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Warlords into businessmen: the Afghan transition 2002-2005.

Preliminary findings from a research trip, May 2005

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Paper presented at the “Transforming War Economies” Seminar, Plymouth, 16-18 June 2005

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How it all began

The Afghan conflict changed significantly after the Soviet withdrawal and especially after the collapse of the communist regime in April 1992. External support, which at some point had been running to the tune of \$3 billion a year to all sides, rapidly faded and the military commanders increasingly faced the problem of how to fund their armies in the face of a declining propensity of the civilian population to contribute to the war effort. The hold of the parties based in Pakistan and Iran over the field commanders rapidly weakened, even if some of the political leaders had been forward looking enough to accumulate financial resources through the hoarding of military supplies, which were then sold on the black market. The partial financial autonomy of some political leaders of the jihadi movement was not enough to stem the tide towards weaker and weaker links between parties and commanders, not least because the parties were reluctant to spend whatever resources they had accumulated, lest they lose their leverage in the future.

At the same time, the collapse of the central government left a number of militia commanders “orphan”, forcing them to join the guerrilla commanders in the search for sources of revenue. It is at this point that warlordism became a prominent feature of the Afghan conflict, even if its origins can be traced back to the early years of the war. Military commanders became autonomous from the political leadership and seized a political role for themselves, despite lacking in most cases any legitimacy in such role. While it would be too far fetched to argue that from this point onwards the war was driven by economic considerations, it is certainly true that revenue collection became an obsession for the factional leaders, affecting their behaviour towards the civilian population, behaviour which became more predatory, and stimulating their involvement with international criminal networks. Control of trade with neighbouring countries became an especially prized asset, although due to economic stagnation and even decline during the civil war customs revenue was far from being enough to fund the war effort.

Many different models of warlordism

Different models of warlordism developed in the different regions of Afghanistan. One-man rule was established in western Afghanistan (Herat), where Ismail Khan proclaimed himself amir and started setting up something tentatively resembling a traditional Islamic emirate. Despite his defeat at the hand of the Taleban in 1996, Ismail Khan displayed considerable resilience and restarted the construction of his emirate in earnest after the fall of the Taleban in late 2001. This time, due to a change in international trading patterns, he had much greater resources at his

disposal die to a massive increase in traffic through the Islam Qala customs post at the border with Iran.

Northern Afghanistan, on the other hand, saw the prevalence of factional organisation, with one predominant group (Junbesh-i Milli of General Dostum) sometimes competing, sometimes cooperating with other groups, chiefly the regional branch of Jamiat-i Islami led by Ustad Atta and the branch of Wahdat-i Islami, a Shiite group led by Mohammad Mohaqqueq. The heavily factionalised environment led to various aspects of life, including business, being largely absorbed into the factional system, so that few if any entrepreneur or trader could go without some form of relationship with the main factions.

In North-eastern Afghanistan the lack of a strong centralising figure led to a multitude of medium local commanders controlling a few districts each. The lack of a large city (none of the provincial centres of Kunduz, Teluqan, Pul-i Khumri or Faizabad exceeding some tens of thousands of inhabitants) contributed to prevent the emergence of large businesses. As a result the middle rank warlords who populate the region are not as active in the legal economy as their larger counterparts of the north and rather tend to focus on exercising as much control as possible on the drug trade, which is very developed in the region.

In the central region, the economic interests of the Panjshiri warlords gravitated around Kabul, where some of them, chiefly Marshal Fahim, managed to get a firm hold in a number of key businesses, such as the first Afghan mobile network, AWCC, and in the property market. Smaller commanders proved to be more interested in occupying positions within the central state than in becoming active in business, possibly because of the lack of financial resources (the drug trade has never been very developed in this region).

In the east, the main centre of economic activity is the city of Jalalabad, where the family of the governor plays a key role in the economy. The situation here is similar to that found in the southern city of Kandahar, where governor Gul Agha shares a strong influence over key local businesses with the Karzai family. However, the Jalalabad environment is not as strongly tribalised as Kandahar's, where Gul Agha established himself as the unchallenged leader of the Barakzai tribe and privileges his followers over those belonging to other tribes. In these two regions strong military leadership failed to develop during the jihad period and as a result true warlordism never developed either. The militia commanders who occupied these areas after 2001 were rather a new generation of tribal leaders, who did not have much organised military power at their disposal, certainly not enough to challenge Kabul, although they still had enough to intimidate civilians and exercise control over the local structures of the state with the complacency of Kabul.

Warlords and business: not a complete conversion

In contrast with the predominant view that warlords' economic interests are driving factors in perpetuating the state of conflict, this author argues elsewhere¹ that at least in Afghanistan the warlords were motivated by political and military aims rather than economic ones and that their interest in revenue collection was instrumental. One of the outcomes of my latest research trip is that there seems to be evidence that this attitude did not change with the end of the war. On the

¹ "The debate on warlordism", forthcoming working paper, Crisis States Research Centre, LSE

one hand, the warlords are reaping the most benefits now that the war is over and not just because one of the drawbacks of war is that the uncertainty of fate affects the main players too (who could for example get killed). The most obvious consideration is that peace brought about a general expansion of the economy and offered new opportunities to invest and profit from the resources accumulated during the war. As long as peace does not prevent maintaining and/or consolidating territorial control or at least maintaining enough power of intimidation to prevent any threat against the economic power accumulated through looting, warlords do not object to it. In fact, what effectively prevented peace in the pre-Taleban phase of the civil war was the inability of the different warlords and factional leaders to agree on how to share power and to recognise the respective spheres of influence, rather the economic greed.

After the fall of the regime of the Taleban, the various warlords moved quickly to establish their business interests. All the major players and many of the middle-level ones did so. One exception might have been, according to available information, Ismail Khan of Herat, who was making so much money out of Islam Qala's customs that he might not have felt the need to actually get directly involved in business activities. The customs revenue of Herat has been variously estimated at \$100-300 million a year. What is certain is that after control of the customs was at least partially wrested back by the central government, Herat started yielding \$100 million a year to the Ministry of Finance in Kabul.

The other main players, like Marshal Fahim of Panjshir, Rashid Dostum of Shiberghan, Ustad Atta of Mazar-i Sharif, Gul Agha of Kandahar, Din Mohammed of Jalalabad, Mohammad Mohaqqeq, etc., all developed powerful business interests. As a rule, they all refrained from directly exposing themselves as businessmen, mainly because of their ambition to occupy official positions within the state structure. There is however some evidence (and plenty of gossip) that they invested substantial resources in the business activities of fellow (lower-rank) commanders or of complacent businessmen. This indirect and non-official involvement in business activities of course rests on their lasting ability to intimidate their business partners against "misbehaving" and on their capacity to punish whoever tried to violate their interests. Because their investments are not officially recorded, if they were unable to resort to intimidation there would be little to prevent their business partners from walking away with the money.

However, moving into business *en force* does not mean that other interests lost their pre-eminence. All the warlords and regional strongmen maintain strong political ambitions and are as keen as ever to replace their reputation of warlords with that of politicians. Many of the businesses where the warlords have invested are not run profitably and little attempt seems to be made at it. Patronage and the distribution of benefits to gain political support seem to be very important aspects of these businesses. Even if some warlord wanted to wholeheartedly turn into a businessman (and some middle rank ones have tried to do so), it would actually be difficult for him to succeed without maintaining his political and military leverage, which gives him the real competitive edge over genuine businessmen. Political influence, on the other hand, is never gained once and for all and has to be maintained, often at high cost and effort, which is why politics is likely to remain a major occupation of most former warlords.

An interesting example of this pre-eminence of politics over business interests is the (illegal) distribution of state land, an important avenue to wealth. The process started in 1992 with the first post-communist government and continues nowadays. Ministers and provincial governors, who were all former commanders, have been known (and sometimes are still known) to have indulged in this, either as a way to enrich themselves or to build political support by distributing the land to their own supporters. On a smaller scale an expropriation took place in the cities too, where land and houses or flats were occupied by commanders and militiamen. Despite the declared good

intentions of the Kabul government, nothing has been achieved in terms of returning such properties to the legitimate owners. However, what is interesting here is that the large warlords have been known to distribute most of the state land that they have been grabbing to their supporters, rather than just keeping it for themselves.

The result: a mafia system

As a result, the partial conversion of Afghan warlords into businessmen resembles in many ways the establishment of mafia networks, which are active both in the legal and the illegal economy and are able to use force to protect their interests and possibly to expand. There is contradictory evidence with regard to the use of force or intimidation in furthering the interests of warlords and mafia networks in Afghanistan, depending on the economic sector and the region. Small trade, not a very profitable business due to overcrowding by very many minuscule players, seems to be largely left alone. The building industry, larger-scale trading and fuel distribution, to name but three, appear instead to have been more extensively targeted in the attempt to enforce regional monopolies (fuel) or to favour friendly businessmen over others (building industry) or again to force traders to move into newly built complexes where they would have to pay high rent and would be easier to control (city markets). The best known example of such fuel monopolies is the Kandahar one, controlled by governor Gul Agha. In some areas, where a certain factional balance exists, it proved impossible for any single player to enforce his own monopoly, as for example in Mazar-i Sharif.

The emergence of a new generation of businessmen out of the series of civil wars of 1992-2001 is probably the most important consequence of the “explosion of peace”. The older generation of pre-war business families survives to some extent, but mostly with greatly reduced influence and power. One source estimated that 70% of medium and big business belong to the new generation, which can itself be roughly divided into two main groups, warlord-controlled businesses and factionally-aligned businesses. The first group is composed of either dummy businessmen who are entirely funded by the warlords or of genuine businessmen who receive part of their funds from the warlords. The second group is composed of businessmen who emerged during the civil wars mainly as smugglers at the service of the various factions and who are now investing their resources in the legal economy. They mostly retain a strong connection with the warlords and the factions and they rely especially on the control exercised by many warlords over the local authorities as a way to get favours and privileges. They also rely on the warlords for protection, given that the weakness of the central government leaves businessmen vulnerable to extortion threats. Businessmen regularly stated to this researcher that they spend around 5-10% of the turnover of the company in bribes to local and central authorities and the police.

The positive side

There were some positive sides for Afghan society and economy in this conversion of warlords into businessmen. The most important one was the rapid removal of road blocks between 2002 and 2003, which were previously used to collect illegal road taxes from road travellers. The removal went faster than anybody had expected and can be seen as probably the single greatest success of the post-Taleban era, at least judging from the vintage point of mid-2005, but was not due to any effort of the central government. The road blocks were of course a major impediment for the recovery of the Afghan economy and for the exploitation of trade opportunities, which were plenty in 2002-2004, including much re-exporting business. Because they were becoming active in the cross-country trade business too, the big warlords had a vested interest in removing

the road blocks, which were benefiting the smaller, local commanders more than anybody else. The smaller commanders were successfully convinced to give way in this regard, while they managed to continue collecting land taxes in the villages.

In at least one case the ability of a particular warlord to enforce law and order and to invest part of his revenue in local development had a significant positive fall-out for the local economy. In Herat warlord turned governor Ismail Khan asphalted all the main city roads, established a comparatively efficient supply of electricity and created an industrial park where most of Afghanistan (miniscule) born-again industrial sector is based. After his removal from the position of governor, however, industrial development in Herat stopped, as the local authorities quickly moved to cash in and started asking high bribes from the local entrepreneurs for providing essential services to the new industrial park, such as electricity, which had previously been promised by Ismail Khan. It remains open to debate whether this happened because the local bureaucracy, freed from Ismail Khan's control, felt it could finally indulge in the same habits as its counterparts in other regions of Afghanistan, or whether because Ismail Khan's supporters wanted to show that without their leader Herat was unmanageable.

The turning of warlords into businessmen had at least another positive effect, that is to make the return to civil war extremely unlikely. Even if several warlords bear grudges against the central government, because of its refusal to incorporate them into the political order in a position that they might judge worth of their status, they are not planning to resort to large scale violence. Occasionally they might provoke violent demonstrations, the most notorious example being that of Herat in September 2004, but a return to civil war goes against their interest and that of their acolytes.

The smaller players

Small and medium commanders appear on the other hand to be more interested in land grabs, where serious profit can be achieved, rather than in any other village and town-based economic activity, although examples of greater incentive have been reported in some cases. One commander for example opened a brothel in Baghlan in 2003, after having convinced the owner of a small local hotel to rent it to him. Brothels were something unheard in the Afghan regions and had always been a rarity even in Kabul, so it could be argued that this commander was displaying a real sense of business innovation. When the owner of the hotel, under pressure from the conservative local population, asked to rescind the contract under a pretext, the commander arrested him and threw him in his private jail.

Most local commanders, however, never displayed anything resembling these entrepreneurial skills and largely opted for the well tested land grab. One might see some irony that the same who rose against the land reform implemented by the communist regime in 1978-1979 ended up carrying out an even larger scale expropriation against the old landed élite. In this sense one could speak of a social revolution in the Afghan countryside, with a new class of landlords establishing itself mostly through sneaky expropriation of the largely émigré old landlord class. Most of the old owners have given up on their own land, feeling that it would be too dangerous trying to recover it in the face of local commanders who still have an armed following and most often control the local authorities and the judiciary too. Among those who tried to recover the land, quite a few paid the attempt with their life. None, to the best knowledge of this researcher, ever succeeded in getting his land back.

The negative side

Even if some positive effects of the involvement of former warlords in business can be identified, one has to wonder, however, whether the cost of peace at these conditions is not going to be too high. The dominant role played by warlords and other similar players in many sectors of the Afghan economy does not of course go without important implications. An important one is certainly that investment from foreign or Afghan diaspora entrepreneurs is being discouraged, both because their potential role is seen as a danger by warlords-turned-businessmen who fear the superior experience and skills of the former and because the potential investors themselves fear that they would be unable to cope in an unsafe environment where personal connections are the key to success and sometimes even to survival. Moreover, because the warlords-turned-businessmen have not given up their political ambitions and probably will be both unable and unwilling to do so in the foreseeable future, they are unlikely to stray away from the trade and the speculative property sectors, which allow them to maintain a relative liquidity and can offer high short-term returns, as opposed to the industrial sector, which is far less rewarding in the short term. They are likely to need cash to fight their political battles and expect to need to withdraw cash from their business activities at short notice. Furthermore, many of these former warlords and regional strongmen do not really have great entrepreneurial skills, a fact which will inevitably affect economic development in the medium and long term.

The warlords-turned-businessmen have also been playing an important role in the criminalisation of the Afghan economy. They are not the sole cause of it, as many key drug dealers are not warlords nor their associates, but the hold of the warlords over key institutions (such as police and local authorities) prepared the ground and favoured the process of merging between legal and illegal sectors of the economy and between these two and the authorities. In today's Afghanistan there are very few key players in the economic system who can genuinely claim of being immune from any contact with the illegal economy. For example the car trade, one of the largest business sectors, has been developing contiguity with the shadow economy since cars are increasingly paid by importers with drug money.

The fall of the Taleban regime opened a window of opportunity to Afghanistan, during which not just the state, but even social structures could and had to be rebuilt, often from scratch. Due to a combination of lack of management and of lack of political will, this opportunity is being missed and a new social order based on mafia-like structures and large-scale graft and expropriation is establishing itself. The window of opportunity is now beginning to close, as this new social order consolidates itself and co-opts the political élites, helped by the cash provided by the drug economy.