

A War on Drugs, Or a War On Farmers?

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Two days after his inauguration as Afghanistan's first popularly elected president, Hamid Karzai gave an impassioned speech to officials and community leaders from all over the country. The drug trade, he said, posed a greater threat to Afghanistan than the Soviet invasion, civil war, or foreign interference. Yet while the Karzai government is determined to eliminate narcotics, it is resisting U.S. pressure for a massive crop eradication effort. As the chancellor of Kabul University, former finance minister Ashraf Ghani, recently wrote, "Today, many Afghans believe that it is not drugs, but an ill-conceived war on drugs that threatens their economy and nascent democracy."

Last November, after a still-unidentified aircraft sprayed herbicide on opium poppy (and everything else, including children) in villages of eastern Afghanistan, President Karzai called in the ambassadors of the U.S. and U.K. to protest. Both countries denied involvement. Since then, under pressure from Mr. Karzai, U.S. allies, and the U.S. military, the administration is considering reallocating the \$152 million already programmed for aerial eradication. That would be a change in the right direction, if the administration adds these funds to the \$120 million it had allocated to alternative livelihoods for rural communities, a mere 15% of a total program of \$778 million.

The administration's program not only has lopsided priorities; it is a threat to U.S. objectives and the stability of Afghanistan. It focuses resources on the wrong end of the value chain, the raw material. The program's "five pillars" (eradication, interdiction, law enforcement, alternative livelihoods, and public information) contain no provision for macro-economic support as part of a plan to wipe out the largest sector of one of the poorest economies. Eradication, the largest part of the program (38%) attacks farmers who voted for President Karzai and sometimes provide intelligence to U.S. forces. Eradication would take place while the country tries to carry out parliamentary and provincial elections.

It is hard to find Afghans who support this strategy, but we have found one group that does: drug traffickers. Strangely enough for a Republican administration, the administration's anti-drug policy tries to use force against the profit motive, rather than use the profit motive to support policy. The result is the enrichment of traffickers, warlords and terrorists at the expense of poor farmers.

The Afghan opium economy involves three groups: poor farmers, who use cash from opium futures contracts to feed their families over the winter; landowners and traders, who rent land and provide loans against the future harvest; and protectors, including officials, warlords and terror groups, who oversee the trade and export. In the latter two groups are major smugglers and officials. The latter group, not farmers, threatens Afghanistan.

Final demand for this addictive product varies little with price. But the demand by middlemen is highly elastic, as opiates, raw or refined, have a shelf-life of years. From his discussions with farmers in Eastern Afghanistan, one of the authors (Zakhilwal) found that poor farmers have sold off their stocks to buy necessities, while those with adequate wealth

have hoarded half of the 2004 harvest and about 30% from 2003. Mid-level traders have stored 80% of the 2004 opium for resale at higher prices. Traders welcomed U.S. calls for crop eradication. After three massive harvests, prices had fallen from \$600 to \$90 per kilo, but after announcement of eradication they jumped to \$400. Prices settled back to \$300 for current sales, but futures prices went to \$400 for delivery in two months and \$500 for three months. Traders are confident that by April 2005 the price will reach \$1,000 per kilo. Then they will sell. The higher price will signal that it is profitable to grow opium in remote areas with lower yields, leading to the migration, not elimination, of the crop, as in the Andes.

Sustained efforts against those high on the value chain, however, would be far more effective. Destruction of laboratories and stocks, and disruption of wholesale markets would lead to panic sell-offs, lowering prices and exposing product to interdiction. It would also lower the price paid to farmers, sending the right market signal for next year's planting.

But while interdiction, not eradication, is therefore the right focus for law enforcement, it too will backfire without actual -- not just promised -- economic development. Rural communities need alternatives to the credit, employment and cash incomes that opium provides. U.S. and Afghan officials have launched development efforts in opium-growing provinces, but many are on the margin of survival. They cannot shift their economic activities based on tiny handouts or vague promises.

Some of the poor in rural communities have migrated to Pakistan, saying they cannot survive in Afghanistan without opium. An attack on the farmers' livelihoods will lead some to flee and others to fight. It will then be too late for either the government or international aid providers to enter their villages to promote alternative livelihoods.

The narcotics industry now equals 60% of legal economic activity. It produces the country's main export. Without macroeconomic support to sustain effective demand and the balance of payments, the currency will crash, prices will soar, and the urban population will suffer along with the rural communities. Such conditions would be as unpropitious for stabilizing the country as the entrenchment of the narco-economy.

Counter-narcotics must start by helping those whose political support the government and the U.S. need. This requires far more aid to rural communities and a program of support to effective demand and the balance of payments. Law enforcement should attack the real enemies of our effort at the top of the drug trade. This will send the right market and political signals. Using force against the interest of our allies and the laws of the market risks undoing the good we have done.

Mr. Rubin, author of "The Fragmentation of Afghanistan" (Yale, 2002) is director of NYU's Center on International Cooperation. Mr. Zakhilwal is senior policy adviser at the Afghan Ministry of Rural Rehabilitation and Development.