



UNITED NATIONS
Office on Drugs and Crime

Annex 1

THE OPIUM ECONOMY IN AFGHANISTAN

An International Problem

EXECUTIVE SUMMARY



PREFACE

For more than two millennia, Afghanistan has been at the crossroads of civilization and a major contributor to world culture. In the past quarter century, the country has also found itself at the crossroads of international terrorist violence and has become a major contributor to world narcotics production.

As a consequence, Afghanistan now faces a historic challenge. Although counter-terrorism is the key battleground, the enemy has to be confronted on other fronts, as well. First and foremost must be the struggle against illicit drugs. This challenge can be faced: Thailand, Pakistan and Turkey (on the opium front) and Bolivia and Peru (on the cocaine front) have shown that legal and commercially viable crops can replace illicit cultivation.

The establishment of democracy in Afghanistan and the Government's measures against cultivation, trade and abuse of opium have been crucial steps towards solving the drug problem. Yet, other news has not been good. For example, last year's opium poppy harvest was among the highest in the country's history.

Not surprisingly, public opinion, both in Afghanistan and abroad, is perplexed. Nagging questions are raised. Why is the international presence in Afghanistan not able to bring under control a phenomenon connected to international terrorism and organized crime? Why is the central Government in Kabul not able to enforce the ban on opium cultivation as effectively as the Taliban regime did in 2000-01?

There are no simple answers to these questions. The opium economy of Afghanistan is an intensely complex phenomenon. In the past, it reached deeply into the political structure, civil society and economy of the country. Spawned after decades of civil and military strife, it has chained a poor rural population – farmers, landless labour, small traders, women and children – to the mercy of domestic warlords and international crime syndicates that continue to dominate several areas in the south, north and east of the country. Dismantling the opium economy will be a long and complex process. It cannot simply be done by military or authoritarian means. That has been tried in the past and was unsustainable. It must be done with the instruments of democracy, the rule of law and development.

Does Afghanistan face an insoluble problem? No, if we all play our parts in the solution.

Afghanistan's drug economy can be dismantled if the Government, with the assistance of the international community, addresses the roots of the matter and not only its symptoms. This report exposes such roots as a contribution to the common effort against illicit drugs. *First*, the report deconstructs the opium economy of Afghanistan into its basic components: cultivation, production, finance, trade and consumption. *Secondly*, the report reconstructs the country's development processes piece by piece, showing that it is essential: (i) to help poor farmers decide in favour of licit crops; (ii) to replace narco-usury with micro-lending; (iii) to provide jobs to women and itinerant workers; (iv) to provide education to children, particularly girls; (v) to turn bazaars into modern commodity markets; and (vi) to neutralize warlords' efforts to keep the evil trade alive.

National efforts will not be enough. The problem is international. Afghanistan's cultivation, trafficking and drug abuse have ramifications that reach deeply into the region's post-colonial history and widely into the contemporary geopolitics of terrorism and violence. Hence, convergent efforts are needed by countries through which Afghan opiates are trafficked and where heroin abuse nourishes the opium economy. In other words, all countries that are part of the Afghan drug problem should be part of its solution.

The United Nations *Office on Drugs and Crime*, which is the foremost setting for multilateral policy against drugs and a major provider of technical assistance on counter-narcotic affairs, hopes that this informal report will raise public awareness about an issue that deserves world attention.



Antonio Maria Costa
Executive Director

United Nations *Office on Drugs and Crime*

January 2003

EXECUTIVE SUMMARY

Background

The United Nations *Office on Drugs and Crime* has conducted annual opium poppy surveys in Afghanistan since 1994. The most recent one was issued in October 2002. The surveys collect information on the location and extent of opium cultivation, production and prices. Since Afghanistan was the world's largest source of illicit opium in 2002, the surveys are crucial in defining a problem which is manifestly global and international in dimension.

The present study goes beyond reporting on a single year's production and value. It examines Afghanistan's opium economy in order to understand its dynamics, the reasons for its success, its beneficiaries and victims, and the problems it has caused domestically and abroad. The purpose of the study is to assist the country and the international community in fulfilling the objectives of the United Nations General Assembly Special Session on Drugs (1998) to eliminate illicit drugs.

This report is not about Afghanistan's dependence on illegal drug activity. On the contrary, it shows that the opium economy is limited to a few provinces that have defied the opium ban issued by President Karzai on 17 January 2002. The decree asserted that the opium problem was a matter of national security and called for international support to solve it. The findings of this report render that call imperative.

PART 1: DIMENSIONS

Chapter 1. Afghanistan's illicit opium economy: size and shape

Production and Trafficking

- *Afghanistan's opium production (3400 tons in 2002) has increased more than 15-fold since 1979;*
- *From 1996 to 1999 under the Taliban, production doubled and peaked at over 4600 tons;*
- *In 2000 the Taliban banned opium cultivation but not trade;*
- *In 2002 opium was cultivated by several ethnic groups in the south (Helmand), east (Nangarhar) and north (Badakshan);*
- *Cross-border ethnic and tribal links facilitate trafficking by several ethnic groups;*
- *Over three-quarters of the heroin sold in Europe and virtually all of the heroin in Russia originates in Afghanistan.*

Afghanistan's opium production has increased more than 15-fold since 1979, the year of the Soviet intervention in the country. By 2000 Afghanistan was the source of 70% of all of the illicit opium produced in the world. Following a decline in 2001, production resumed at high levels in 2002, again making Afghanistan the world's largest producer (followed by Myanmar and Laos), accounting for almost three-quarters of global opium production.

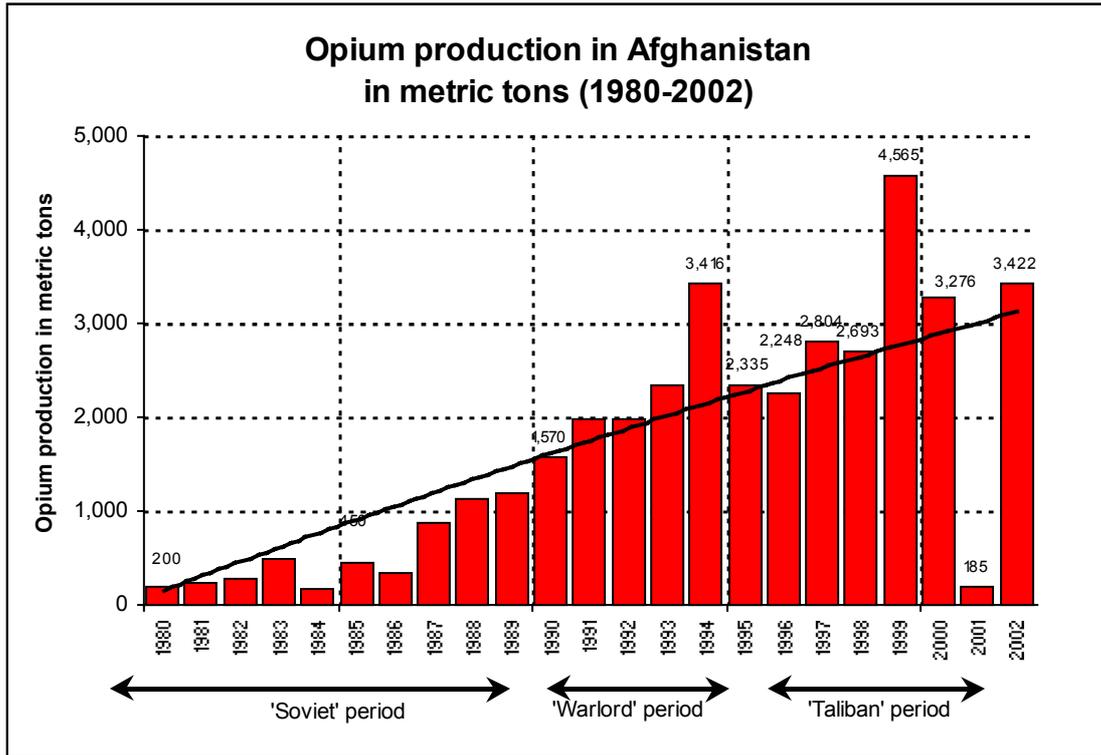


Figure 1
Source: UNDCP, *Global Illicit Drug Trends 2001 and 2002* and UNDCP/ICMP, *Afghanistan Opium Survey 2002*.

Traditionally, the bulk of opium poppy cultivation was in the south (Helmand province, 52% of total cultivation in 2000) and the east (Nangarhar, 24%). In 2001 the Taliban ban pushed the output to the north (Badakshan, 83%, though of a far lower total). In 2002 the largest areas under cultivation were again Helmand (40%), Nangarhar (27%) and Badakshan (11%), followed by Uruzgan (7%), Kandahar (5%) and Ghor (3%). Thus, 93% of the area under poppy cultivation is restricted to six provinces that have not yet complied with the ban issued by the Government in January 2002.

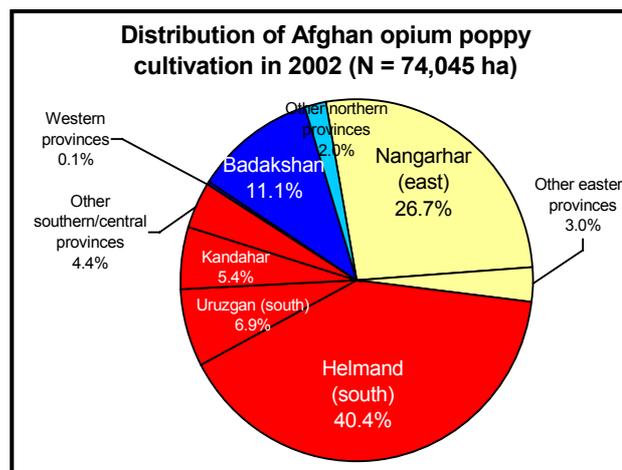


Figure 2
Source: UNDCP/ICMP, *Afghanistan Opium Poppy Survey 2002*.

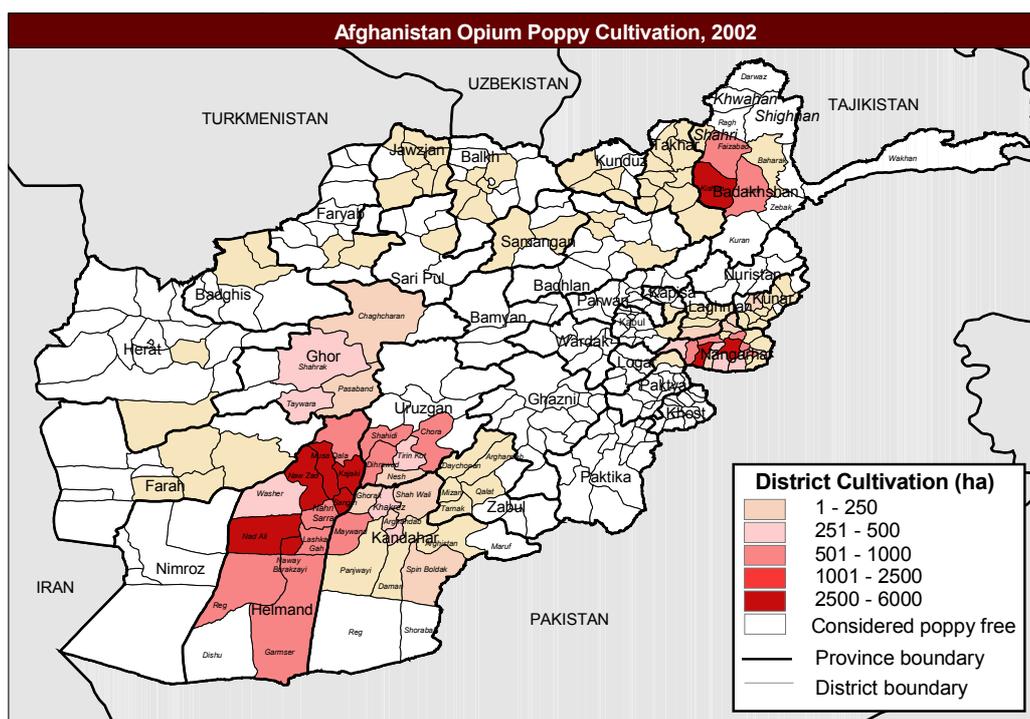


Figure 3
Source: UNDCP/ICMP, *Afghanistan Opium Survey 2002*.

The area under poppy cultivation is a tiny fraction of the arable land in Afghanistan (0.9% in 2002). Even in the poppy growing villages, only 8% of the arable land was used for opium cultivation in 2000, though in Helmand and Nangarhar the rates were significantly higher (about one-third of the arable land). Today the bulk of poppy cultivation again takes place on irrigated land in the south, where productivity can be 3-4 times higher than in the rain-fed provinces of the north.

Most ethnic groups are involved in opium production, though there seems to be a concentration among Pashtun and Tajik villages located in the main opium producing regions of southern, eastern and northern Afghanistan. Opium cultivation spread throughout the country in the 1990s, following the ethnic distribution of itinerant workers who disseminated the know-how for opium production. Trafficking then spread to neighbouring countries, facilitated by ethnic links across borders: Pashtuns in Pakistan; Baluchis in Pakistan and Iran; Tajiks in Tajikistan; Uzbeks in Uzbekistan; and Turkmens in Turkmenistan.

Trade and Incomes

- *The opium trade was de-facto legal in Afghanistan before and throughout the Taliban period;*
- *In January 2002, the Karzai Administration banned it;*
- *Opium markets in southern Afghanistan were fragmented and competitive, while in the east and north they were oligopolistic. Price levels and structures varied accordingly, but they are now converging;*
- *Opium farmgate prices increased almost 10-fold (\$300 per kg) at harvest time in 2001 compared to a year earlier as a consequence of the Taliban opium ban and increased some 20-fold (\$700/kg) prior to 11 September. Despite a good harvest in 2002, opium prices still amounted to around \$350 at harvest time and were about \$540 at the end of the year;*
- *Over the 1994-2000 period, gross income from opium was about \$150 million/year (\$750/family). In 2001 following the Taliban ban, prices increased 10-fold. In 2002 gross income rose to \$1.2 billion (\$6,500/family). Part of the income is shared with traders and/or taxed by warlords;*
- *Income from opium and heroin trafficking into neighbouring countries amounted to at least \$720 million in 2000. It may have doubled in 2002;*
- *These are extraordinary revenues in a country where the average wage does not exceed \$2 per day.*

Given their quasi-legal status until the beginning of 2002, opium markets in Afghanistan operated like any other commodity market. Farmers sold opium directly in local bazaars or to local traders and shopkeepers who, in turn, provided them credit.

Over the last 20 years (1980-2000), Afghanistan's opium markets were somewhat fragmented. The weakness of the central administration, the country's segmentation into clans and tribes, and the poor transport infrastructure splintered the trade. Domestic markets were also affected by cross-border trafficking: conditions in neighbouring countries (prices, routes and risks) shaped Afghanistan's own terms of trade and trading structures.

In eastern markets (Nangarhar province), prices tended to be higher than in the south due to an oligopolistic market structure. Southern markets were decentralized, atomistic and highly competitive, with lower prices. In the north, opium prices were typically high because of better quality and strongly rising demand in Central Asia and Russia. In recent years (2000-2002), price differentials have, however, declined. Afghanistan's fragmented opium trade, now increasingly influenced by international syndicates and criminal groups, may be on the way to becoming a single integrated market.

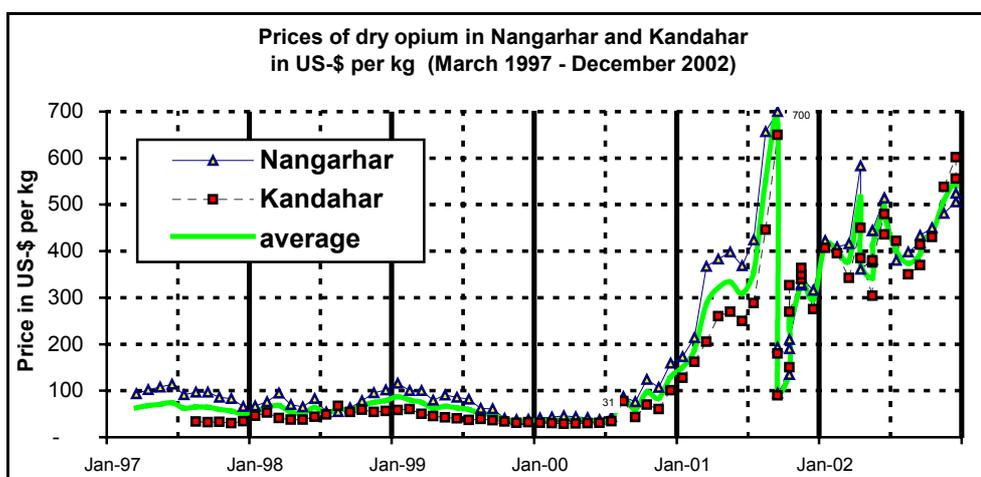
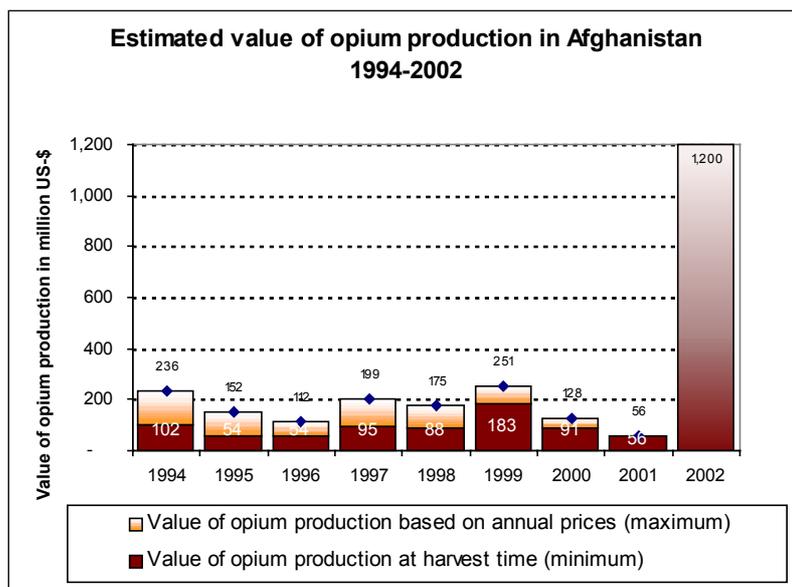


Figure 4
Sources: UNODC/ICMP, UNODC field offices

Gross income from opium production, derived from farmgate prices at harvest time, amounted to an annual average of \$95 million over the 1994-2000 period. However, not all farmers sold their opium at harvest time when prices were low. Taking the average annual opium prices as reported at the main opium bazaars over the same period, annual income could have been twice as high, almost \$180 million. This figure includes, however, profits made by local traders. If this is excluded, the gross opium income of farmers was estimated at about \$150 million/year between 1994 and 2000. Following the Taliban ban in summer 2000, which reduced the 2001 harvest to one-tenth of earlier levels, prices increased 10-fold to \$350-400/kg. Farmers' income levels were, therefore, significantly higher in 2002. Taking into account the large output in that year (3400 tons), the gross opium revenue of farmers may have reached \$1.2 billion and possibly even higher, since prices continued rising till the end of 2002. The long-term sustainability of these prices, however, is an open question.

Gross income from opium, morphine and heroin trafficking to neighbouring countries has been substantial and increasing. A conservative estimate placed it at \$720 million in 2000. Less conservative assumptions would bring the figure closer to \$1 billion, equivalent to 15% of Afghanistan's GDP or seven times the country's 1990-99 average annual exports (\$136 million/year). In 2002 the income derived from trafficking was significantly more (about \$1.3 billion) due to higher prices in neighbouring countries.

**Figure 5**

Sources: UNDCP/ICMP, *Afghanistan Opium Survey 2002* and previous years, and UNODC field offices.

Abuse

- *Drug abuse in Afghanistan has increased strongly in the last few years due to prolonged human deprivation and suffering, the breakdown of traditional social controls, the return of refugees who developed a drug problem in refugee camps and the almost unlimited availability of opiates within Afghanistan;*
- *The war wounded also became addicted as a consequence of primitive first aid and large-scale use of opium, morphine and heroin as painkillers;*
- *Drug abuse in Afghanistan is still low compared to neighbouring countries (Iran, Pakistan and Central Asia).*

Before the Soviet occupation there was not much of a drug culture in Afghanistan and abuse was very limited. In the 1990s drug abuse emerged as a problem in both urban and rural areas. It was caused by the prolonged human deprivation and suffering of the population, the breakdown of social and cultural values, the vulnerability of people in refugee camps, and the virtually unlimited availability of inexpensive narcotics. The medical use of opiates as analgesics and sedatives in the treatment of wounded combatants and other war victims also contributed to rising levels of addiction.

No national survey of drug abuse has been conducted in Afghanistan. On the basis of surveys in some districts of eastern Afghanistan, it can be estimated that opium is abused by 0.5% and heroin by 0.1% of the adult population. These levels exceed opiate abuse levels in western Europe (0.3%), though they are lower than in Pakistan (0.9%), Central Asia (0.9%) or Iran (1.7% to 2.8%). The abuse of hashish (9.1%) and of psychotropic substances (1.8%) is also widespread.

PART 2: ORIGINS

Chapter 2. Historical roots of the opium economy

- *The opium economy developed in Afghanistan because of:*
 - *A lack of effective government administration until the recent past;*
 - *The degradation of agriculture and most economic infrastructure due to 20 years of war;*
 - *A war economy and related black marketeering.*
- *Through the 1980s and 1990s, several competing factions financed their war efforts with opium revenue. Since most of the opium producing provinces came under Taliban control after 1996, the Taliban reaped the largest gains from the opium economy.*
- *The Taliban cultivation ban increased prices in 2001 and revalued stocks by a factor of 10; more liquidity in the hands of traders thus created further incentives for the opium economy.*

Several factors played a role in the development of Afghanistan's opium economy. The most important one was weak government control over the country in the 1980s and the 1990s. As elsewhere in the world, the lack, or collapse, of a central administration gave drug traffickers, criminal syndicates and terrorist groups the opportunity to develop an illegal economy for drugs, arms, contraband and the provision of acolyte financing for further criminal activity.

The economic system also collapsed. After more than 20 years of war and conflict, the degradation of agricultural and other economic infrastructure was total. Irrigation channels, cultivation terraces, roads and warehouses, were all destroyed. Agricultural production of legitimate crops cannot be sustained without some basic storage, marketing and transportation facilities, but opium does not face these limitations. It is durable and easy to store and carry to the market. Opium markets, in any case, operated like spot and futures markets, with traders providing credit for future production, buying the opium in local bazaars or even at the farmgate, and traffickers taking over the marketing. As poppy cultivation became a lucrative agricultural activity, it is no surprise that it took over the best available land. The amount of land available for food production declined and the country's food deficit became acute.

Much criminal and black market activity was pushed out of Afghanistan's neighbouring countries (Iran, Pakistan and Central Asia) by strong enforcement actions in the 1980s and 1990s. Within Afghanistan, conditions of war and anarchy provided fertile ground for these criminal networks to establish themselves. There is anecdotal evidence of Taliban involvement in, and encouragement of, the opium trade as a way to expand their exchequer at a time when the regime was hurting because of growing isolation and funding difficulties.

A nexus was consequently established between war, crime and opium cultivation. For almost a quarter of a century, weak central government and civil war have, in fact, been two sides of the same coin. The civil war created a lawless climate in which an opium economy flourished. Opium production and trade increasingly fuelled the civil war and weakened the Kabul Government even more, thus perpetuating a vicious circle. Later in the cycle, international terrorism added an even more pernicious dimension.

Chapter 3. Poverty, devastation and farmers' motivations

Afghan farmers grew opium poppy because:

- *The opium trade was de-facto legal until President Karzai's ban in January 2002;*
- *Opium poppy is a profitable crop produced with cheap labour (women, children and refugees);*
- *Inputs for opium poppy are abundant, including suitable land, water and know-how from itinerant labor;*
- *Opium became a form of saving, a source of liquidity and a collateral for credit;*
- *Opium is an insurance against poverty and hunger: farmers sell future crops to narco-usurers for subsistence;*
- *Opium requires no marketing or storage, as it can be sold easily on spot markets.*

Over the last two decades in many Afghan provinces, opium cultivation became part of the livelihood of rural households. The principal reason for farmers' deciding to grow opium poppy was that it was more profitable and, until 2000, it was *de-facto* legal to do so. Even after the Taliban ban on cultivation, opium trading remained *de-facto* legal until January 2002, when the Karzai Government banned it.

The lack of legal obstacles complemented opium's high profitability relative to other crops. Poppy cultivation's comparative cost disadvantage (its labor intensity is high, about 10 times more than that of cereals) was remedied by cheap labour provided by women, children and returning refugees.

Farmers' decisions in favor of opium crops were facilitated by easy access to other inputs for opium cultivation, including planting, weeding and harvesting techniques. The know-how was disseminated countrywide by a large pool of itinerant labourers.

The role of opium as a source of credit in a country where a formal financial system had virtually ceased to exist, was also crucial to farmers' decisions. Indeed, some of the expansion of opium cultivation in 1999 (the highest ever production year: 90,000 ha, 4,500 tons), can be linked directly to the need to repay earlier loans in kind (opium). Since loans could not be repaid in 1998 because of drought and poor yields, financial obligations to narco-usurers doubled or even tripled in value. In order to meet these obligations, many farmers were forced to increase their opium production substantially in 1999.

In 2002, by contrast, the main reason for the expansion in poppy cultivation was the high profitability of opium production due to much higher opium prices (\$350/kg), which were the result of shortages created by the Taliban cultivation ban (when prices were only \$35/kg). The average annual gross income of farmers in 1994-1999 was close to \$1500 per hectare. It fell to about \$1100 per hectare in 2000 (close to the revenue from the cultivation of legal crops – around \$900/ha), but it rose to about \$16,000 per hectare in 2002 (because of higher prices). The average size of a plot in the opium growing areas is less than one-third of a hectare, generating a substantial income of about \$4000, compared to the \$500 per year that a worker would have earned from legal crops.

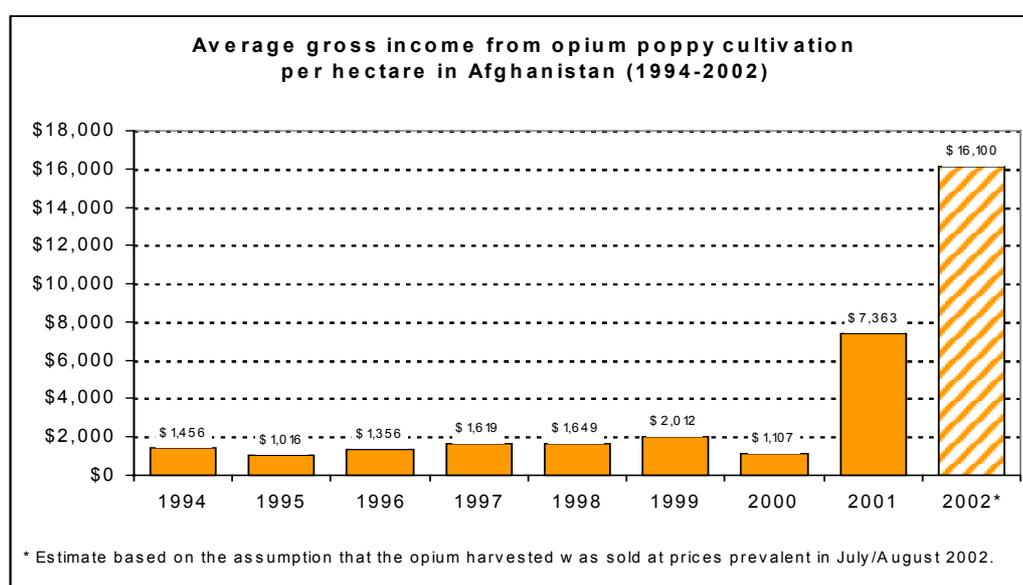


Figure 6

Source: UNDCP/ICMP, *Afghanistan Opium Survey 2002* and previous years.

Chapter 4. Bazaars, finance and narco-usurers

Opium has become an “economic narcotic” for whole segments of Afghan society:

- *As a commodity, it is an income generator;*
- *As a source of liquidity, it is a means of exchange;*
- *As a payment mechanism, it is a way to store value and fund transactions.*

Opium traders frequently act as narco-usurers (money lenders) because:

- *Opium serves as a means of salaam (informal advance payments);*
- *They have capital to assist farmers. They regenerate cash flows via rapid turnover trade (low profit); or via shipments to border regions (medium profit); or by smuggling opiates across borders (high profit). Risks vary accordingly.*

It has been said that the Taliban succeeded in securing the transition from a first phase (up to 1996) of localized predatory warlordism, to a second phase (1996-2001) of a rentier state structure based on a criminalized semi-open economy. Ongoing efforts to curtail drug cultivation and trade are intended to prevent a third phase (from 2002 onward), namely the perpetuation of a large-scale criminal opium economy nourishing domestic instability and international terrorism.

Money lenders have been part of the deepening and widening opium economy. Their enhanced role as a *de-facto* institutional power and as key economic agents is due to the deterioration of the country's financial system as a consequence of the war and the complete breakdown of the banking system under the Taliban regime. Money lenders thus played a useful role, as there was a need for alternative payment mechanisms that could provide the services usually provided by the banking sector. Opium-based lending became the medium to fulfill these needs.

Historically, opium has also been used as a means of savings and as a collateral for credit. Over time, traders have generated sufficient liquidity to supply opium farmers with credit before planting (September-December). Opium farmers could sell their harvest in advance (forward) at a fixed price (i.e. using their future crop as collateral) and receive cash immediately. The repayment of the loan was in kind. The real per annum interest that farmers had to pay for these loans was, however, extremely high. According to a United Nations study in the late 1990s, the annualized interest rate charged to poor Afghan farmers by these money lenders exceeded 500%, making it appropriate to refer to them as narco-usurers.

Chapter 5. Greed, warlords and the opium trade

- *Opium is an ideal commodity for marketing, trade and speculation:*
 - *It is compact to transport and durable to store, with high intrinsic value (\$350-400/kg). At present, only a few licit agricultural commodities, such as truffles (\$800/kg), are more expensive on international markets;*
 - *Given the high risk of interdiction at the borders with neighbouring countries, high profits (fivefold increases of price) are generated by trafficking;*
 - *It is a commodity suitable for trafficking, especially in the provinces controlled by warlords who levy a tax in exchange for protection.*
- *In some regions, traffickers gain respect from the local community when they recycle part of their income for the benefit of poor villages;*
- *There is a clear nexus between drug trafficking and warlordism;*
- *The re-emergence of drug cultivation and the recrudescence of violence in certain provinces are well-known phenomena.*

The opium trade evolved over the last two decades as a *de-facto* legal activity to become an integral part of Afghanistan's war economy, with opium going out of the country and arms coming in. The smuggling of licit goods became another illegal pursuit supporting the war economy, chiefly as a result of the earlier (1950s) Afghan Transit Trade Agreement (ATTA) that enabled land-locked Afghanistan to import goods duty-free into the country via Pakistan. The same goods were then smuggled back to Pakistan to circumvent that

country's import duties. A World Bank study estimated that this contraband was worth \$2.5 billion in the late 1990s, equivalent to nearly half of Afghanistan's estimated GDP and significantly more than the overall trade in opiates (about \$1 billion) at the time.

The main reasons for traders to enter the opium economy was the large profit and, often, simply greed. Opium revenues enabled traders to pay for things that were beyond the reach of a majority of the population living by honest means: buying land or a vehicle, paying a bride-price (at times, for more than one wife) or affording the *haj* to Mecca. In addition, the opium trade enabled persons to gain respect from the local community for providing income to the village.

The progression from profit to greed is usually a function of the appetite for risk-taking. In the late 1990s, profit margins were relatively small in the local opium trade. They increased substantially (up to 10-fold) once the borders with neighbouring countries were crossed. They could become considerable (up to 100-fold) when the heroin was trafficked internationally. (For example, one gram of heroin, at about 60% purity, cost \$2-\$3 in Afghanistan and approximately \$70, at 20% purity, on the street in Western Europe in 2002).

The mark-up on the rapid turnover trade (opium purchased from farmers and sold quickly in the various bazaars) was 3% to 26%. Approximately two-thirds of the traders traded less than 100 kg per year; most of the rest traded up to 500 kg, and one was selling up to 20 tons a year. There were potentially about 15,000 opium traders in the country in the late 1990s, i.e. one trader per 13 opium farmers.

A quarter of the opium traders in southern Afghanistan were involved in shipping the opium to border areas, with cargoes up to several tons – an activity rendered possible by the tacit support of local warlords. These traders confirmed gaining, on average, about \$11–12.50/kg in the late 1990s. Taking into account transport costs, their net profits amounted to more than 12% of the value of the merchandise and more than twice the rate they could reckon with from the local rapid turnover trade. Up until 2000 (when opium prices were \$35-40/kg), a bulk trader could make over \$200,000/year. At today's prices (10 times higher), these profits can reach extraordinary levels.

The largest profits are made by smuggling opium across the border. Taking into account all costs (raw materials, intermediaries and transportation), cross-border traders could reckon with profits several times the value of the merchandise at origin. Crossing the border was, and is, a risky endeavour, and many Pashtun traders confirm leaving the task to specialized Baluchi traffickers with Afghan, Iranian or Pakistani passports. (In Iran, for instance, drug dealing carries the death penalty.)

Profits could increase enormously, along with the risks, once opiates were smuggled beyond the border and moved further. The price of opium smuggled within Pakistan from Quetta (close to southern Afghanistan) to the seaport of Karachi would rise by some 30%. Throughout the 1990s – and current seizure levels indicate that the trend continues – there were well armed caravans crossing Pakistan and then Iran, because opiate prices were still significantly higher there. Opium prices in the Tehran wholesale market amounted to a more than sixfold increase from the prices in Pakistan's border region with Afghanistan or a 10-fold increase with respect to the opium prices in southern Afghanistan in the late 1990s. Since the Taliban ban, profit margins declined, falling from a 10-fold increase to a threefold increase by mid-2002. At the same time, however, gross profits per unit trafficked more than tripled, from \$360 per kg in 2000 to \$1260 per kg in mid-2002.

Profit margins also used to be rather high for the manufacture of heroin (around 100%) but fell significantly in recent years as local heroin processing capacity increased in Afghanistan. Following the Taliban ban, opium prices increased more strongly than heroin prices. In order to remain profitable, illicit laboratories had to have opium stocks, gain direct access to heroin markets abroad or simply improve laboratory efficiency. In such circumstances, profit ratios in the manufacture of heroin of up to 65% were still possible. Trafficking heroin across the border to Pakistan or Tajikistan earned around 100% profit in 2001. Trafficking it to less accessible locations in neighbouring countries could offer five- to 10-fold profits.

PART 3: REGIONAL CONSEQUENCES

Chapter 6. Devastation in neighboring countries

Trafficking

- More than 60% of global opiate seizures take place in the few countries neighbouring Afghanistan;
- Most seizures are made by Iran, followed by Pakistan and Tajikistan.

The impact of Afghanistan's opium economy on neighbouring countries (Iran, Pakistan and the Central Asian states) can be measured in terms of trafficking, abuse and the spread of HIV/AIDS. In 2000 61% of worldwide seizures of opiates (opium and heroin) took place in Afghanistan's neighbouring countries. The area that constitutes the market for most of Afghanistan's opium production (i.e. Afghanistan's neighbours, the Near & Middle East and Europe) accounted for more than 70% of global opiate seizures.

In 2001 56% of total opiate seizures in Afghanistan's neighbouring countries were made by Iran, followed by Pakistan (28%). In recent years the Central Asian countries, in particular Tajikistan where the United Nations Office on Drugs and Crime has developed a special purpose project, reported the biggest increase in seizures. There is also evidence of increased heroin manufacture within Afghanistan, reflected in heroin seizures in neighbouring countries.

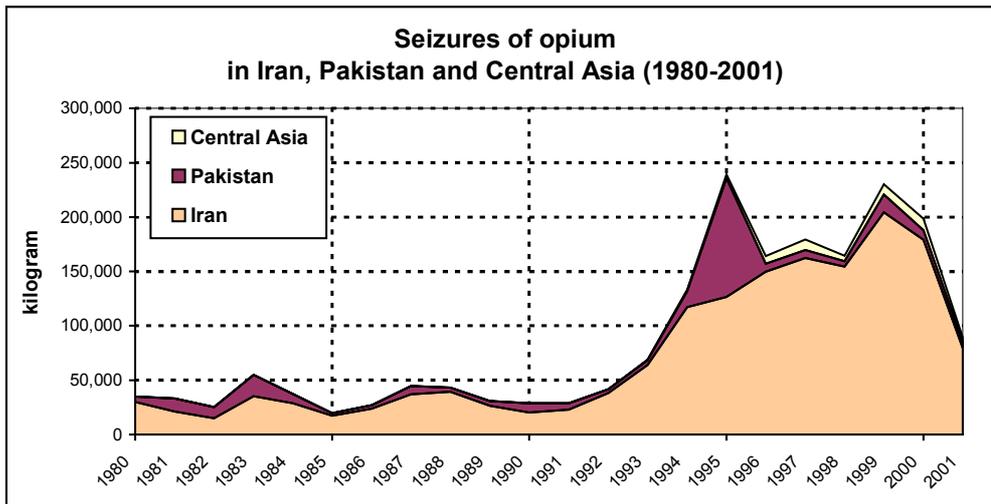


Figure 7
Source: UNDCP, DELTA.

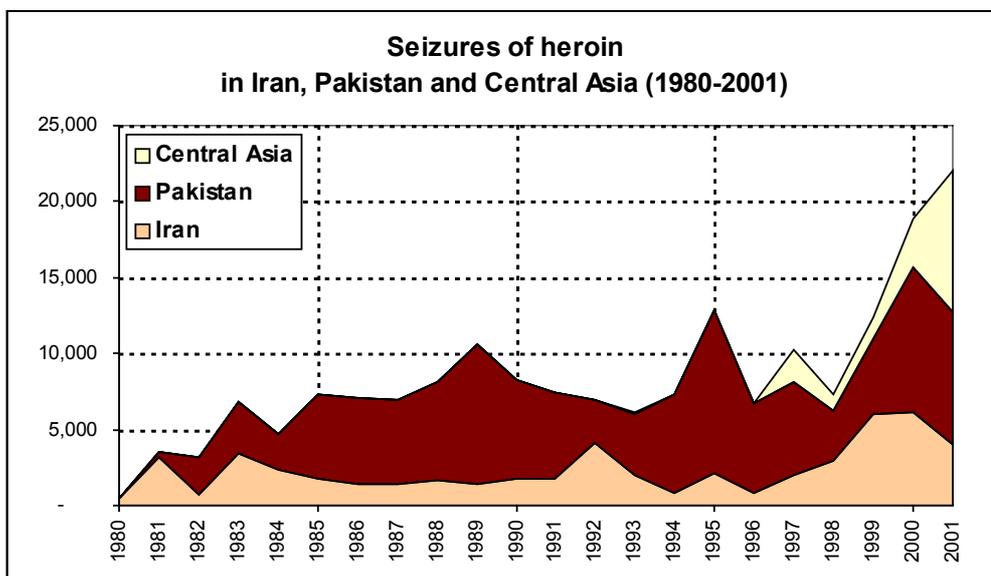


Figure 8
Source: UNDCP, DELTA.

Mega-incomes and economic vulnerability

- *Opiate trafficking profits in the countries neighbouring Afghanistan amounted to some \$4 billion in 2002, equivalent to 2% of GDP;*
- *Most profits are made in Central Asia, followed by Iran and Pakistan;*
- *Economic growth in countries neighbouring Afghanistan was below the global average.*

In 2002 the largest gross profits from trafficking were made by criminal groups from Central Asia (\$2.2 billion, equivalent to 7% of the area's GDP). Gross trafficking profits in Iran were estimated at \$1 to \$1.3 billion, equivalent to 1% to 1.3% of GDP. For Pakistan, they were estimated at \$400 to \$800 million, equivalent to 0.7% to 1.3% of GDP.

Contrary to the popular perception that an inflow of funds, whatever its origin, is positive for an economy, there is evidence that huge funds in the hands of criminal organizations destabilize a country's political system and civil society, as well as its economy. The smaller countries of Central Asia are particularly vulnerable: corruption, violence and dirty money, which includes financial support for terrorist organizations, have negative repercussions for legitimate investment and thus compromise economic growth in the long run.

Abuse

- *Countries neighbouring Afghanistan suffer from rising levels of abuse;*
- *The strongest rise in recent years was in the countries of Central Asia, which were also affected by the strongest increases in drug trafficking.*

Parallel to rising levels of trafficking, Afghanistan's neighbouring countries are also affected by growing levels of abuse, resulting from a spillover of trafficking, often a consequence of remuneration in kind (opium, heroin). There are 800,000-1.2 million chronic opiate abusers in Iran, 700,000 in Pakistan (including 500,000 addicted to heroin) and more than 300,000 in Central Asia; together far more than in Western Europe (1.2 million). Expressed as a percentage of the population age 15 and above, 0.9% in Pakistan and Central Asia and up to 2.8% of the people in Iran consume opiates, a far higher percentage than in Western Europe (0.3%).

The highest levels of opiate abuse in Central Asia have been reported from Kyrgyzstan and Kazakhstan. The strongest growth in the 1990s was reported from Tajikistan.

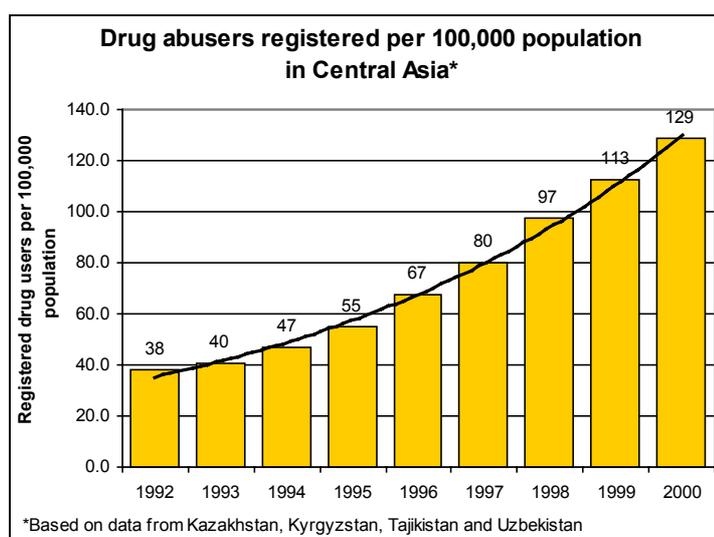


Figure 9

Sources: Annual Report of the Agency of the Republic of Kazakhstan for Drug and Drug Business Prevention, 2000; Agency for Drug Control under the President of the Republic of Tajikistan; State Commission on Drug Control under the Government of the Kyrgyz Republic; Government of Uzbekistan, National Information and Analytical Centre on Drug Control.

The spread of HIV/AIDS

- *HIV/AIDS is increasing in all countries neighbouring Afghanistan, notably in the countries of Central Asia;*
- *Central Asia has one of the highest rates of IDU-related HIV/AIDS infections in the world.*

A particularly serious side effect of opiate abuse has been the trend towards injecting drug use (IDU) and the related spread of HIV/AIDS. The highest levels of IDU are reported from Central Asia (66% of all problem drug users). Central Asia is also faced with the strongest increases in HIV infections (a more than 600-fold increase between 1994 and 2001), of which 88% were IDU-related in 2001. AIDS cases are still relatively small but, unless drastic measures are taken, it is only a matter of time before they increase and affect the general population. This is bound to put a heavy burden on both the productivity and the health budgets of these countries.

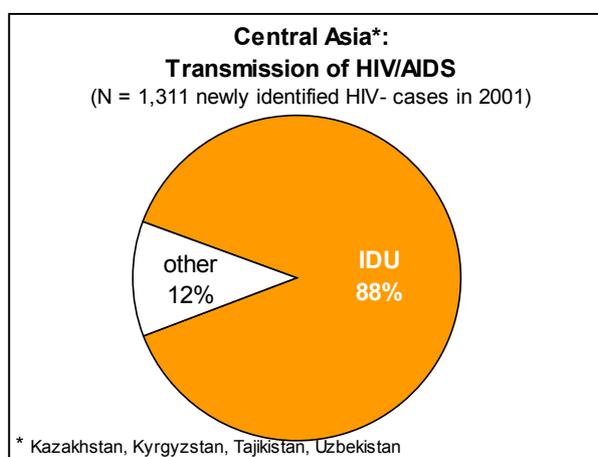


Figure 10
Source: UNODC, calculations based on Euro-HIV data.

There is still a small window of opportunity to confine HIV infection to the community of drug users. Should other segments of society be exposed to this virus, it would become much more difficult (and costly) to contain the problem.

CONCLUSION: The way forward

For more than two hundred years, the international geopolitical situation has worked against the consolidation of an effective central government in Kabul because it has exacerbated Afghanistan's endemic problems of regional warlordism and particularistic nationalism. Over the past quarter century, the opium economy grew because of the failure of the state. Today, there is a window of opportunity for the state to consolidate because democracy is taking root and the collective force of the international community has superseded the geopolitical interests of foreign powers and of Afghanistan's neighbours. That window must be kept open by means of continuous international support for Afghanistan's Transitional Government.

Apart from supporting the central institutions of the state, the international support has to be targeted at solving the problems, documented in this book, which created the opium economy in the first place. The problems can be solved by:

- alternative crops, seeds, fertilizers and equipment for opium farmers;
- alternative sources of income for landless labour and returning refugees;
- jobs for women and schooling for children, especially girls;

- (iv) macroeconomic structures within which commodity markets (including presently unregulated bazaars) can grow free from the perverse incentives provided by opium and other forms of contraband;
- (v) informal financial structures able to extend harvest-based collateralized loans (even micro-credits) to farmers and returning refugees, so as to bankrupt the narco-usurers at their game;
- (vi) effective law enforcement against opium markets within the country to combat the perverse economic and political impact of warlordism and against the international trafficking of opiates.

These measures coincide with what the United Nations *Office on Drugs and Crime* advocates as part of a balanced approach: balancing measures to reduce the supply of illicit drugs with those to reduce the demand for them. Since, all considered, the problems faced by Afghanistan are more serious than those created by the opium economy, drug control will have to be linked into the mainstream of other development efforts to rebuild the country. It is equally clear, and documented in this book, that unless the drug problem is solved, there will be no sustainable development for Afghanistan.

United Nations *Office on Drugs and Crime*
Vienna, January 2003