



The Political Economy of War and Peace in Afghanistan

BARNETT R. RUBIN *

Center on International Cooperation, New York University, NY, USA

Summary. — The 20-year old Afghan conflict has created an open war economy, affecting Afghanistan and surrounding areas. Not only has Afghanistan become the world's largest opium producer and a center for arms dealing, but it supports a multibillion dollar trade in goods smuggled from Dubai to Pakistan. This criminalized economy funds both the Taliban and their adversaries. It has transformed social relations and weakened states and legal economies throughout the region. Sustainable peace will require not just an end to fighting and a political agreement but a regional economic transformation that provides alternative forms of livelihood and promotes accountability. © 2000 Elsevier Science Ltd. All rights reserved.

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Quid est aliud omnia ad bellum civile hosti arma largiri, primum nervos belli, pecuniam infinitam? (What is this but to lavish on an enemy all the weapons for civil war, first of all the sinews of war, unlimited money?)

Cicero M. T. (1951). *The Fifth Phillipic of M. Tullius Cicero against M. Antonius (v.ii.5, pp. 260–261)*. (Walter C. A. Ker, Trans., *Cicero Philippics*). Cambridge, MA: Harvard University Press

and such economic returns to the use of violence may both provoke such wars and nourish interests that perpetuate them. A few actors profit, while most have no say in the development of their own society. Peacemaking requires not only political negotiations but transforming the war economy into a peace economy and creating institutions for accountability over economic and political decision making (Collier & Hoeffler, 1999; Collier, 1999; Collier, Hoeffler & Söderbom, 1999; Holsti, 1995; Jean & Rufin, 1996; Kaldor, 1999; Keen, 1998; Reno, 1998).

1. INTRODUCTION

Classical interstate war may be, as von Clausewitz wrote, nothing else but the pursuit of politics with the admixture of other means, but the pursuit of politics through both peaceful and violent means requires money. Political leaders speak in public about their ideals and goals, but much of their activity is devoted to raising resources to exercise power and reward supporters or themselves. How political leaders raise and distribute these resources determines the outcome of their acts, as much as if not more than their stated goals and intentions.

The dominant current form of war is neither Clausewitzian interstate war nor classic civil war (government versus insurgency), but transnational war involving a variety of official and unofficial actors, often from several states. Such wars create conditions for economic activity, though often of a predatory nature,

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The war economy of Afghanistan exemplifies this phenomenon. Devastated Afghanistan has become both the world's leading producer of opium (75% of world production in 1999) and a transport and marketing corridor where armed groups protect a region-wide arbitrating center where profits are made off policy-induced price differentials. The region in question includes Dubai, the world's largest duty-free shopping mall; Pakistan, a state where the two ISIs—the Directorate of Inter-Services Intelligence and import-substitution industrialization—have created a highly armed and corrupt society where economic interest in evading high tariffs and the imperatives of covert action combine to undermine enforcement of fiscal rules and public order; Iran, where subsidized gasoline sells for three cents a liter; Afghanistan, a barely governed territory that includes the remnants of a road network that links Iran, Central Asia, and Pakistan; Central Asian states opened to the world without institutions to govern markets; and linked wars in Tajikistan, Afghanistan, and Kashmir, plus a growing insurgency in the Ferghana Valley in Uzbekistan (Nunn, Lubin & Rubin, 1999).

This economy developed in response to the demands of warlords for resources and of the Afghan people for survival in a country devastated by over 20 years of war. Over a million have died in a country whose population is now estimated at 26 million, and the proportion of disabled in the population may be the world's highest. Afghanistan ranks at the bottom of all measures of human welfare (Table 1), and illicit activities have become key elements of its people's survival strategies. Though most elements of this war economy had developed before the rise of the Islamic Movement of Taliban, the consolidation by that group of its "Islamic Emirate of Afghanistan" over most of the country has suppressed localized predation, enabling this group to realize what Collier and Hoeffler (1999, p. 3) call "economies of scale" in looting as the war economy has grown. Depending on both decisions by the Taliban and international policy, this development could prove a prelude to state building, with potential for more legitimate governance and development, or to a more rapidly expanding criminalized economy under a stigmatized leadership.

Table 1. *Measures of humanitarian emergency in Afghanistan^a*

Indicators	Afghanistan	South Asia	Developing countries	Industrial countries
Human development index rank (out of 174) ^b	169	N/A	N/A	N/A
Population % with access to				
Health care (1985–93) ^b	29	65	79	100
Safe water (1990–95) ^c	12 (rural 5, urban 39)	77	69	100
Daily calorie supply per capita (1992) ^c	1,523	2,356	2,546	3,108
Infant mortality per 1,000 live births (1993) ^c	165	85	70	N/A
Under five mortality per 1,000 live births (1993) ^d	257	122	101	N/A
Maternal mortality per 100,000 live births (1993)	1,700 ^e or 640 ^f	469	351	10
Life expectancy at birth in years (1993) ^b	44	60	62	76
Adult literacy rate (%), 1993 ^{b,c}	28 (men 45, women 14)	48	68	98

^a Sources: All comparative data from other regions are from source (b) below. One indicator of humanitarian emergency in Afghanistan is the collapse of institutions able to produce such statistics. Hence, unlike such presumably better governed countries as Sierra Leone and Burundi, Afghanistan has not been listed in the standard source for such data, UNDP's *Human Development Report*, since 1996.

^b UNOCHA (1996, p. 4); citing UNDP, *Human Development Report* 1996.

^c UNOCHA (1997, p. 4); citing UNDP, *Human Development Report* 1997.

^d UNOCHA (1997); citing UNICEF, *State of the world's children report* 1996.

^e UNOCHA (1997); citing Study by UNICEF/World Health Organization, 1996.

^f UNDP (1997).

This illicit economy is not confined to Afghanistan. Through the development of an Afghan diaspora linked to neighboring societies, the opening of borders, and lack of customs enforcement in many areas, the Afghan war economy has generated a pattern of regional economic activity and associated social and political networks that compete with and undermine legal economies and states. This regional economy is in turn linked through the drug and arms trade to globalized crime (Castells, 1998, pp. 166–205). Transformation of this war economy is thus essential not only to Afghanistan but to neighboring regions and the world.

2. STAGES OF THE WAR ECONOMY'S DEVELOPMENT

Before the outbreak of war in Afghanistan in 1978, a gradually expanding, foreign-supported state coexisted with a rural sector based on subsistence agriculture and pastoralism. The Communist coup of April 1978, the Soviet invasion of December 1979, and the reaction to these by the United States, Pakistan, Saudi Arabia, China, and others, destroyed this system. Both sides of the war depended on military technology and cash provided by foreign sponsors. The pipelines for arms and humanitarian aid supplied capital to build up regional smuggling networks.

After the Soviet withdrawal in February 1989, both Soviet and Western aid decreased, and both ended with the dissolution of the USSR at the end of 1991. Regional powers (mainly Pakistan, but also Iran and Russia) stepped in, but local commanders and some returning refugees pursued new survival strategies in a context of highly fragmented power and no effective central state (UNDCP, 1999a, p. 1). Predation by commanders, opium cultivation by peasants, and smuggling to Pakistan and elsewhere constituted adaptations to this high-risk environment.

Predation by commanders imposed heavy costs on commerce, blocked Pakistan's access to Central Asia, and prevented consolidation of an Islamic or any other order. Hence a coalition of Pakistani authorities, Afghan and Pakistani traders, and ultra-conservative Afghan and Pakistan religious leaders created the Taliban. The Taliban, a transnational movement benefiting from social capital created in *madrasas* (Islamic academies) in the

Afghan–Pakistan border areas during 15 years of Afghan dispersion, managed by 1998 to consolidate control over nearly all the country's roads, cities, airports, and customs posts, thereby drastically lowering the cost and risk of transport and consolidating Afghanistan's position at the center of a regional war economy.

(a) *Prewar economy, state, and society*

In the 1970s Afghan society was split between a rural, largely subsistence economy and an urban economy dependent on a state that in turn drew most of its income from links to the international state system and market. About 85% of the population lived from the rural economy. As late as 1972, the cash economy constituted less than half of the total (Rubin, 1995a, pp. 62–75; Fry, 1974, pp. 135–162). Government expenditure consumed less than 10% of the whole, and in the 1960s foreign aid accounted for over 40% of the budget. When aid declined, it was replaced by exports of natural gas from northern Afghanistan to the Soviet Union. Such rentier incomes continued to finance nearly half the budget (Rubin, 1995a, pp. 296–297). Urban society depended on state redistribution. After the introduction of a state-led development model in the mid-1950s, the private sector was largely confined to trade, and the government controlled most urban employment.

Changes in the role of women, including voluntary unveiling, and women's secular education and professional employment, were entirely urban phenomena dependent on the state sector. They were decreed by the highest (male) leadership of the state in order to implement a (lightly) imposed vision of modernization. The subsequent collapse and loss of legitimacy of the weakly modernizing state also meant the weakening of the institutional support for women's public roles (Dupree, 1998).

(b) *Soviet occupation and politically dependent war economy*

During the Soviet occupation (1979–89) a number of new phenomena emerged:

- dependence of competing leaders on opposing flows of politically motivated military assistance;
- dependence of the population for subsistence on politically motivated humanitarian aid;

- destruction of the rural subsistence economy through counterinsurgency;
- forced urbanization, including internal displacement to Afghan cities and the flight of millions of mainly rural refugees to camps and cities in Pakistan and Iran;
- creation of refugee-warrior communities in Pakistan and Iran and of a regionwide Afghan diaspora; and
- rapid monetization of the economy.

On one side, the state's dependence on foreign aid and sales of natural gas became even more pronounced, but aid came exclusively from the Soviet bloc. While the state lost access to much of the countryside, more of the swollen urban population came to depend on it. By the Soviet withdrawal, nearly all of Kabul's food and fuel was donated by the USSR and distributed by the government through coupons. As men under government control were enrolled in the war effort, women's civilian roles expanded.

A different culture of dependency developed on the other side. Food production fell by half to two-thirds as Soviet counterinsurgency devastated the rural economy (SCA, 1988, p. 37). This destruction not only impoverished the rural population but weakened the elites whose power depended on control of rural resources. Much of the rural population fled to Pakistan and Iran, where it entered monetary economies. Islamic parties recognized by Pakistan's Directorate of Inter-Services Intelligence (ISI) as recipients of US- and Saudi-supplied military assistance acted as gatekeepers for distribution of international aid.

In these communities, as well as in rural areas of Afghanistan, patriarchal strictures on women were retained or reinforced. These restrictions resulted from male reaction to both the insecurities of life in exile and reforms associated with the disaster that had overtaken the country.¹

The infrastructure of support for the resistance poured cash into several social networks. Before reaching its intended beneficiaries, both military and humanitarian aid passed through many international, Pakistani, and Afghan intermediaries, some of whom skimmed off cash and resold arms and commodities. These resources provided capital to expand smuggling and other businesses. While the Pakistani military delivered arms to *mujahidin* parties in its own trucks, private teamsters moved the supplies to the border region and into Afghanistan. Many of these trucks were

already active in Pakistani-Afghan smuggling derived from violations of the Afghan Transit Trade Agreement (ATTA). Under this agreement, listed goods can be imported duty-free in sealed containers into Pakistan for onward shipment to land-locked Afghanistan. Many if not most of the goods were instead sold in smugglers' markets (*bara bazaars*) in Pakistan. During the war the trucks used in this lucrative trade were also leased for arms transport, income from which expanded the capital available for investment in smuggling linked to the ATTA, as well as the growing drug trade.

(c) *Soviet withdrawal: monetization and the growth of predation*

Within Afghanistan itself, the main economic actors were the commanders, a group mostly drawn from new elites that benefited from US, Pakistani, and Saudi policies of supporting only Islamist parties rather than the nationalist former rulers (Roy, 1986; Rubin, 1995a). When the Soviet withdrawal reduced both military pressure and external aid, however, commanders pursued economic strategies to increase their power, wealth, and autonomy, establishing bazaars and providing local security to traders in return for tribute. They also sought aid from Western or Islamic humanitarian organizations engaged in cross-border assistance from Pakistan. Such aid provided services and employment that increased resources under their control (Dorransoro, 1996).

The Soviet withdrawal also led to a rapid increase in the Afghan money supply. The Soviet-supported government of Najibullah turned to an expensive policy of "national reconciliation," which included increasing the economic dependence of the population on the state, enlarging the local security forces, and offering political recognition and subsidies to defecting commanders. Just as these policies increased expenditures, the government lost income. Soviet aid declined, natural gas revenues fell with poor maintenance and ended when the Soviet troops left, along with the technicians who ran the gas fields. The government financed the resulting deficit by printing money. From 1987 to the fall of Najibullah in 1992 the value of banknotes in circulation increased by an average of 45% per year. Food prices rose by factors of five or 10. The afghani rapidly lost value against the dollar, trading at 1,000 to the dollar, or about

20 times the official rate, by the summer of 1991 (Rubin, 1995a, pp. 153–164). The destruction of agriculture and trading networks created a food deficit. For several months out of the year Afghans had to rely for food on aid or cash purchases at the new high prices (UNDCP, 1998a, p. ii).

Such a situation created tremendous incentives for cash-producing activities, mainly smuggling of consumer goods and opium growing. As early as 1987 roads became more secure, and trade and humanitarian assistance that had previously traveled by pack animal over mountain trails could now go by truck (SCA, 1988). Trade increased, including the drug trade, the import of goods into Afghanistan, and the transit trade, consisting of the export (smuggling) into the neighboring countries of goods imported into Afghanistan from both Dubai (by air or via Iran) and the Far East (via the trans-Siberian railway and links up to the northern Afghan border). In northeast Afghanistan, the gem trade also financed the war, as diamonds do in Angola, Congo, or Sierra Leone: Ahmad Shah Massoud, the ethnic Tajik commander in northeast Afghanistan who built up the most extensive resistance organization inside the country, controlled emerald and lapis lazuli mines in or near his native valley, Panjsher (Chipaux, 1999).

Opium, however, became the main expanding source of cash incomes. Opium can be grown in most parts of Afghanistan, and in some regions the yields are the highest in the world. Opium provides cash not only through sale, but through credit and demand for labor. Farmers sell the crop to wholesale traders. When faced with cash flow problems or food deficits, especially in the winter months before the harvest, they can obtain loans from traders under a system of futures contracts called *salaam*. Finally, the opium harvest requires intensive labor, which provides many landless or land-poor young men with earning opportunities (UNDCP, 1998b, c, 1999a, b, c, d).

The fall of the Najibullah government in April 1992 brought mainly non-Pashtun *mujahidin* groups to power in Kabul. Led by President Burhanuddin Rabbani but dominated by Massoud as military commander, the Islamic State of Afghanistan failed to establish its power over most of the country's territory. Attacks on Kabul by groups supported by Pakistan kept the capital insecure. Those attacks, combined with the unwillingness of Pashtuns to accept a Tajik-led government,

kept it from expanding control beyond the capital and its ethnic base in the northeast. Regional warlords developed fiefdoms.

Kabul remained dependent on international aid and printing money. The UN and international humanitarian agencies stepped in to replace the USSR as the supplier of food to the most vulnerable, but they delivered only about half the amount supplied by the Soviets (120,000 tons versus 250,000 tons of wheat per year). Printing currency remained probably the single most important source of state expenditure. Banknotes printed first under contract in Russia and then by other international companies continued to be delivered to the "government." The resulting devaluation of the afghani and inflation were so severe that the government introduced new currency notes of first 5,000 and then 10,000 afghanis (previously the largest note was 1,000). The former communist ethnic Uzbek warlord of northern Afghanistan, Abdul Rashid Dostum, had his own notes printed after breaking with Rabbani in January 1994. By September 1996, when Kabul fell to the Taliban, the afghani, the official rate of which had been 50 to the US dollar under Najibullah, was trading at 17,800 to the dollar in Kabul. The afghani was worth even less (25,600/dollar) in Dostum's capital, Mazar-i Sharif, indicating the lack of a national market.²

Though road transport was no longer threatened by Soviet bombing, predation along roadways disrupted trade and the national market that had begun to develop with the construction of a highway network in the 1960s. Each region became increasingly integrated with its neighboring foreign market. The war economy, like the political structure, remained fragmented.

(d) *Taliban: toward predatory monopoly/duopoly*

In 1994 a number of changes in Afghanistan and the international environment combined to support the growth of the Taliban. Within four years, as the Taliban gained control over the country's main roads, cities, airports, and customs posts, they implemented a transition from localized predatory warlordism to weak rentier state power based on a criminalized open economy. The opposition, which had formerly included Uzbek, Hazara, and Tajik leaders, shrank to a mainly Tajik core, led by

Ahmed Shah Massoud in his northeastern mountain bastion.

The breakup of the USSR raised the economic stakes in Afghanistan and pitted Iran and Pakistan against each other in competition for access to the oil and gas-rich Central Asian states. Pakistan saw commercial and political connections to Central Asia via Afghanistan as key to the development of "strategic depth" in its confrontation with India. The US defined an interest in the independence and economic diversification of the Central Asian states, without relaxing sanctions on Iran, an economically feasible pipeline route. Pipelines through Afghanistan would reconcile those often contradictory goals. Various companies, including the US-based UNOCAL in alliance with the Saudi company Delta (whose consortium received US government encouragement) and their rival, the Argentine firm, Bridas, began negotiations with the Rabbani government and de facto powerholders. Traders chafed at the growing insecurity along the major routes crossing the country.

In their first major operation, in October 1994, Taliban freed a Pakistani trade convoy. Led by a Pakistani intelligence officer who had played a leading role in supporting the *mujahidin*, this convoy was headed for Turkmenistan via Qandahar and Herat, along the projected pipeline route. When it encountered a checkpoint set up by tribal (Achakzai) militia demanding exorbitant tolls, waves of newly armed Taliban flooded across the border to break the blockade. The convoy rolled on to Turkmenistan as the Taliban marched into Qandahar (Rubin, 1995b; Maley, 1998; Rashid, 1998). This event was emblematic of what the Taliban themselves see as their main accomplishment—"bringing security"—and provided both a model and an economic basis for their nearly nationwide consolidation.

Overcoming predation poses a collective action problem: each predatory actor benefits, while a larger but diffuse constituency would benefit from suppressing predation (Collier, 1999). Both social capital that strengthens networks of solidarity and investments or side-payments from groups benefiting from the suppression of predation can help overcome the obstacles to collective action. The Taliban both mobilized social capital created in madrasas to create a homogeneous leadership group linked to political networks in Pakistan and used assistance from Pakistan and Saudi govern-

ments and traders to build up a military force and buy off opponents.

The years of war had destroyed much of Afghanistan's social capital as communities and institutions were dispersed or destroyed. The prevalence of predatory economic activities reflected the fragmentation of social power (Rubin, 1995a). During those same years, however, Afghan rural *ulama*, especially in the traditionalist south, continued to teach or study in either their rural *madrasas*, away from the centers of war, or in kindred (and much larger) institutions in Pakistan, largely linked to the conservative Deobandi movement.³ Thousands of Pashtun refugee boys received the only education available in these schools, funded by Pakistani or Saudi donors.

The links among these *madrasa* students and teachers provided an effective form of social capital. In response to the crisis of anarchy in southern Afghanistan, a group of teachers and students (taliban) from such *madrasas* formed a movement to overcome warlordism and corruption. They enjoyed the support of their Pakistani colleagues and could recruit troops from *madrasa* students in both Afghanistan and Pakistan. They were linked across tribes by their common *madrasa* background, as well as by subethnic solidarity among Qandahari Pashtuns.

Taliban success, however, also required human capital (training), technology (weapons), and finance. For the strategic reasons described above, Pakistan decided in 1994 to provide such assistance to the Taliban, including military training and advisors. Saudi Arabia also provided funds until June 1998, when it ended aid to the Taliban in a dispute over Bin Laden. Hoping that the Taliban would provide security for pipeline routes, stabilize the country, and further isolate Iran, the United States originally did not object to these policies.

Afghan and Pakistani traders, too, were willing to pay for suppression of predation. These crossborder traders form a coherent, organized group with an interest in ending extortion, and they have therefore contributed to the Taliban (Rashid, 1998). The Taliban also assess them when the need arises.

Taliban officials tell visitors, "You can drive from one end of the country to the other even at night with a car full of gold, and no one will disturb you." This expression is hardly a metaphor. Driving across southern Afghanistan from Qandahar to Farah and back in June

1998, I saw many trucks doing just that, though their cargoes consisted of consumer goods rather than gold. In two days' drive I encountered only three, unobtrusive checkpoints. The greater security provided by Taliban also improved the conditions for the trade in opium (UNDCP, 1998c).

The expansion of Taliban power led to the elimination of all but the strongest opposition. A bandwagon effect combined with the shift in Pakistani support enabled the Taliban quickly to eliminate rivals in the Pashtun areas of southern Afghanistan. They were then opposed by a coalition of non-Pashtun groups, including Uzbeks, Tajiks, and the Shia Hazaras, supported by Iran, Russia, and Central Asian states. By 1998, however, except for occasional pockets of resistance, only Massoud remained. Massoud's areas included a small though expanding opium-growing area, but he appears to have made more money through printing money and the international marketing of gems (Chipaux, 1999).

Collier, Hoeffler, and Söderbom (1999) argue that ethnic homogeneity enables insurgent groups to coordinate and prolong civil war. In this case subethnic homogeneity of the leadership of both armed contenders contributed to their endurance: the Taliban leadership is composed exclusively of Qandahari Pashtuns, while Massoud relies almost entirely on Panjsheri Tajiks. The use of ethnic and subethnic solidarity to coordinate military and political action has increased ethnic polarization of Afghan society.

3. THE CONTEMPORARY WAR ECONOMY

The projected oil and gas pipelines have been stymied by the continuing war and the Taliban's harboring of Bin Ladin. Today's war economy in Afghanistan consists of the transit trade, the drug trade, the gem trade, service industries stimulated by the growth of the former three, and the emission of currency. Foreign exchange earned by exports finances Afghanistan's imports of arms as well as food and other necessities (Naqvi, 1999). The Taliban control the transit trade, which seems to be the largest of these sectors. Massoud controls the gem trade. Opium production and trade is expanding in regions controlled by both sides, but in 1999 areas controlled by the Taliban

produced 97% of Afghanistan's poppy (UNDCP, 1999a, d).

Control by the Taliban of most of the main road system has cleared a corridor for the smuggling of duty-free consumer goods from Dubai to Pakistan. Until a ban on international flights from Taliban territory imposed under UN Security Council sanctions on November 14, 1999, some goods were flown directly to Afghanistan from Dubai (the airline's only international destination). Most goods cross the Persian Gulf by ship to Iran, from where truckers haul them through Afghanistan to Pakistan.⁴ This trade complements smuggling into Pakistan under cover of the ATTA. In June 1998 I noted that many of the trucks appeared to be carrying automotive vehicle tires and spare parts rather than the electronic appliances I had heard so much about. I later learned that since automotive parts had recently been eliminated from the list of goods eligible for import under the ATTA, they were being imported to Pakistan by this alternate route (Naqvi, 1999).

A World Bank study (Naqvi, 1999) estimated the value of this trade at \$2.5 billion in 1997, the first year after the Taliban capture of Kabul, equivalent to nearly half of Afghanistan's estimated GDP and around 12–13% of Pakistan's total trade. After the Taliban capture of most of the north in August 1998, the amount increased, according to diplomats in Central Asia. Naqvi (1999) estimates that the Taliban derived at least \$75 million in 1997 from taxing Afghanistan–Pakistan transit trade. While this is a significant income in the context of Afghanistan, it is far less than the amount of Pakistani duties that would be owed on these goods, so that the more indirect contraband route is still profitable.

Before the appearance of the Taliban, Afghanistan was already a major opium producer (Table 2). About 56% of the poppy crop was grown in the areas of southern Afghanistan that the Taliban captured in the fall of 1994, and 39% was grown in eastern Afghanistan, which they took two years later. These remain the principal opium growing areas, though poppy has also spread to new regions (UNDCP, 1999d).

Two main factors affect the amount of opium grown in Afghanistan. First, the total has tended to rise through diffusion of a profitable technology and the decrease in risk afforded by Taliban "security" (UNDCP, 1998b, 1999d). Second, production fluctuates around the trend

Table 2. *Estimated opium poppy cultivation in Afghanistan, 1994–99^a*

Year	Hectares-cultivated	Opium harvested (metric tons)	Average yield (kg/ha)	Districts with reported poppy cultivation	Hectares cultivated in Taliban areas (percentage of total) ^b
1994	71,470	3,416	48	55	(56) ^c
1995	53,759	2,335	43	60	65
1996	56,824	2,248	40	63	65
1997	58,416	2,804	48	60	93
1998	63,674	2,692	42	73	94
1999	90,983	4,581	50	104	97

^a Sources: UNDCP (1998a; 1999a).

^b Taliban control at time of planting.

^c There was no Taliban control at time of planting in 1994. This figure is the percentage planted in provinces controlled by the Taliban in 1995.

as a result of weather and price changes, creating a “cobweb” cycle typical of unregulated agricultural commodities. Rains and floods damaged much of the crop in 1998, leading to high prices and indebtedness that encouraged increased production in 1999. Combined with good weather conditions, this resulted in a record crop estimated at 4,581 tons, or about 75% of global production. This in turn led to a drop in price and higher labor charges, which may lead to cutbacks in planting for 2000 (UNDCP, 1999a).

Afghans, including the Taliban, earn relatively little from this crop. Superprofits in the global drug market derive from the risk premium of marketing an illegal commodity in wealthy societies. Producers and marketers of the raw material share in these profits only if they develop vertical integration through to the retail markets, as the Colombian cocaine cartels did in the 1980s (Castells, 1998, pp. 166–205). Afghan opium traders, however, generally sell only to the border. A few are involved as far as the Persian Gulf, but not in the lucrative retail markets (UNDCP, 1998c).

Within Afghanistan, while opium growing and trading involves economic risk, neither the Taliban nor their opponents treat these as criminal activities, and there is consequently neither a high risk premium nor violent competition for markets. The opium trade in Afghanistan is by and large peaceful and competitive (UNDCP, 1998c). In eastern Afghanistan the market is more centralized with higher markups between the farmgate and bazaar prices than in the south.

The UN Drug Control Program estimates that the 1999 bumper crop was worth \$183 million at the farmgate at harvest prices.⁵ In

1998, when prices were higher for a smaller crop, the markup from the farmgate to the border was in the vicinity of 50% (UNDCP, 1999a, 1998c).⁶ Processing, of course can be more profitable. It appears that opium from eastern Afghanistan is processed into heroin in border laboratories controlled by the Pakistan-based Afridi tribe, while there is less processing, and often only into morphine base, in the south (UNDCP, 1998c, p. 4). There are also reports of heroin being flown out of the country on private aircraft, by Arabs to the Persian Gulf, or by the Russian mafia to Central Asia, but no information is available about the economic value of such transactions.

It is difficult to estimate how much revenue the Taliban derive from this trade. Growers pay the Islamic tithe (*ushr*) at the farmgate on opium and other produce, mostly in kind. Less consistent reports indicate that the Taliban also levy *zakat* of 20% on traders in opium and opium derivatives. Some evidence indicates that this *zakat* is collected only in the south, not in the east, where Taliban control is less stable (Torabi, 1996–97, pp. 141–142; UNDCP, 1998c, p. 13; Rashid, 1998).⁷ A very rough estimate would be that *ushr* (which seems to be used for local expenses, not the war effort) might amount to up to \$15 million in 1999, while *zakat* of 20% on the remaining opium in the south (60% of the total) marked up by 50% (the border price) would total about \$30 million. These rough calculations indicate that Taliban raise less revenue from opium trade than the transit trade. How much they might derive from taxing trade in morphine base and heroin remains an open question, though most processing seems to occur outside Afghanistan, and the Taliban have destroyed some heroin laboratories.

The transit and drug trades are complemented by service industries, such as fuel stations, shops, and tea houses. Much of the fuel is smuggled from Iran, where its subsidized price is approximately \$0.03 per liter, less than a soft drink. The official budget in Kabul (which does not include military expenses) seems to be paid for by direct foreign aid from Pakistan (Rs. 500 million or about \$10 million in 1998), and a few taxes from Kabul itself. Until late 1998 the Taliban also received direct financial assistance from Saudi Arabia, which provided subsidized fuel, as well as cash grants. These were ended in protest over the Taliban's failure to expel or curb Usama Bin Ladin. Bin Ladin himself is reputed to have put some of his wealth at the Taliban's service, paying, reportedly, for the capture of Kabul in September 1996.

Though the Taliban control all major branches of Da Afghanistan Bank (the central bank), they have not printed their own money. The Taliban continue to recognize the notes delivered to the Massoud-Rabbani forces, despite their protest against this funding of their enemies and the resulting devaluation of their currency. Taliban banking officials say they recognize the Rabbani currency because they do not wish to undermine national unity by circulating two currencies.⁸ In practice, the Taliban would probably have difficulty obtaining professionally printed notes.⁹

Northeast Afghanistan, controlled by Massoud, produces only 3% of Afghanistan's opium today. Commanders levy *ushr* on opium farmers, and at least some local authorities tax opium traders as well.¹⁰ There are a number of heroin refineries, though authorities have destroyed some. Besides the aid he receives, mainly from Iran, and the continued delivery of new Afghan currency, Massoud's main income comes from the gem trade. Since the beginning of the war Massoud taxed trade in lapis lazuli and emeralds, collecting *ushr* from mine owners and *zakat* from traders. In 1997, however, Massoud established a monopoly in purchase of the gems and in 1999 signed an agreement with a Polish firm, Inter Commerce, to market them. His aides estimate that, while the trade now brings in \$40–60 million per year, the new joint venture might make as much as \$200 million in annual income (Chipaux, 1999).

The Taliban, like their opponents, are thus not throwbacks to medieval times but actors in today's global economy and society. For the first time in history, *ulama* dominate political

and military life in Afghanistan because of geopolitics and resources made available by globalization. Pakistan, Saudi Arabia, and the US supplied massive quantities of weapons only to religious parties rather than to Afghan nationalists who might ally with India or challenge Pakistan, while turning a blind eye to the growth of drug trade and other forms of criminality. Meanwhile, factions of the elites educated in Afghanistan's state institutions and in the West and the USSR busied themselves killing, arresting, and exiling each other with the help of foreign powers.

As the educated elite was destroyed, private *madrasas* offered almost the only education available for Pashtun refugee and rural boys after 1978, since the West did little to provide them with modern education. The *madrasa* networks accumulated social capital while other institutions were destroyed. The *mullas* lost, however, the ties to the landlord-dominated local economy and society that had circumscribed their power. Both the state and the rural economy that had sustained tribal leaders collapsed. The Deobandi *ulama* became more autonomous in exile and in warlord-dominated Afghanistan, resulting in their becoming more extremist and deracinated. In exile they also became linked to international networks, both political and economic, including Pakistani political parties and intelligence agencies and the Arab Islamists who aided the *jihad*. Foreign aid, commercial agriculture (opium), and long-distance contraband provides this newly armed elite with the opportunity to mobilize resources to exercise power directly, as it never did before.

The domination of the country by this previously marginalized group has reversed the pattern of social, political, and economic bifurcation developed under the royal regime and intensified under the communists. The capital city is now ruled by a force from the countryside, which has reversed the reforms of past decades. The Taliban attitude toward the state and reforms are not the continuation of some unchanging "tradition," but the result of their own uprooting and trauma of the past 20 years, during much of which a central state dominated by a foreign ideology destroyed the country in the name of progressive reform. The annihilation of the state and the development and reformist agenda it had pursued under several governments has spelled the end for now of the emancipation of urban women through decrees by modernizing male leaders.

4. TRANSNATIONAL NETWORKS

The Afghan war economy has spread internationally through a variety of social networks. The Taliban themselves are a transnational movement led by Afghans but organizationally present in both Afghanistan and Pakistan through Deobandi *madrasas* and parties. The Taliban recruit from both sides of the border. During the 1999 summer offensive, as many as 25–30% of their troops were estimated to be Pakistani volunteers, mostly recruited from *madrasas* and political groups, not the military. These fighters are often organized in separate groups, as are groups of Arabs and other international supporters. Besides Usama Bin Ladin, who still has followers in Saudi Arabia, the Taliban host members of radical Islamist groups from Pakistan, Egypt, Uzbekistan, Algeria, and many other countries. Several groups engaged in sectarian violence in Pakistan have training camps in Afghanistan, and the Pakistani intelligence (ISI) has used these groups in its “covert” operations in Afghanistan and Kashmir. As a result, as Pakistan confronts a severe economic and political crisis, it faces thousands of *madrasa* students who have returned after fighting for the Taliban, eager to establish a similar regime in Pakistan.

The religious and political networks are supported by the transborder economic networks described above that link traders to the Taliban. These in turn have close relations with the local administration in Pakistan, where the goods are sold in smugglers’ markets (Rashid, 1998). Given that country’s fiscal dependence on customs duties and sales taxes on luxury goods, the toleration of such a large black market contributes significantly to Pakistan’s financial crisis (Naqvi, 1999). Soon after he took power on October 12, 1999, General Pervez Musharraf halted unlicensed export of wheat to Afghanistan, suspended the operation of the ATTA pending the negotiation of stricter controls, and announced a crackdown on smuggling from Afghanistan. It is unclear, however, if he will succeed in implementing the economic reforms he has announced, as such measures are not only opposed by Pakistani constituencies that benefit from smuggling but also conflict with an unchanged policy of supporting the Taliban and using Taliban territory as a base for operations in Kashmir.

The economic networks involved extend beyond Afghanistan and Pakistan. Dubai now

contains the third largest urban population of Pashtuns (Karachi is the first and Peshawar the second). These networks made Afghanistan the second largest trading partner of the United Arab Emirates (along with Saudi Arabia and Pakistan, one of the only three states that recognize the Taliban regime). This reflects the purchase of duty-free goods in Dubai by Afghan and Pakistani traders shipping them onward for smuggling into Pakistan.

The drug and arms trade have brought international organized crime into the region. Though over 97% of the opium is grown in Taliban-controlled southern and eastern Afghanistan, increasing portions of it are smuggled northward in cooperation with the Russian mafia. Russian organized crime groups have sold arms to Massoud and reportedly purchased heroin from traders on all sides. Opium products cross from territory controlled by Massoud into Tajikistan, where some are transported by Russian troops and border guards to Osh, Kyrgyzstan, for transshipment. There are reports that the Russian mafia also flies heroin out of Kunduz, a Taliban-controlled town in northern Afghanistan. Arabs who for years have flown private planes to southwest Afghanistan for hunting expeditions are now also reported to be flying out opium products to the Persian Gulf. Iran has deployed troops and police along the border, where hundreds have lost their lives in clashes with drug smugglers. The money involved in the drug and arms trades is undermining state institutions throughout Central Asia and is also affecting Russia and the Persian Gulf (Nunn, Rubin & Lubin, 1999).

5. MICRO POLITICAL ECONOMY OF CONFLICT

Socioeconomic conflicts related to the war have also developed at the local level. The collapse and partial revival of the state, the destruction of assets, and the mass displacement and partial return of the population have created a crisis in property relations. The old regime in Afghanistan had established private property in land and pasture and used these regulations in favor of Pashtun nomads and settlers in northern and central Afghanistan. State protection of property in land also made possible absentee landlordism around major cities. Some landlords were better able to

afford emigration or were enticed into the regime's program of "national reconciliation," which promised state protection of property and exemption from land reform, while tenants and the landless stayed to fight in the *jihad*—and for the land of those who sided with the regime.

Nomadic sections of Pashtun tribes such as the Ahmadzai formerly shifted their flocks into the high pasture of Hazarajat in summer. The nomads, whose mobility gave them a natural vocation as traders, also had more access to cash and acted as bankers for the local peasantry, who were often heavily indebted. When the Shi'a Hazaras revolted against the communists in 1979, they also, in effect, declared autonomy from the Pashtun-dominated Sunni Muslim state. Since that time Pashtun nomads could not use pastures in Hazarajat or collect their debts. Hence a number of the tribes that formerly migrated there have supported the Taliban reconquest of the area. Armed young men from Pashtun nomadic tribes have returned to Hazarajat with the intention of collecting 20 year old debts.¹¹

Similarly, the fertile steppes north of Hazarajat are inhabited by largely Tajik (therefore Sunni) populations who were also favored by the state against their Shia neighbors. These groups lost land and other assets to the Hazaras over the past 20 years and now form the base of Taliban support in these areas. As Bamiyan, the center of the Hazara-controlled areas in central Afghanistan, changed hands in early 1999 from the Taliban back to the Shia parties and then back again, Hazaras and local Tajiks engaged in several rounds of burning homes, killing, and expelling populations. This was due as much to local conflicts as to the national one.

Pashtun nomads also lost pasture on the northern steppes, and Pashtun landlords lost control of their agricultural lands in these areas. Landlords around Herat and Qandahar lost control to their tenants. Wealthier landlords were better able to afford the journey abroad and therefore were more likely to become refugees. In such cases local *ulama* often allotted use of their land to the families of *mujahidin* or martyrs. As people return from exile, they demand their land back, sometimes taking disputes to Taliban courts. All of these transformations have created a rich field for property and monetary disputes, sometimes connected to ethnic, tribal, or clan conflicts, as well as class.

6. POLITICAL ECONOMY OF PEACEMAKING

The war economy makes peacemaking much harder. Standard international plans for ending civil wars involve negotiating a cease-fire with international monitors; establishing interim power-sharing leading to elections; integrating rebels into government security forces; rebuilding the economy and society under international auspices; and instituting accountability for abuses of human rights. But belligerents negotiate when they are exhausted or reach a stalemate, while continued foreign assistance and the open war economy of Afghanistan assure both sides of resources to continue fighting. Some may in fact prefer continued war that allows them to profit (Collier, 1999).

Pakistan and Iran both have clear interests in a stable Afghanistan but competing interests in how power should be distributed and exercised. Negotiations between them confront the fact that Pakistan's interest in Afghanistan derives from its quest for strategic depth against India, not from items that can be negotiated with Tehran.

The re-establishment of a weak state in most of the country by one party would in other circumstances favor peace, by establishing a structure into which others could be integrated. Generalized predation plus accountability can develop into taxation and state building. But in this case the two sides do not even agree on which is the government and which the insurgents. The ideology that is a key component of the Taliban's social capital has thus far precluded both genuine power sharing internally and international recognition externally. Their bans on female education and employment as well as their harboring of Usama Bin Ladin have made them the target of condemnation and sanctions. Even their genuine accomplishments seem at risk. Accounts of corruption and indiscipline in the ranks grow. Shopkeepers charge that in January 2000 Taliban guards burglarized Kabul's money market, making off with over \$200,000 (AFP, 2000).

Furthermore, ending war in Afghanistan might transform the criminalized war economy into an even faster-expanding criminalized peace economy. Whoever rules Afghanistan, the incentives for misgovernment are nearly irresistible. Only the drug, transit, and gem trades are worth taxing. The rest of the

economy is hardly productive enough to recover the cost of governing it. Such a political economy would leave the power holders as unaccountable to most Afghan people as they were under previous regimes. Most of the population would be left to fend for themselves, perhaps in conditions of greater security, but without a development agenda, public services, or reforms, notably in the status of women.¹²

A more challenging alternative would be to consider peacemaking in Afghanistan as part of a larger problem, of transforming the political economy of a region. It has finally dawned on Europe and the United States that nothing less will work in the Balkans. There is no reason to think that Central and Southwest Asia will be a simpler problem. Of course, even in Europe the rhetoric has outstripped the financing. But integrating economic and considerations into the strategic picture reveals a few, weak points of leverage.

The military coup of October 12, 1999, was only a symptom of the deep crisis of Pakistan whose policies toward Afghanistan arguably threaten that state itself. Pakistan cannot resolve its economic and political crisis without reforms that would also promote peace in Afghanistan, and the country's heavy international indebtedness provides leverage. Pakistan's policy of aiding the the Taliban and using Afghan territory to train groups for *jihād* in Kashmir empowers armed groups guilty of sectarian terrorism and the hijacking of the Indian airliner in December 1999. It also underwrites smuggling that bankrupts the Pakistani state. If General Musharraf wants to promote public order, he will have to suppress armed groups and move toward law-bound, civic politics. To stabilize the economy, his regime will have to reform the ATTA not in isolation but as part of a general change away from the high duties of an import substitution regime toward the legal institutionalization of the greater openness that exists *de facto* outside the law. This would reduce the incentive for transit trade, the Taliban's main source of funds. Pakistani businesses could benefit from legitimate trade with Afghanistan and even more from its reconstruction under international auspices. Pakistan should not be offered a financial rescue package if it is not willing to reform its own policies that create and intensify the crisis.

No major institution has started planning for reconstruction of Afghanistan or involved

Afghans in thinking about it.¹³ Yet a major untapped resource today is the hidden exhaustion of a vast majority of Afghans with the war and a historically unprecedented demand—arising from the people, not the state—for education and development. Starting a serious international process involving Afghan intellectuals and community organizations in planning for a reconstruction that would be conditional on a cessation of hostilities and observance of minimal humanitarian and human rights principles (the right of both sexes to available education and health care) might affect the current dynamic of conflict. Local actors assume that major aid for reconstruction will not be forthcoming, however they behave. It is not surprising that they find it relatively easy to dismiss international professions of concern about Afghanistan and their own behavior.

Aid for reconstruction of Afghanistan should be decided upon and disbursed in such a way as to build reciprocity between state and society and make the former more accountable to the latter. For instance, programs aimed at replacing opium poppies would also have to find alternative sources for financing state activities. The existing economic actors would have to be drawn into alternative forms of activities from which they could realize reasonable profits.

The international private sector could also be involved as a source of funds. Today positions on the proposed pipeline and other potential international investments in Afghanistan are polarized around attitudes toward the Taliban, and the United States has imposed unilateral sanctions on such investment. A more creative solution might find ways to finance the investment while reducing the risk that it would fund war or oppression. Could financing be offered on the condition that the rental income go not to any armed group, but to a fund for community development and reconstruction? Airlines crossing Afghan territory on long-distance flights pay fees into a Swiss account managed by the International Air Transport Authority (IATA), which holds them in trust for spending on civil aviation requirements (AFP, 1999). Perhaps such a fund from pipeline incomes could be administered by an international organization with Afghan participation.

It be virtually impossible to sustain curbs on smuggling in a region with such wide disparities in trade policy. International institutions should work with the regional powers toward

something approximating a customs union that would both make legitimate trade more attractive and reduce incentives to smuggling. Greater crossborder cooperation and confidence-building measures with Iran, also undergoing a struggle over reform, might also help reduce regional tensions and create a common stake in rebuilding the country.

Opium production presents particularly difficult obstacles. UNDCP's research has begun to outline what would be needed to move away from opium production: crop substitution, the growth of off-farm income opportunities, and the spread of education. These will require massive foreign involvement and investment, and none will be possible without legitimate governance.

Most important is working with Afghans to change the image and role of the state, seen largely as a distant and indifferent if not hostile power. Local power structures that have largely grown up as defensive measures of self-rule to keep the state or powerholders away have to be incorporated into official structures of planning and service provision. Afghanistan needs a decentralized governance structure in which provinces and localities receive authority to tax and plan in consultation with local *shuras* (councils). In the past local societies developed

unofficial power structures to shield themselves from the state, rather than participate in it, and the centralizing mentality shared by the Taliban and much of their opposition reproduces that past pattern. Instead, modest local resources under local control could be directed into locally accountable planning processes. The central state will still be needed for provision of basic security and dispute resolution, but a clear division of labor among levels of governance will promote greater accountability over the reconstruction process.

The disintegration of the state paradoxically opens such possibilities, though the criminalized economy has created interests that will resist it. Peacemaking also has dangers: attempts to exercise economic pressure on Pakistan risk precipitating a worse crisis there. Attempts to weaken or replace the Taliban could easily lead to the return of anarchy and predation and a yet more bloody civil war. But unless peacemaking can transform powerful economic actors into agents of peace, it will be limited at best to halting fighting in one place before social and economic forces provoke it once again elsewhere in this dangerous region. Without such an effort, spread of both conflict and the regional war economy remain the most likely prospect.

NOTES

1. For a literary treatment of this process, see Majrooh (1984).
2. Data collected by the World Food Program, supplied by Zareen F. Naqvi of the World Bank. In May 1999 the afghani was trading at 42,675/dollar in Kabul and at 94,250/dollar in Mazar.
3. This movement, named after a town in northern India where conservative *ulama* established a *madrassa* in the 19th century, was founded to combat Islamic modernism, and, in particular, reforms in Muslim education.
4. In protest against the murder of Iranian diplomats and a journalist by Taliban troops in Mazar-i Sharif, Iran closed the border between August 1998 and November 1999. During that period the goods took a detour via Turkmenistan.
5. Farmers who sold some of their crops through futures contracts (*salaam*) received less, while those able to hold the opium could benefit from higher prices during the winter.
6. In southern Afghanistan in 1998, the average farmgate price was about \$60 per kilogram, with various qualities selling for as low as \$44 and as high as \$82, twice the price in eastern Afghanistan. The southern border price was \$73–95, with the highest quality dried opium selling for \$126 per kilogram. In 1999 fresh opium prices ranged from \$27 to \$72 per kilogram throughout the country (UNDCP 1998c, 1999a).
7. According to *sharia*, *zakat* is a tax on wealth levied at 2.5%, or one-fortieth. It is unclear on what legal basis the Taliban impose this tax at a much higher rate and on a flow of commerce rather than a stock of wealth. It is unclear if the *zakat* is assessed on gross income or on profit.
8. Interviews with director of Bank-i Milli Afghanistan, Qandahar, and deputy director of Da Afghanistan Bank, Kabul, June 1998. Both of these officials were

- graduates of Pakistani madrasas with no economic, commercial, or financial background or experience.
9. The international legal regime for currency printing is complex and decentralized. In controversial cases the few companies that do “security printing” (of currency, passports and other official documents) look to their host governments (usually their major customers) for guidance. These governments generally use political criteria in giving opinions about such contracts. The major security printers are in the United States, United Kingdom, Germany, and France, none of which looks favorably on the Taliban. I thank R. Scott Horton for clarifying these points for me.
 10. Anthony Davis and Bernard Frahi, personal communications.
 11. Bernt Glatzer and Ashraf Ghani, personal communications.
 12. For an analysis of this phenomenon in Africa, see Reno (1998).
 13. The following ideas draw, to an extent that I can no longer identify, on seven years of discussion with Ashraf Ghani, though I alone am responsible for the specific proposals here.

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