources internally, including pillaging, smuggling, appropriating aid and controlling trade, land and markets. Moreover, various economic strategies of war have been pursued by the Taliban, including the economic blockade of Hazarajat, scorched earth tactics on the Shamoli Plains and the deliberate destruction of rural infrastructure by the Soviets and more random and opportunistic forms of violence and criminality (as occurred in Kabul and Kandahar during the early 1990s). To an extent, the Taliban were the classic "stationary bandits" attempting, albeit through brutal means, to concentrate the means of violence. Their enforcement of the poppy ban of 2000 was testimony to their ability to reestablish at least partial control of the non-state spaces.

The opium and smuggling economies continue to play an important role in sustaining the war economy. Reports suggest that in Kandahar customs revenues generate around $18 million per annum while as much as $50 million is generated in Herat. Not surprisingly, struggles between warlords are thought to be related to control over trade routes and markets. For instance, clashes between Ismael Khan and Gul Afgha in the West are at least partly over control of lucrative trade routes coming through that part of the country. In Nangarhar clashes in the wake of the July 2002 assassination of Abdul Qadir, one of the vice presidents of the Transitional Administration, have been linked to control of trade routes for smuggling heroin and other goods into Pakistan. The Taliban and their allies are believed to have derived as much as $150 million in opium revenue in 2003.

One year after the signing of the Bonn Agreement, there were around 70,000 men in regular forces and another 100,000 irregular militia members. There remain strong bottom-up incentives to engage in violence. The demand for protection and the lack of alternative livelihoods are powerful motivations to join military groups. As Hirshleifer notes, the poor may have a comparative advantage in violence because they have less to lose. Given the strong demand for security, warlords are likely to continue playing an important role. Though the likes of Al-Qaeda and Hekmatyar may only be dealt with militarily, the category "warlord" lumps together a range of dissimilar actors with varying careers, capacities and incentives. Some will perhaps transform themselves into statesmen, some may become economic rather than military entrepreneurs, while others may be co-opted into the new army. The key point is that policies must be sufficiently fine-tuned to take account of the different backgrounds of the actors involved.

Shadow Economy

The interests of the conflict entrepreneur and the profiteer may often coincide, but this is not always the case. For instance, though transport merchants were principal backers of the Taliban, their interests did not always coincide with those of the frontline commanders. In fact, at certain times their objectives have worked against
From War Economy to Peace Economy?

one another. For example, profiteers undermined the Taliban's economic blockade of Hazarajat by keeping trading networks open. Similarly, in 1995, the Taliban offensive on Herat was bankrolled by Pakistani traders looking to capture the trade routes and markets in the West, even though this was against the advice of Pakistani military advisers.19

While to an extent the shadow economy in Afghanistan is a classic unfettered market in the absence of state regulation, it is also a forced market that is regulated by access to political power and the means of violence.20 In the 1950s, the Afghan merchant class was politically weak and heavily taxed, but by the 1980s and 1990s, the transport sectors in the Pakistani cities of Peshawar and Quetta were an important political force, largely due to their close ties with military groups. Markets in the East were oriented towards Pakistan, as connections increased between Herat and Iran. Borders have become areas of high risk but also high opportunity, where deals are cut between profiteers and conflict entrepreneurs. As poppy moves from farmers' fields across borders there is a fivefold increase in price. The largest profits are made smuggling across borders, a trade that is dominated in the south by Baluchi traffickers with Afghan, Iranian and Pakistani passports. Beyond borders, prices increase again. For instance, in the Tehran wholesale market there is a sixfold increase in prices from Pakistan's border areas. Opiate trafficking profits in the countries neighboring Afghanistan amounted to some $4 billion in 2002, of which $2.2 billion went to criminal groups in Central Asia.21

The shadow economy has led to a growing differentiation between population groups. For example, farmers with land and capital lease out their land for poppy cultivation and are able to accumulate assets while landless farmers who have no other sources of credit are pushed further into debt.22 According to the United Nations Office on Drugs and Crime (UNODC) there were approximately 15,000 opium traders in Afghanistan in the late 1990s (about one trader per 13 farmers). In 2002 the income generated by opium trafficking was at least $1.3 billion. Profits from the trade have been invested in conspicuous consumption on luxury goods such as VCRs, satellite televisions and pick-up trucks and have had inflationary impacts in core growing areas.23 Violent conflict has destroyed some commodity markets while creating others. In Badakhshan, for example, the livestock trade with Kabul was decimated due to insecurity, but the opium trade with Tajikistan has flourished. As a result of the drought and the Taliban's poppy edict, opium poppy cultivation in Badakhshan has tripled between 2000 and 2004. Moreover, between 2000 and 2002, there was a 700 percent increase in the prices paid directly to farmers for the sale of opium resin.24 The informal economy also plays an important role in shaping formal economies, and transborder trade has undermined the economies of Pakistan and
other neighboring states. While the trading economy helped mitigate some of the impacts of drought, it is not productive in the sense that there is no long-term investment in infrastructure or industries. Entrepreneurs gravitate toward quick-return activities and the profits are accumulated outside the country. Without a strong state and a legal framework, there are few incentives to make the shift towards longer-term productive activities.

The shadow economy and the collapse of the state in the mid-1990s have contributed to the reterritorialization of Afghanistan. The county became in effect a vast non-state space. An indicator of this is the fact that poppy was cultivated on prime agricultural land in easily accessible areas, unlike other drug-producing countries where it is grown illicitly in borderland zones beyond the reach of the state. There has been a reconfiguring of regional networks, which has had considerable costs for neighboring states. Criminal organizations have become embedded in the region and the shadow economy undermines the formal economies of surrounding countries. Smugglers and borderland communities simultaneously respect and transgress the border, exploiting the different regulatory regimes on either side. Compared to the restrictive trade regimes of neighboring countries, the open trade regime of Afghanistan creates powerful incentives for smuggling. Cross-border smuggling circumvents Pakistan’s customs duties and sales tax with consequent impacts on revenue collection and the undercutting of local producers. In 1992 the loss in customs revenues to Pakistan was $87.5 million, which rose to $500 million in 1995. The shadow economy is based upon social solidarity networks within the region. Particularly important have been Pashtun diaspora communities in Dubai and Karachi with their links to Quetta and Kandahar.

Historical experience shows that wartime capital accumulation is brutal and that war is the most common contemporary form of primitive accumulation. Asset portfolios are built upon oppressive working conditions, fear and force. However, the shadow economy may also support processes of actually existing development, something that Mark Chingono describes in Mozambique as being a “barefoot economy” or a vibrant capitalism from below. Research in Badakhshan revealed that in some respects the opium economy has had developmental outcomes although the benefits were unevenly distributed. There was evidence of accumulation and investment back into the village and that the opium trade had kept young men in the area who might otherwise have left. It appeared to have reinforced rather than eroded food security. On the other hand, the opium economy has created new tensions within the village in terms of how wealth was produced and distributed. It created a nouveau riche of the young men involved in the opium trade and the commanders who taxed and controlled it.

As Barnett Rubin has noted, unless the “rules of the game” are transformed by establishing the requisite state institutions and legal framework, a criminalized war
From War Economy to Peace Economy?

The economy will simply mutate into a criminalized peace economy. In fact, the shadow economy continues to thrive in the post-Taliban order. Although the Afghan economy as a whole is estimated to be growing at the rate of 20 to 30 percent, according to the International Monetary Fund (IMF), the "illegal" sector (excluding drugs) amounts to 40 percent of the economy. Moreover, drug production is back to the levels of the late 1990s, with the UNODC reporting a total of 3,400 metric tons for 2003.

Coping Economy

Overall vulnerability has grown with the gradual erosion of asset bases across groups. Families have either retreated into subsistence or are adversely incorporated into the market, for instance, through laboring in poppy fields or children working in the carpet industry. Labor has become one of Afghanistan's primary exports. Remittances are central to the Afghan economy and to Afghans living in neighboring countries. Social obligations fuel the remittance economy. Diaspora remittances also increase social differentiation. In general, families with relatives in Europe or the Gulf are able to accumulate, while the remittance economy in Pakistan and Iran is more commonly associated with survival. Therefore, Afghan households have tended to "stretch" themselves over several countries in the region and mobility has been a key component of coping or survival.

There is a tendency to assume that those involved in poppy farming or the opium trade are either greedy entrepreneurs or profit-maximizing farmers. In fact, for the majority, involvement in the opium economy is motivated by coping or survival. Afghan families seek to spread risks by diversifying their strategies to improve their livelihood—sons migrate to Pakistan, women and children work in the carpet industry, fathers enter share-cropping arrangements to gain access to land to grow poppy and the remaining women and children play an important role in tending the crop since poppy is extremely labor-intensive. Only about 2.6 percent of agricultural land is used for cultivation of poppy, but by the end of the 1990s, between 3 and 4 million people (about 20 percent of the population) were dependent on poppy for their livelihood.

Research in 2003 showed a growing dependency on poppy as a means of survival. Poppy growing has had an inflationary impact and increased the levels of land rents, marriage costs and borrowing. People were taking increasingly desperate measures to repay debts including abscording, the sale or leasing of long-term productive assets and the early marriage of daughters. Creditors were also using more authoritarian tactics, including kidnapping daughters, confiscation of domestic possessions and compulsory land purchases, to ensure repayment. Failure to repay debts has become a major source of conflict. An average accumulated debt per household of
$1,835 was recorded in the areas researched. Farmers anticipated paying off debts within a two- to six-year period. Therefore, many are locked into the opium economy for several years into the future. Studies conducted in Badakhshan at the end of 2003 reveal a similar pattern. The growth of poppy production is associated as much with spreading poverty caused by drought and the cumulative effects of war as with the opportunities presented by the opium ban in Taliban-controlled areas in 2000 and the associated rise in prices. In a sense the forced selling of assets and land prepared the ground for the poppy economy, while opium has accentuated this trend towards greater economic differentiation. Engaging with the shadow economy (and also the combat economy) may be a desperate last resort of the poor. They are forced to make a Faustian pact in which short-term survival (though this is not assured by engaging with the combat economy) is traded for long-term poverty.

Although agricultural harvests in 2002 improved by as much as 80 percent, the growth in production has been uneven. Furthermore, the return of almost 2 million refugees is likely to have a significant impact on livelihoods and competition for scarce resources. For example, there have been reports of conflicts in the North as a result of Pashtun returnees.

The Linkages Between Combat, Shadow and Coping Economies

The schema of the war, shadow and coping economies evidently simplifies reality. In practice there are no clear boundaries among these three economies, and networks have developed with complex overlapping connections. Incentive systems vary at different levels of the commodity chain. For a resource-poor farmer, poppy is part of the coping or survival economy; for the landowner leasing his land or for the opium trader, it is part of the shadow economy; and, for commanders that tax poppy, it is part of the combat economy. Opium is simultaneously a conflict good, an “illicit” commodity and a means of survival. Different commodities—such as weapons, money, drugs, consumer goods or food—may travel along the same routes. The sarafi, or money changer, is an important node in this network; his services are used by warlords, profiteers, communities and aid agencies.

Although in classic economic or political analysis transborder arrangements are usually overlooked, borderlands are a central pivot between territorial states and transnational flows. Historically, borders have shaped the state as much as the state has shaped the borders. For example, there is a Pashtun proverb: “Honour (nang) ate up the mountains; taxes (qalang) ate up the plains.” The qalang Pashtun are subjects or rulers of states—they pay or collect land rent and taxes. The nang Pahstun, however, are free of domination by others. Most acts of anti-state violence originated.
from the Pashtun tribal belt; for instance, between 1930 and 1960, there were eight Pashtun revolts. There is a risk of this pattern repeating itself now as the Pashtun belt becomes increasingly disaffected with the new political dispensation. Some now talk about rogue districts that are sympathetic to the Taliban or at least united with them in their anti-state position.37

In border areas the intermingling and overlapping of various “licit” and “illicit” flows—of arms, drugs, smuggled luxury goods along with wheat, watermelons and refugees—is most apparent, though not always visible. These borders are places of opportunity and exploitation.38 Borderlands are also places of constant flux as the geography of the conflict ebbs and flows and the policies of neighboring countries change. In Nuristan, for example, a new infrastructure of roads, hotels and bazaars developed due to the need for secure supply routes for the resistance.39 Opium laboratories tend to be located close to borders. The political geography of the borderland is never static as efforts to control cross-border flows lead to the opening and closing of new routes. Such “border games” are a feature of the adaptive networks of the combat, shadow and coping economies. As the state attempts to reassert its authority one is likely to see illicit activities increasingly being pushed back and concentrated into border areas. For instance, in Badakhshan, the geography of drugs production is likely to increasingly follow the classic pattern; as the risks grow, production retreats into borderland areas.40

The shadow economy may well promote processes of development—they link remote rural areas to major commercial centers, both regionally and globally, though the benefits of this development are unevenly distributed. The benefits of the drug economy can be seen in the reconstruction of the villages around Kandahar.41 These economies also involve complex socio-cultural and political as well as economic organization, in networks of exchange and association. These networks are governed by rules of exchange, codes of conduct and hierarchies of deference and power, and are reinforced through a series of strategies, including interfamilial marriage (wife-givers and wife-takers), gifts and partnerships (with family members presenting claims for profit, involvement and opportunity).42 They are not anarchic and do not depend purely on coercion. Trust and social cohesion are critical. Counterintuitively, it may be the absence of a state and predictable social relations that engenders greater trust and solidarity at the local level.43 Interestingly, many Pakistanis use the saraCi system even though there is a functioning formal banking sector—evidently the informal system provides the reliability and predictability lacking in the official economy. It may also be more “pro-poor,” in the sense that the poor are considered by the formal sector to be too risky.

Finally, rather than seeing the war economy as purely a reaction to state failure, one could alternatively conceptualize state collapse as being something that is actively sought after by elites living on the periphery.44 A common response of wartime
entrepreneurs after a peace settlement has been to shift capital abroad or to continue exploiting illicit activities or high rent market opportunities with little state regulation. Arguably, central authority is needed to break up violent primitive accumulation, to protect the interests of the poorest and to bring about structural transformation. Simply attempting to contain and criminalize the shadow and combat economies is likely to have perverse effects. For example, a complete closure of the Afghanistan-Pakistan border and the cessation of illegal trade would create the conditions for a social explosion in several regions of Pakistan. GDP in the North-West Frontier Province fell from 3.3 percent in 1981 to 2.2 percent in 1998 and cross-border trade is central to the coping and survival strategies of border communities. Similarly, drug policies in the past have tended to put a higher priority on establishing a "security belt" around Afghanistan rather than on investing significant resources inside the country to create alternative livelihoods and transform governance structures. Arguably, there has been an asymmetrical focus in Western countries on the supply side rather than addressing the demand. With the right combination of (dis)incentives, wartime entrepreneurs who have historically been labeled profiteers, economic criminals or greedy warlords may perhaps also become builders of a basis of longer-term, more legitimate economic success.

**Development aid in pre-war Afghanistan contributed to structural tensions that led to the outbreak of war.**

In this final section I examine some of the key policy challenges for international development donors related to transforming the war economy to peace economy. As Afghanistan’s President Hamid Karzai has noted, security and development are two sides of the same coin. However, peace agreements often pay limited attention to the question of economic security. In a country in which, according to the World Food Program, more than 6 million people remained vulnerable one year after the fall of the Taliban, this is an important question.45 A significant peace dividend is required. Furthermore, if it only involves a small group of "shareholders," the spoils of peace may end up legitimizing the war.

International assistance interacts in various ways with the three economies. Development aid in pre-war Afghanistan contributed to both the development of a rentier state and the structural tensions which led to the outbreak of war. During the 1980s, humanitarian assistance fed directly into the combat economy. Aid has also been a significant factor in the coping and survival economy, as the second largest sector of the licit economy after agriculture. Before September 11, about 25,000 Afghans were employed with aid agencies and the Swedish Committee for Afghanistan, an international solidarity NGO, was the largest single employer in the country. Finally,
aid interacts with the shadow economy, particularly in the current context with relatively large injections of resources into Kabul creating a parasitic bubble economy. The US dollar increasingly dominates the money exchanges in the cities, whereas the countryside remains in the Afghani or Pakistani rupee zone. There is an obvious danger of history repeating itself with international assistance exacerbating the underlying tensions and disparities between countryside and city.

Conflict resolution approaches tend to assume a clear division between pro-war and pro-peace constituencies or between a criminalized war economy and a licit peace economy. But the networks that support war cannot easily be separated out and criminalized in relation to the networks that characterize peace. For instance, immediately following September 11, the possibility of clamping down on the hawalla system was raised. This would have had a devastating effect on the livelihoods of the bulk of the population, as well as those of the warlords and profiteers. Fortunately, the IMF decided instead to work with and support the informal banking sector. This may be one practical example of how to harness the “energies of war”. However, Afghanistan remains a country that is geared up for war. The fragility of its war-to-peace transition is hardly helped by the contradictory international policy of simultaneously waging war while trying to build peace. There are numerous sources of insecurity, all of which can be linked in some way to the borderland combat/shadow economy nexus. The transition toward peace is also likely to generate new sources of instability including conflicts over scarce resources due to population growth, an influx of returnees and demobilized soldiers, growing urban-rural tensions exacerbated by the aid “bubble economy,” competition between different armed factions for the economic or political spoils of peace or violence between political factions in the run-up to elections.

How can the combat economy be addressed? To what extent can shadow entrepreneurs be transformed into “legitimate” businessmen? How can communities move beyond coping and survival to sustainable livelihoods? These questions are not easily answered, and clearly there are no pat policy prescriptions. However, perhaps one can begin to identify some critical preconditions for supporting the slow and inevitably conflictual transition from war economy to peace economy. These are briefly mapped out below.

**Bringing the State Back In**

A strong state is required in order to consolidate peace. A strong state is required in order to accelerate economic development and poverty reduction, consolidate peace, reduce the scope for extreme brutality and exploitation of social relations and withstand the intrusive interests of regional powers. Ultimately the state, with international backing, must address the combat economy, redirect and harness the energies of the shadow economy and support the livelihoods...
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of those engaged in the coping economy. It should be noted that these core functions of the state—providing security, wealth and welfare—may have been aspired to by Afghan rulers in the past, but rarely, if ever, achieved.

First, concentrating the means of violence, as with Afghan state builders in the past, will necessarily involve a mixture of capital and coercion. However, there is no getting away from the fact that state building involves the deployment of raw power and not simply the creation of liberal institutions. An analysis of security sector reform is beyond the scope of this article, but it is clear that strong and coherent international backing is required to develop the coercive capacity of the state. Short-term imperatives—for example, the United States arming militias in the fight against terrorism—should not undermine this long-term objective. It is also important to note that there is support from the Afghan population as a whole for a strong, centralized state.

Second, a strong state is required to transform the shadow economy into a licit economy. This cannot just be left to the private sector, as appears to be the underlying vision of the Afghan government’s National Development Framework (NDF). A small enabling state will not be up to the challenge of providing basic security or mobilizing and distributing resources. A decentralized and criminalized economy is no basis for genuine social and political legitimacy, let alone poverty reduction and social progress. The right incentives may encourage profiteers to invest in legitimate business. For example, with the right kind of support and institutional framework, many businessmen involved in the hawalla system could potentially make the transition into the formal banking sector.

Third, in relation to the coping economy, arguably the state needs to play a more proactive redistributive role than is envisaged in the NDF. While such programs as the National Solidarity Program are meant to play a compensatory role, one doubts whether such residual approaches can have a significant impact. Some argue that there is a need for much stronger state intervention including major public works programs that generate employment and alternative livelihoods quickly.

There is clearly a tension here between the desire to support Afghan-led development and the need to channel resources where there is the capacity to spend them. The main source of capacity in terms of relief and reconstruction efforts is the UN system and NGOs, who themselves are estimated to employ around 40,000 Afghans. As has happened elsewhere, the salaries and working conditions offered by international agencies have tended to attract the best-qualified Afghans and in a sense have actively decapacitated Afghan institutions. But the danger of “aid shock” due to the channeling of large amounts of funding through the government is a real one. This strategy also risks recreating the rentier state that was one of the underlying causes of the conflict in the first place. Current government plans are based on an estimated ratio of domestic to foreign income of one to eight. The reliance on foreign aid and a
virtual shadow state of foreign advisors is unlikely to lead to the emergence of a new social contract between state and citizens. The politics of taxation and budget collection are central to the task of state building. This takes us to the next point of dealing with borderlands, since customs reform and border controls are at the heart of the question of domestic revenue collection.

Investing in Borderlands

Although geographically peripheral, borderlands have been central to the emergence and contemporary dynamics of the combat, shadow and coping economies. Border regions are incubators of conflict, strategic nodes in the shadow economy and centers of poverty. The World Bank has identified several borderland zones as problem areas, including the Pashtun tribal territories, the Ferghana Valley, the Sistan-Baluchistan region of Iran and the neighboring desert areas of Afghanistan and Pakistan. The persistence of poverty on both sides of the Durrand line (the Pakistan-Afghanistan border) has fostered emigration, smuggling, drug trafficking and recruitment to militant groups in territories where the Pakistani and Afghan states are unwilling or unable to maintain firm control.51

How the relationship between the central state and the Afghan borderlands is negotiated and what the terms of the new relationship are is crucial. The political economy of core-periphery relations was clearly a central factor in the constitutional negotiations. Essentially the conversation between state and borderland is about what you give and what you get. This has a long history.52 Power holders and populations in the provinces want to know what they are going to gain and what they are going to lose as the new Afghan state flexes its muscles. Why, for example, should Ismael Khan give up some of his tax revenues if he can provide state-like functions more effectively than the central government?

This goes back to the specific mixture of capital and coercion, which will vary from case to case. But clearly a situation needs to be created whereby the state can take the credit for “quick wins,” that is, quick impact programs which meet humanitarian needs and counteract the immediate bottom-up incentives to engage in the combat and shadow economies, along with longer-term support for reconstruction and development. Although Lakhdar Brahimi, the UN Special Representative for Afghanistan and head of the United Nations Assistance Mission for Afghanistan (UNAMA), promised a “light footprint” in terms of international presence, based on lessons learned from East Timor, in practice there has been an extremely heavy footprint in Kabul and an extremely light (to the extent of being barely visible) footprint outside the capital. This has generated negative views toward the international community among the Afghan population, and is likely to have significant political effects, particularly in the Pashtun South, which feels excluded by the political settlement and has arguably received less in the way of reconstruction and development.
aid. Policies to eradicate drugs also play into this dynamic, since the predominantly Pashtun South and East are the main opium-growing areas. The UK government, which has taken a lead on this issue, has set a target of a 70 percent reduction in opium poppy crops by 2008 and 100 percent by 2013. However, unless there are serious efforts to invest in poppy-growing regions, eradication measures will exacerbate underlying political tensions and conflicts.

Pursue Regional Approaches

Policies need to be informed by a regional perspective. As Clare Short, the former UK Minister for International Development, has highlighted, there is a need for long-term, sustained engagement with Pakistan, India and the Central Asian republics. For example, conflict resolution in Kashmir is critical to stability within the region as a whole. States in the region continue to pursue policies that create incentives for the growth of the combat and shadow economies—including the tightening of borders which prevent legal cross-border trade, the repression of Islamic groups, human rights abuses and the cutting back of public services.

In spite of their common history, infrastructure and culture, the trend within the Central Asian region has been to move away from integration, creating new tensions over resources, trade, immigration and security policies.

Understandably, the Bonn Agreement is a state-centric “road map” for peace, focusing on political, economic and security questions within Afghanistan. Similarly, the NDF has virtually nothing to say about regional cooperation. But it is simply not possible to deal with these questions in isolation from the regional framework. The return of about 2 million refugees strained resources and infrastructure, and in many respects hijacked the development agenda in Afghanistan as resources were allocated to emergency assistance. A regionally informed analysis might have led development agencies to think more carefully about the sequencing of return and continuing support for refugees in neighboring countries.

A much bolder and ultimately more sustainable approach to peace building would be to conceptualize it as a process of regional transformation rather than simply a case of putting Afghanistan “back on its feet.” Particularly since the breakup of the Soviet Union, regional organizations in Central Asia have been weak. International actors can play a role in promoting and supporting regional cooperation in areas such as security, infrastructure, trade and development cooperation.

The shadow economy has thrived because of Afghanistan’s geographic position and transnational social networks. However, these comparative advantages could be utilized in relation to the licit economy. Afghanistan has the potential to become a hub for regional trade because of its central location, although the preconditions for this are regional stability, roads and communication networks, as well as a strong cen-
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tral government. A massive investment in infrastructure concentrated in high export potential will be required. At one time, for example, Afghanistan provided 40 percent of the world's raisin market. There is clearly great potential for developing regional cooperation in areas such as water, power and trade.

CONCLUSION

The war economy has been more than two decades in the making, and it is perpetuated by powerful economic and political forces. US military and international actors may be keeping a tenuous peace. But overall, compared to many other post-conflict contexts, the international investment in security and reconstruction has been limited. On the whole, they have employed a "bargain basement" or minimalist approach, which initially equated peace with getting rid of Al-Qaeda and the Taliban. The regional powers and warlords are aware of this and are playing a waiting game; few have confidence that US commitment and the international-sponsored government and reconstruction effort will last. The combat and shadow economies have been reinvigorated rather than curtailed by the fall of the Taliban.

The transition from war to peace in Afghanistan depends upon transforming the war economy into a peace economy. This is unlikely to happen quickly. It is also unlikely to happen unless there is sustained international support and investment in the region. And it will definitely not come about as a result of externally imposed models of economic liberalization and liberal democracy. Greater attention needs to be paid to the real economics and the real politics of Afghanistan. This might lead to an approach that focuses less on containing the war economy than engaging with it, in order to harness the energies of war and build sustainable peace.

NOTES

1 See Michael Pugh and Neil Cooper, with Jonathan Goodhand, War Economies in a Regional Context: Challenges of Transition (Boulder, Co.: Lynne Reinner, 2004).

2 This article is based on two fieldwork studies. The first, from 1997 to 1999, was on NGOs and complex political emergencies, and was funded by The UK Department for International Development; the second, in 2001, was on the Afghan war economy, and was conducted for the Overseas Development Institute (ODI). This article also draws primarily on two subsequent papers: Jonathan Goodhand, "Afghanistan in Central Asia," Pugh and Cooper, 45-90, and Michael Bhatia and Jonathan Goodhand with Haneef Atmar, Adam Pain and Muhammed Suleman, "Profits and Poverty: Aid Livelihoods and Conflict in Afghanistan," Sarah Collinson et al., Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action, HPG Report 13 (February 2003): 67-89.


4 Over two decades of conflict has compounded this problem and, since there has been virtually no long-term anthropological research inside Afghanistan during the war years, knowledge is partly stuck at pre-war levels. There are also inherent problems in obtaining accurate data on the invisible and extremely sensitive nature of the smuggling and opium economies. Statistics cited from secondary sources in this article should be treated as illustrative rather than authoritative.
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8 Pugh and Cooper, 9.


16 Ibid.


18 See, for instance, Antonio Guistozzi, "Respectable warlords? The transition from the war of all against all to peace competition in Afghanistan," London School of Economics, Crisis States Research Seminar, (January 23, 2003), which usefully categorizes the different career paths and goals of various types of Afghan warlords.


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30 One hectare of opium requires as much as 350 work days compared to 41 for wheat. Women play a central role in minimizing labor costs. They are involved in planting, weeding, thinning, lacing the capsules, collecting gum, clearing fields, breaking the capsules and removing seed, cleaning the seed and processing by-products such as oil and soap. Children also play a vital role. Attendance of boys at madrasas drops considerably during the weeding and harvesting season. Finally, reciprocal labor (known as ashar) by families and friends plays an important role. David Mansfield, “Alternative Development in Afghanistan: the Failure of the Quid Pro Quo,” paper presented at the international conference on Alternative Development in Drug Control and Cooperation (Feldafing, Germany: August 2001).


34 Turton and Marsden, (2002).


38 A disturbing example of the latter is the young children, acting as porters, crossing the border at Torkham between Pakistan and Afghanistan and carrying a range of commodities from scrap metal to drugs.


43 Ibid.


46 Michael Von der Schulenberg, “Illicit Opium Production in Afghanistan.” C. Nolle-Karimi, Conrad
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48 For a convincing critique of international security policies toward Afghanistan, see Michael Bhatia, Kevin Lanigan and Philip Wilkinson, “Minimal Investments, Minimal Results: The Failure of Security Policy in Afghanistan,” The Afghanistan Research and Evaluation Unit Briefing Paper (Kabul, Afghanistan: AREU, June 2004).

49 Johnson et al., 19.


52 For example, the tribal areas were traditionally some of the best recruiting grounds for the army because of the Pashstun valorization of warfare and the lack of economic opportunities there. But the point of friction was always the terms of tribal participation: the tribals traditionally wanting to set the number of conscripts and stay as tribal units. See David B. Edwards, Before Taliban: Genealogies of the Afghan Jihad (Berkeley, CA: University of California Press, 2002).


54 Turton and Marsden, (2002).

55 Rubin and Armstrong, 33.
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