

## ILLICIT ECONOMIES AND BELLIGERENTS

A story from Afghanistan's rural south, the region that has been at the core of the Taliban's effort to regain control of the country, suggests the complexity of the relationship between illicit economic activity and military conflict. Taliban insurgents had hammered up posters offering to protect farmers' opium poppy fields against government attempts at eradication, with a cell phone number to call if the eradicators appeared. In one village near Kandahar, the villagers caught on to a counternarcotics sting operation in which an agent posed as an opium trader.<sup>1</sup> After his visits to the village to buy opium were followed with raids on the villagers' crops, the villagers phoned the Taliban. The Taliban instructed them to invite the suspected informant back, captured him, and forced him to call in the police. When the police arrived in the village, the Taliban ambushed them, killing several policemen, including the police chief. The Taliban scored a success against the government and limited its presence in the area. Equally important, this episode fortified the relationship between the local population and the Taliban, even though the village residents had previously shown no pro-Taliban feelings.

The Kandahar story is just one example of how many belligerent groups—whether terrorists, insurgents, paramilitaries, or local warlords—have penetrated the international drug trade and other illicit economies. Realizing that belligerent groups derive large financial resources from such activities, governments have increasingly turned to suppressing illicit economies, not only as a way to curtail criminal activity but also as a strategy to defeat belligerents. Yet often those efforts not only fail to eliminate

or significantly weaken belligerent groups but also impede government counterinsurgency/counterterrorism efforts.

Much of U.S. anti-narcotics policy abroad is based on the premise that the suppression of drug production will promote both anti-drug and counterterrorist goals. This book challenges this “narcoguerrilla” premise. I show that, far from being complementary, U.S. anti-narcotics and counterinsurgency policies are frequently at odds. Crop eradication—the linchpin of U.S. anti-narcotics strategy—often fails to significantly diminish the physical capabilities of belligerents. Worse, it frequently enhances their legitimacy and popular support.

## **DEALING WITH ILLICIT ECONOMIES: A PERVERSIVE PROBLEM**

Illegal drugs, the predominant focus of this book, are one example of a larger class of illicit goods, services, and economic activities. Other illegal or semi-legal commodities include conflict diamonds, special minerals, weapons, alcohol, wildlife, human beings, human organs, toxic and industrial waste, and components of nuclear, chemical, or biological weapons.<sup>2</sup> Illegal or semi-legal activities include gambling, prostitution, illicit trading in legal goods, document forging, piracy, and maritime fraud. Illicit economies thus encompass economic commodities, services, and transactions the production or provision of which is either completely prohibited by governments or international regimes (or both) or partially proscribed unless their production or provision complies with economic or political regulations, including requirements for special licenses, certification, payment of taxes, and so forth. Such activities tend to be highly lucrative, in substantial part because of their illicitness.

Illicit economies exist in some form virtually everywhere. For example, some part of the illegal drug economy—whether production, trafficking, or distribution—is present in almost every country. The principal drug-growing and drug-refining countries and regions are the Andean countries of Peru, Bolivia, and Colombia; Mexico; Afghanistan, Pakistan, and Central Asia in the Golden Crescent; Myanmar and Laos in the Golden Triangle; and Morocco. Turkey and Hong Kong are crucial refining and transshipment locales. The United States and Canada are major producers of marijuana and methamphetamines. At various times in history,

China, Thailand, Lebanon, and Jamaica have also been major producers of illicit drugs.

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

In this book, I discuss a broad range of illicit activities, including illegal logging (Peru, Afghanistan, and Burma); extortion (Colombia); and illegal traffic in legal goods (Afghanistan). However, my primary focus is the interaction between the illicit drug economy and military conflict. Drugs are the main focus because they best epitomize the nexus between crime and insurgency, because drugs are by far the most lucrative of all illicit economies, and because narcoterrorism—rather than “wildlife terrorism,” for example—dominates the attention of policymakers. Former attorney general John Ashcroft gave words to a common view when he said that “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>3</sup>

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>4</sup> Conservative estimates of the retail value of the global trade in illicit narcotics reach around \$300 billion to \$500 billion annually.<sup>5</sup> The drug trade is where the money is—both for belligerent groups that exploit the trade and for governments that devote billions of dollars annually to fight the trade, reduce drug consumption at home, and deprive belligerents of drug profits.

The existence of an illicit economy, while almost always closely associated with a criminal organization or syndicate, does not by itself give rise to terrorists, warlords, or insurgents. Yet when belligerent groups penetrate existing illicit economies (or set up new ones), the resulting interaction profoundly affects their means and strategies and even, under some circumstances, their goals and identities. Examples of belligerent groups

that have exploited the drug trade include the Taliban and the Northern Alliance in Afghanistan; the FARC (Revolutionary Armed Forces of 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; Hezbollah in Lebanon; the PKK (Kurdistan's Workers Party) in Turkey; and ETA (Basque Homeland and Freedom) in Spain. Appendix A provides a more complete listing of groups.

### **THE NARCOTICS TRADE AND INSURGENCY: THE CONVENTIONAL VIEW**

U.S. government thinking has been dominated by the conventional view of the nexus between illicit economies and military conflict, which starts with the premise that belligerent groups derive large financial profits from illegal activities.<sup>6</sup> Those profits fund increases in the military capabilities of terrorists, warlords, and insurgents and a corresponding decrease in the relative capability of government forces. Consequently, governments should focus on eliminating belligerents' physical resources by eliminating the illicit economies on which they rely. For example, President Álvaro Uribe of Colombia has argued that "if Colombia would not have drugs, it would not have terrorists."<sup>7</sup> Or as one World Bank official told me, "If we destroy the coca, there won't be any more war in Colombia."<sup>8</sup>

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 and become indistinguishable from ordinary criminals. In many cases, they partner or merge with drug trafficking organizations. Profiting immensely from the illicit economy, they have no incentive to achieve a negotiated settlement with the government.<sup>9</sup> Aggressive law enforcement—principally through eradication of the illicit economy—thus becomes the government's only option.

Advocates argue that as an added benefit, eradication will reduce drug consumption in market destination countries, such as the United States. For example, the 2003 *International Narcotics Control Strategy Report*, issued by the Department of State, states that

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 drugs 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>10</sup>

In short, the conventional government view is based on three key premises: belligerents make money from illicit economies; the destruction of the illicit economy is both necessary and optimal for defeating belligerents because it will eliminate their critical resources; and belligerents who participate in the illicit economy should be treated as no different from criminals who participate in the illicit economy. While this approach is especially prevalent in government circles, it is rooted in academic work on narcoterrorism, exemplified by Rachel Ehrenfeld's book *How Terrorism Is Financed and How to Stop It*.<sup>11</sup> The conventional view is also informed by the "greed" literature on civil wars, which focuses on how belligerents profit from conflict;<sup>12</sup> the emerging literature on the crime-terror nexus, which argues that the war against terrorism can no longer be separated from the fight against transnational crime;<sup>13</sup> and the cost-benefit analysis of counterinsurgency, which puts stopping the flow of resources to insurgents ahead of winning hearts and minds.<sup>14</sup>

## THE POLITICAL CAPITAL OF ILLICIT ECONOMIES

I argue that the conventional narcoguerrilla view is strikingly incomplete and leads to ineffective and even counterproductive policy recommendations. It fails to recognize that belligerents derive much more than just 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*. By supporting the illicit economy, belligerents both increase their military capability and build political support, whereas belligerents who attempt to destroy the illicit economy suffer on both accounts. That insight lies at the heart of my political capital model of illicit economies in the context of violent conflict, which is illustrated and supported by the case studies presented in this volume.

Four factors largely determine the extent to which belligerents can benefit from their involvement with the illicit economy: the state of the overall economy; the character of the illicit economy; the presence or absence of thuggish traffickers; and the government response to the illicit economy.

—The state of the overall economy—whether it is poor or rich—determines the availability of alternative sources of income and the number of people in a region who depend on the illicit economy for their livelihood.

—The character of the illicit economy—whether it is labor intensive or not—determines the extent to which the illicit economy provides employment for the local population.

—The presence or absence of thuggish traffickers and the government response to the illicit economy—which can range from suppression to a laissez-faire approach to legalization—determines the extent to which the population depends on the belligerents to preserve and regulate the illicit economy.

In a nutshell, supporting the illicit economy will generate the most political capital for belligerents when the state of the overall economy is poor, the illicit economy is labor intensive, thuggish traffickers are active in the illicit economy, and the government has adopted a harsh strategy, such as eradication.

The political capital approach is inspired in part by academic critiques of the war on drugs. Like many critics of current anti-narcotics efforts, I believe that the war on drugs is failing both at home and abroad. Aggressive supply-side campaigns have failed to stem the flow of drugs into consuming nations and are impoverishing and radicalizing rural populations in producing nations.<sup>15</sup> However, I extend my critique by focusing on the multiple ways in which the war on drugs can allow belligerents to obtain political capital. In addition, I identify the critical factors that shape the size of their gains.

The political capital model builds on the hearts-and-minds approach to counterinsurgency, which emphasizes the importance of the “legitimacy game” for both insurgents and the government.<sup>16</sup> It is informed by the large and sophisticated literature on peasant rebellions,<sup>17</sup> and it draws on academic studies of the relationship among terrorism, legitimacy, and power. 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>18</sup> Richard Rubenstein similarly argues, “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>19</sup> In order to win the war on terror, governments must respond with policies that deprive belligerents of their legitimacy and consolidate the government’s popular support. The same is true, I argue, of counterinsurgency in the context of an illicit economy.

This model has direct implications for the policy options facing governments. It suggests not only that *eradication* of illicit crops is unlikely to weaken belligerents severely but also that this strategy frequently is counterproductive, particularly under the conditions outlined above. Eradication alienates farmers from the government and reduces their willingness to provide intelligence on belligerents. Thus, eradication increases the political capital of belligerents without accomplishing its promised goal of significantly reducing their military capabilities. *Laissez-faire*, on the other hand—tolerating the cultivation of illicit crops during conflict—leaves belligerents’ resources unaffected but may decrease their political capital. *Interdiction*—interception of illicit shipments, destruction of labs, and capture of traffickers—may be even more effective: it can decrease belligerents’ financial resources without increasing their political capital because it does not directly and visibly threaten the population’s livelihood. But because interdiction, like eradication, is extremely resource intensive and difficult to carry out effectively, it is unlikely to bankrupt belligerents to the point of defeating them. Finally, when feasible, *licensing* the illicit economy—for example, India and Turkey license opium poppy cultivation for the production of medical opiates—can reduce belligerents’ financial resources and political capital while increasing the government’s.

## THE CASE STUDIES

In this book, I examine the relationship among illicit economies, military conflict, and political capital through detailed case studies of three countries: Peru, Colombia, and Afghanistan. I also more briefly explore the cases of Northern Ireland and Burma and bring in illustrations from India, Mexico, and Turkey. (Case selection is explained in detail in appendix C.) For each of the principal case studies as well as for Burma and India, I conducted months of field research in each country, interviewing

government officials, military officers, the population involved in illicit economies, and, as much as possible, belligerents and drug traffickers. (Some had been captured; some were still at large.) Although the book draws heavily on those interviews, the citations are kept vague to safeguard the interviewees. Even when the physical security of those I interviewed was not in question, as in the case of government officials and representatives of international organizations, I agreed to quote them without attribution due to the politically sensitive nature of the topic. In each of the main case studies, I ask the following questions:

—*How does access to illicit economies affect the strength of belligerent groups?*

—*What conditions influence the size and scope of the benefits that belligerent groups derive 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 three main cases—each containing poor regions wracked by violent conflict—represent the most significant examples of global efforts over the past three decades to combat narcotics production. They also represent some of the most significant violent conflicts of the past thirty years. Governments in these three countries have faced an especially stark trade-off between their desire to limit belligerents' resources and the need to win the hearts and minds of the population.

In Peru—the world's largest producer of coca leaf until the mid-1990s—two leftist guerrilla groups, the Shining Path and the MRTA, became deeply involved in the illicit narcotics economy in the 1980s. Involvement brought the Shining Path financial and political gains and helped it become one of the most formidable leftist guerrilla movements in Latin America, one that nearly toppled the government in the early 1990s. Throughout that period, shifts in counternarcotics policy, which alternated among eradication, interdiction, and laissez-faire, had a critical impact on the success of the government's efforts to combat the insurgency.

Colombia, the world's largest producer of cocaine, is frequently presented as the poster child for the conventional government view of drugs and insurgency, as illustrated by the earlier quote from President Álvaro Uribe. The country has seen various belligerent groups, notably the leftist group FARC, expand dramatically as a result of their participation in the drug trade. Colombia has also been the scene of the most intense and



prolonged aerial spraying campaign in history—an effort that is often credited for bringing about the decline of the FARC. However, a detailed examination challenges the conventional view. Eradication of coca cultivation did little to weaken the FARC; the success of the counterinsurgency campaign can be traced instead to direct military pressure.

Afghanistan has been the largest producer of opiates in the world since the mid-1990s. Since the mid-2000s, production of opium there has reached levels unprecedented in the modern history of the drug trade. Over the same period, Afghanistan has become one of the most important locations in the U.S. struggle against terrorism and, along with Iraq, its main theater of counterinsurgency operations against the resurgent Taliban, which has been deeply involved in the drug trade despite first proscribing it as un-Islamic. Thus, for the United States, Afghanistan has come to epitomize the nexus of drugs and insurgency. It illustrates the extreme difficulty of state-building in a country where an illicit economy constitutes the dominant economic sector and where a multitude of actors across all segments of society (insurgents, terrorists, tribes, government officials and representatives, and the rural population) participate in the illicit economy.

Much of the internal dynamics of the nexus of drugs and insurgency in Afghanistan is identical or analogous to the dynamics in Peru and Colombia. But Afghanistan greatly surpasses the two Latin American countries when it comes to the size of the illicit economy—its economic significance in terms of the number of people that it employs and as a percentage of the country's GDP—and the region's geostrategic significance for U.S. vital national interests.

During the 1980s, U.S. officials saw Peru as one of the most important fronts in the fight against communism in Latin America, but the outcome of the confrontation between the Shining Path and the government did not threaten U.S. security. Since the mid-1990s, Colombia has been one of Washington's staunchest allies in the Southern Hemisphere, and the United States has a strong interest in reducing and hopefully ending the violent conflict there. Because Colombia is the principal supplier of drugs to the United States, combating its drug economy also is an important U.S. goal. But once again, the primary geostrategic and security interests of the United States (including the prevention of attacks on the U.S. homeland and critical assets abroad) are not greatly affected by the outcome of the Colombian struggle.

In Afghanistan, however, the drug-conflict nexus impinges directly on U.S. vital geostrategic and security interests. Al Qaeda conducted the 9-11 attacks from Afghanistan with the acquiescence of the Taliban; subsequently, along with NATO partners, the United States deployed tens of thousands of troops to Afghanistan to defeat the Taliban regime and support a domestically and internationally accountable Afghan state. The failure of the U.S. effort to defeat the resurgent Taliban in Afghanistan would embolden not only al Qaeda, but anti-American jihadists throughout the world. It would make it very hard to stabilize nuclear-armed Pakistan, which faces its own form of the Taliban and other jihadi insurgents. It would pose a significant threat to the viability of NATO, thus generating pressure in the United States to reassess its alliances. And finally, developments in Afghanistan will have great repercussions for relations among Pakistan, India, China, Russia, Iran, Saudi Arabia, and the United States.

### **BEYOND MILITARY CONFLICT**

This study is concerned primarily with the effect of illicit economies on military conflict. However, it is important to recognize that illicit economic activities, such as the burgeoning production of drugs, have other profound consequences for states. A large-scale illicit economy threatens the state by giving criminal organizations the means to enter politics and to corrupt and undermine the democratic process. Thanks to the financial resources and political capital generated by the illicit economy, leading drug traffickers frequently experience great success in politics. They are able to secure official positions of power as well as wield influence from behind the scenes. Moreover, as politicians bankrolled with illicit money achieve greater success, established political actors are tempted to participate in the illicit economy, leading to endemic corruption. Afghanistan, Guatemala, and El Salvador serve as examples of that dynamic.

Large illicit economies dominated by powerful traffickers also have pernicious effects on the quality of law enforcement and the judicial system. As the illicit economy grows, the government's investigative capacity diminishes. Traffickers increasingly appear to be above the law. Frequently they turn to violence to deter and avoid prosecution, killing or bribing prosecutors, judges, and witnesses.<sup>20</sup> Inevitably the credibility of law enforcement and the courts and, more broadly, the government's

authority decline. Colombia in the late 1980s and Mexico today provide powerful reminders of how extensive criminal networks can corrupt and paralyze law enforcement and how high levels of violent criminality can devastate the judicial system.

In addition, illicit economies have important negative economic effects. On the one hand, drug cultivation and processing generate employment for the poor rural population, which frequently numbers in the hundreds of thousands; such activities may even facilitate upward mobility. But a burgeoning drug economy also contributes to inflation and undermines the stability of a nation's currency, thereby harming legitimate, export-oriented industries. It also encourages real estate speculation and displaces production of legitimate goods and services. Since the drug economy is more profitable than legitimate production and requires less infrastructure and investment, frequently the local population is uninterested in participating—or unable to participate profitably—in legal forms of economic activity. The illicit economy can thus lead to a form of “Dutch disease”—the name given to the situation in which a boom in an isolated sector of the economy pushes up land and labor costs and thereby causes stagnation in other core sectors. Finally, it appears that the small share of the final profits captured by drug-producing countries is used mainly for unproductive consumption by the traffickers rather than productive economic investment.<sup>21</sup>

This economic effect is not a universal rule. In Peru, for example, I encountered a village in the La Convención–Lares area where the population was able to invest illegal coca profits into a local school, medical facilities, an electricity generator, and an ecotourist lodge.<sup>22</sup>

## **PUBLIC POLICY IMPLICATIONS**

Most government and many academic analyses emphasize that the drug trade and other illicit activities help finance terrorism, insurgencies, and civil wars. Either the desire for financial resources is seen as the cause of military conflict or the financial resources are viewed as a means of prolonging the military conflict. The major policy recommendation derived from such analyses is to suppress illicit economies in order to deprive belligerents of resources. To the extent that belligerents' political gains are mentioned at all, they appear in country-specific critiques of the war on drugs, with little or no effort to offer a systematic model of the political

gains that belligerent groups derive from their participation in illicit economies.

This book seeks to fill that analytical void by showing how belligerents reap not only financial gains but also freedom of action—an important component of military capabilities—and, crucially, political capital from their role in the illicit economy. The belligerents obtain political capital by fulfilling several functions. They protect a reliable and lucrative source of income for the local population against government efforts to suppress the illicit economy. They protect the population from brutal and unreliable traffickers. And with the financial profits from the illicit economy, they provide otherwise absent social services to the local population.

More broadly, this book contributes to the growing understanding of the dynamics of counterinsurgency and counterterrorism. It joins the debate about how best to defeat insurgencies and terrorist groups: whether by attempting to limit belligerents' physical resources or by focusing on winning the hearts and minds of the population. The book reveals the extraordinary difficulties and low rates of success associated with efforts to deprive belligerents of resources by suppressing illicit economies and underscores the host of adaptations available to belligerents, producers of illicit commodities, and traffickers. Instead of bankrupting belligerents, suppression efforts typically fail to make a significant difference in their physical capabilities while antagonizing the population that depends on the illicit economy. That is true in particular of harsher suppression methods and under certain theoretically specified conditions, as the following chapters show.