Between the mosque and the market:

An economic explanation of state failure and state formation in the modern Muslim world

Aisha Seemi Ahmad
Department of Political Science
McGill University
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Abstract

What causes order out of disorder? How can states that have failed, be reconstituted? What causes the emergence and success of Islamic movements in these failed states? This dissertation offers a political economy explanation of state formation out of collapse. Looking at two classic cases of state failure – Afghanistan and Somalia – it presents an endogenous process of social and political transformation that led to the emergence of weak, but centralized Islamist regimes. This dissertation lays out two specific causal processes of Islamic state formation out of collapse: first, a long-term phenomenon of Islamic identity transformation within the business community, as a mechanism to reduce transaction costs and improve access to markets; and second, a short-term strategic calculation of the cost of operating under warlord protection rackets versus the cost of financing a political alternative. Based on original qualitative and quantitative field research from Somalia, Kenya, Pakistan, Afghanistan and the United Arab Emirates, the research examines the economic drivers of Islamism in failed states, and proposes alternative paths to state-building.

Quelles sont les causes qui mènent du désordre à l'ordre ? Comment des états effondrés peuvent-ils être reconstruits ? Quelles sont les causes de l'émergence et des succès de mouvements Islamiques dans ces états en déliquescence ? Cette thèse propose une explication d'économie politique de la formation de l'état à partir des restes de l'effondrement de celui-ci. En observant deux cas classiques d'états déliquescents - l'Afghanistan et la Somalie - cette thèse présente un processus endogène de transformation politique et sociale qui a mené à l'émergence de régimes Islamistes faibles, mais centralisés. La thèse présente deux processus causaux spécifiques de la formation d'un état Islamiste à partir d'un état effondré : en premier lieu, un processus au long terme de transformation de l'identité Islamique à l'intérieur de la communauté d'affaires, utilisée comme mécanisme de réduction des coûts de transaction et d'amélioration de l'accession aux marchés; en second lieu, un calcul stratégique à court terme du coût d'exploitation lors de chantages à la protection de chefs de guerre, comparativement au coût de financement d'une alternative politique. La recherche, qui est basée sur des enquêtes de terrain en Afghanistan, au Pakistan, au Kenya, en Somalie et aux Emirats Arabes Unis, examine les moteurs de l'Islamisme dans les états défaillants, et propose des chemins alternatifs à la création d'états.

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person I know who truly understands both the rigors of academic research and the intrigues of the smuggling business.

My father accompanied me throughout all my field research in Afghanistan and Pakistan, as my *mahram,* cultural interlocutor, and colleague. He used his immense professional, personal, and family networks to ensure that I had access to every institution and interview subject that was necessary for the completion of this dissertation. He coached me before challenging interviews and events, debriefed me after major successes and setbacks in the field, and ensured my security in insecure places. In remote and rough regions, he took care of me when I was hungry, angry, lonely, tired, and sick. He kept me humble and pushed me to be better and go farther, and always made sure I got a pat on the back and a wink for a job well done. He kept me focused on the moral imperative underlying this research, and demanded that I conduct the work with the personal character befitting the project. My father read every word of this dissertation, meticulously critiqued its logic and correctness, and held me to the highest standards of professional excellence. He has been the best teammate, colleague, friend, and father a girl could ever ask for.

To Baba and Dada Jan,

This is your story.

Chapter 1: Introduction: Mosques and Markets

In the summer of 1993, Afghanistan's brutal ethnic civil war had spilled over into neighbouring Pakistan. The arms bazaars in the border city of Peshawar were stocked full of assault rifles, rocket-propelled grenade launchers, and a wide array of anti-tank weapons. Hoards of Afghan militia freely roamed these bazaars in jeeps and trucks, in search of foreign sponsors and supplies to support their domestic war effort. At night, the city was raucous and alit.

On the other side of the unmonitored Pakistan-Afghanistan border, Burhannudin Rabanni's largely Tajik *Jamiat-i-Islami* party and Gulbuddin Hekmatyar's predominantly Pashtun *Hizb-i-Islami* party had shelled the Afghan capital of Kabul to ruins. The rural areas were divided into ethnic and tribal fiefdoms, ruled by local warlords that held the Afghan countryside and perpetuated campaigns of rape and torture. The political deadlock and military stalemate bled the beleaguered and war weary civilian population dry. From 1992-96, Afghanistan was an archetypal failed state.

It was from this chaotic scene that the Taliban movement emerged in 1994. Within a few months, the Taliban rapidly seized power in the southern and eastern provinces and began to systematically extend their rule to the west and north. Within two years they had captured the majority of the countryside, and by 1998 they decisively held every major city in the Afghan state. Once in power, the Taliban established the most draconian and militant forms of Islamic government in the history of the Muslim world. After the devastating terrorist attacks of

September 2001, the United States and its allies overthrew the Taliban regime and re-installed its political rivals from the civil war era in a new Afghan government.

Meanwhile, four thousand miles across the Indian Ocean an equally brutal civil war was being waged in another Muslim country. The government of Somalia had collapsed in 1991, leaving the country in a state of enduring political anarchy. Clan militias pillaged the cities and dominated the rural areas, as law and order completely disintegrated. As clan conflict consumed social and political life, the countryside was fragmented into scores of clan-based warlord fiefdoms, with each strongman owning a small piece of the state. Gunfire could be heard in the streets of Mogadishu, day and night. The humanitarian catastrophe was chronic and devastating, producing millions of refugees in neighbouring Kenya, Ethiopia, and Djibouti. For over a decade, Somalia served as the world's paradigmatic case of complete state collapse.

In 2006, a movement of local Islamic Courts in Mogadishu banded together to challenge the heavily entrenched clan warlords of Somalia. By June they had consolidated Mogadishu under one political authority for the first time since the collapse of the state. Six months later, they had captured 90% of the countryside and had expelled every major warlord from the country. After 15 years of continuous state collapse, the Islamic Courts movement established the rule of law, fostered social peace, and centralized political power under a new political Islamic mandate.

The international community was distressed by the rapid success of these Somali Islamists. Although the leaders of the Islamic Courts repeatedly invited

members of the international community to dialogue, the international community was particularly fearful that these new Islamists would prove to be Africa's Taliban. In December 2006 the US sponsored a full-scale Ethiopian invasion of Somalia, which overthrew the Islamic Courts and re-installed the clan warlords.

Why did the Taliban and ICU succeed in capturing and constructing the state, while other similar groups failed to generate such momentum? The rise of Islamic movements in failed states presents a serious international security issue for both scholars and practitioners alike. Understanding the rise of the Taliban in Afghanistan and the Islamic Courts Union in Somalia provides a critical window into the internal process of Islamic state formation out of collapse; in both cases, one Islamist group succeeded over several other viable political contenders, generating enough momentum to capture and recreate the state in an Islamist image. Understanding why these particular Islamic groups were able to achieve this level of decisive military and political victory provides essential theoretical insights on how political Islamic movements may gain salience and power in other parts of the Muslim world. Amidst the ongoing political upheaval in the Middle East and the concerns over the rise of Islamism, this research addresses key international security concerns about the future of the state in the Muslim world.

The dissertation presents a microeconomic analysis of Islamist state formation out of state collapse. It offers a business explanation of why certain types of political Islamic groups succeed, while other similar groups – Islamist or otherwise – fail to gain power. It argues that in a collapsed state, the rational,

economic interests of the local business community catalyze the creation of the Islamic state.

Failed states are remarkably dynamic business environments. When the government collapses, the strongest social force that remains is the market. Adam Smith's classic adage states that, "the propensity to truck, barter and exchange one thing for another… is common to all men".[1] Even amidst deadly violence, this instinct to buy and sell permeates human affairs.

I propose that these market forces can actually drive the very process of state formation out of collapse. It asks what causes order out of disorder? How can a state that has failed be reconstituted? The argument is a microeconomic explanation of state formation out of state collapse, in which the local business community can act as agents of social and political change. It explains how market forces within failed states shape both the identities and the interests of the business community, leading to an unexpected marriage of convenience between capitalism and Islamism. This business-Islamist alliance can overcome a failed state's political stalemate, vanquish its rivals and centralize power around a new Islamic state.

The Puzzle:

Many scholars have attempted to explain the origins and evolution of the modern European state as the primary unit of social and political organization.[2]

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[1] Adam Smith, The Wealth of Nations (London: W Strahan and T. Cadell Publishers, 1776), 12
[2] Douglass C. North, Institutions, Institutional Change, and Economic Performance (New York: Cambridge University Press, 1990); Mancur Olson, Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships (New York: Basic Books, 2000); Hendrik Spruyt, The Sovereign State and Its Competitors: An Analysis of Systems Change (Princeton: Princeton University Press, 1994); Charles Tilly, The Formation of National States in Western Europe (Princeton: Princeton University Press, 1975).

Even more has been written on why newer states, those born out of the experience of European imperialism and nationalist decolonization movements, have emerged as weak and dysfunctional polities.[3] Anthropologists have long studied how informal rules, norms, and structures have been used to govern stateless societies, where modern statehood has yet to be established.[4] These "traditional" societies manage their interactions through informal institutions, or "culture", which give structure and predictability to social and economic life.

But what of the society that had a state and then lost it? How do societies that have had formal governing institutions destroyed by war respond to conditions of state collapse? How can order re-emerge out of disorder?

Much of the existing literature prescribes international solutions to the problem of modern state failure.[5] These analyses rightly point to the international security threat presented by violent intra-state conflict; however, they subsequently infer that an international problem requires an international solution. The contributors to Crocker, Hampson, and Aall's canonical edited volume provide a vast array of political, legal, institutional, economic, and military interventions to prevent or end intra-state conflict, from economic sanctions to

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[3] Jeffery Herbst, "War and the State in Africa." International Security Vol. 14, No. 4 (Spring, 1990), 117-139; Kalevi J. Holsti, The State, War, and the State of War (Cambridge: Cambridge University Press, 1996); Will Reno, Warlord politics and African states (Boulder & London: Lynne Rienner Publishers, 1998).
[4] Ronald Cohen and Elmer R. Service. Origins of the State. (Philadelphia: Institute for the Study of Human Issues, 1978); Meyer Fortes and E.E. Evans-Pritchard, African Political Systems (London: Oxford University Press, 1940).
[5] Jane Boulden, Peace Enforcement: The United Nations Experience in Congo, Somalia, and Bosnia (Westport: Praeger, 2001); Ray Murphy, UN Peacekeeping in Lebanon, Somalia and Kosovo: Operational and Legal Issues in Practice (Cambridge: Cambridge University Press, 2007); Robert I. Rotberg (ed.), When States Fail: Causes and Consequences (Princeton: Princeton University Press, 2004).

mediation to international military intervention.[6] These scholars focus on how the international community can build peace in failed or failing states, often by reconstructing the domestic political institutions that are responsible for providing order. However, despite these bold prescriptions, international intervention has had mixed results in actually building peace in failed states.[7] Such interventions, which often involve introducing enormous resources into poor and socially fragmented societies, can actually inadvertently finance the civil war and exacerbate state failure.[8] Once a state fails, it is exceedingly difficult and costly to reconstruct legitimate domestic political institutions from the outside-in and the top-down.

How then can a society that has suffered from state collapse be reconstituted? This dissertation examines how societies adapt to conditions of state failure, and why and under what conditions they act collectively to reconstruct central governing institutions. Through this specific research puzzle, the dissertation also helps to address other broadly theoretical questions in social science. Is culture a meaningful explanatory variable, or should it be treated as epiphenomenal of material conditions? Are ethnic identities primordial or socially constructed and subjectively defined? How do rational, economic interests affect

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[6] Chester A. Crocker, Fen Osler Hampson, and Pamela R. Aall, <u>Leashing the Dogs of War: Conflict Management in a Divided World</u> (Washington: United States Institute of Peace, 2007).
[7] Ashraf Ghani and Clare Lockhart, <u>Fixing Failed States: A Framework for Rebuilding a Fractured World</u> (New York: Oxford University Press, 2008); Sherene H. Razack, <u>Dark Threats and White Knights: The Somalia Affair, Peacekeeping, and the New Imperialism</u> (Toronto: University of Toronto Press, 2004).
[8] Aisha Ahmad, "Agenda for Peace or Budget for War? Evaluating the Economic Impact of International Intervention in Somalia." <u>International Journal</u> Vol. 67, No. 2 (Spring 2012): 313-331; Peter Andreas, <u>Blue Helmets and Black Markets: The Business of Survival in the Seife of Sarajevo</u> (New York: Cornell University Press, 2008).

identities and political preferences? What causes social and political change in failed states? What are the domestic drivers of state formation out of collapse?

<u>Significance</u>:

These questions directly address some of the most pressing challenges to international peace and security in the world today. The Uppsala Conflict Data Program (UCDP) identified 27 intrastate conflicts in 2011, comprising 73% of the total number of active armed conflicts in the world.[9] All of the 27 countries engaged in these intrastate conflicts were flagged by the 2011 Failed States Index as being in danger of collapse or in a state of immediate crisis.[10] Most of these failed and fragile states are located in close proximity to one another south and central Asia and north, east, and central Africa, subsequently creating "bad neighbourhoods" of violent conflict.[11] All of these African and Asian states have experienced episodes of violent ethnic or tribal conflict, and are home to substantial Muslim populations. Many of the world's weak and fragile states are currently located in the Muslim world.

The threats emanating from failed states are multiple and immense. Refugee flows and small arms and light weapons proliferation can precipitate regional destabilization, leading to the spread of ethnic conflict across borders.[12]

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[9] UCDP: http://www.pcr.uu.se/research/ucdp/datasets/
[10] Failed State Index: http://www.fundforpeace.org/global/?q=fsi
[11] Idean Salehyan and Kristian Skrede Gleditsch, "Refugees and the Spread of Civil War." International Organization. Vol. 60, No. 2 (2006), 335-366; Myron Weiner, "Bad Neighbors, Bad Neighborhoods: An Inquiry into the Causes of Refugee Flows." International Security. Vol. 21, No. 1 (1996), 5-42.
[12] Halvard Buhaug and Kristian Skrede Gleditsch, "Contagion or Confusion? Why Conflicts Cluster in Space." International Studies Quarterly. Vol. 52, No. 2 (2008), 215-233; Tiffiany O. Howard, The Tragedy of Failure: Evaluating State Failure and its Impacts on the Spread of Refugees, Terrorism, and War (Santa Barbara: Praeger, 2010); David Lake and Donald Rothchild (eds.), The International Spread of Ethnic Conflict (Princeton: Princeton University Press, 1998).

Failed states can also act as safe havens for international terrorist organizations and transnational criminal networks with a global reach.[13] Accordingly, the emergence of political Islamic movements in these weak states raises a number of international security questions, which are of immediate relevance to policy makers. In particular, the international community is particularly concerned with the possibility of an affinity between indigenous political Islamic movements and transnational extremist groups that present a threat to global peace and security.[14]

Furthermore, since the 2011 Arab Spring uprisings, scholars, journalists, and policy makers have debated the prospects and potential risk of state failure and radicalism in countries across North Africa and the Middle East.[15] Some have questioned the durability of the state in the post-revolution period, and raised concerns about the possible rise of radical political Islamism in these cases.[16] According to the Failed States Index, all of these revolutionary states are in danger of failure, thus sounding alarms about the possibility of further destabilization and regional insecurity in an already volatile zone.

Given the propensity of United States and its allies to perceive political Islamist groups as a possible threat to international peace and security, there is an

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[13] Robert I. Rotberg (ed.), State Failure and State Weakness in a Time of Terror (Washington, DC: Brookings Institution Press, 2003); Robert Rotberg (ed.), Battling Terrorism in the Horn of Africa (Washington, DC: Brookings Institution Press, 2005).
[14] Andre Le Sage, "Prospects for Al-Itihad and Islamist Radicalism in Somalia." Review of African Political Economy. Vol. 27, No. 89 (2001). 472-477.
[15] "The Arab Spring: A long march." The Economist, February 18, 2012 <http://www.economist.com/node/21547853>; Hamid Dabashi, Arab Spring: The End of Postcolonialism (London: Zed Books, 2012).
[16] Lisa Anderson, "Demystifying the Arab Spring." Foreign Affairs Vol. 90 No. 3 (May/June 2011), 2-7.
For a negative and somewhat sensationalist commentary on the Arab Spring, see John R. Bradley, After the Arab Spring: How Islamists Hijacked the Middle East Revolts (New York: Palgrave Macmillan, 2012).
The newness of the Arab Spring makes more academic sources on the events rare.

imminent need for theoretically grounded and empirically rigorous research on the nature of political Islamic movements, especially those that take root in failed and fragile states. Political Islam is an encompassing concept, which includes a diverse range of groups and movements with a wide array of social objectives, organizational structures, and ideological contents. Political Islam does not constitute a single coherent set of beliefs or identities. Rather, political Islamic groups and movements vary in both structure and ideology over time and space, and there is significant internal debate and difference of opinion on the goals, scope, and purpose of political Islam.

Although a handful of extremists such as Al Qaeda espouse violent transnational ideologies, the majority of Islamist groups maintain limited domestic political objectives. Even in failed states, which are hotbeds for political violence, Islamic movements often emerge as a response to local issues and circumstances. Misdiagnosing the origins and objectives of an Islamist movement can result in confounding that movement with more extremist varieties, engaging in unnecessary military aggression, and even inadvertently increasing the threat of radical extremism.[17] Understanding why Islamist groups sometimes take root in failed states is therefore an important step in making more sound policy decisions.

This dissertation explains why some Islamist movements in failed state succeed, while other comparable movements fail to generate political momentum. It examines the dynamics of political contention two of the most chronic, intractable and volatile failed states in the Muslim world today: Afghanistan and

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[17] Harry Verhoeven, "The Self-fulfilling Prophesy of Failed States: Somalia, State Collapse, and the Global War on Terror." <u>Journal of East African Studies</u>. Vol.3, No. 3 (2009), 405-425.

Somalia. In both cases, state institutions had entirely collapsed and the countryside was wrought with ethnic or tribal cleansing campaigns. In Afghanistan and Somalia alike, there were multiple political contenders who vied to capture the state, Islamic and secular.

In Afghanistan, the decade-long Soviet-Afghan War (1979-89) was followed by a brutal civil war in the early 1990s. Despite the fact that almost every faction espoused a political Islamic identity, only the Taliban movement from 1994-96 was able to generate sufficient political momentum to break the civil war stalemate and create a weak but centralized Islamic state. Similarly, the state collapse in Somalia in 1991 led to one of the most devastating civil wars in modern African history. Although a number of Islamic movements tried to capture the state from clan-based warlords, only the Islamic Courts Union (ICU) in 2006 was able to effectively challenge warlord power and create a fragile but multi-clan centralized government. This dissertation explores what made these Islamic movements different from other groups, both Islamic and secular alike.

Existing Explanations:

The existing literature offers four main arguments to explain why these Islamic movements succeeded: (a) foreign sponsorship, (b) ethnic or tribal character, (c) Islamic ideology, and (d) the need for security provision. While these explanations provide some important insights into the evolution of Islamic movements, they fail to explain why the Taliban and ICU succeeded while other comparable movements failed to generate similar results.

a) Foreign Support:

Several scholars have correctly pointed to the role of neighbouring states in the emergence of the Taliban in Afghanistan.[18] Certainly, Pakistan's involvement in sponsoring various insurgent groups is an important factor in explaining the strength and material capabilities of these groups. Pakistan's strategic interests in checking Indian and Iranian influence along their western border have dominated Pakistani policy towards Afghanistan for many decades. The relationships forged between Pakistan's Inter-Services Intelligence (ISI) and Afghan proxy groups since 1979 has had dramatic consequences for security in the region as a whole, thus leading scholars and policy analysts to emphasize the importance of regional politics in order to understand the emergence of the Taliban.[19]

Similarly, research on the ICU has also pointed to the role of Eritrean and Ethiopian interference in Somali politics.[20] Ethiopia has a long history of sponsoring numerous clan warlord factions in Somalia, while its rival Eritrea has been implicated in financing the anti-warlord Islamic Courts movement. The role of neighbouring states has oft been cited as an important explanatory variable in the dynamics of conflict between Somali Islamists and their opponents.[21]

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[18] Frédéric Grare, Pakistan and the Afghan Conflict 1979-1985 (Oxford: Oxford University Press, 2003); Thomas H. Johnson and M. Chris Mason, "Understanding the Taliban and Insurgency in Afghanistan" Orbis. Vol. 51, No. 1 (2007), 71-89; Ahmed Rashid, Taliban: Militant Islam, Oil and Fundamentalism in Central Asia (New Haven: Yale University Press, 2001); Michael Griffin, Reaping the Whirlwind: The Taliban movement in Afghanistan (London: Pluto Press, 2001).
[19] Ahmed Rashid, Descent Into Chaos: The World's Most Unstable Region and the Threat to Global Security (London: Pan Books, 2008); Barnett Rubin and Ahmed Rashid. "From Great Game to Grand Bargain: Ending Chaos in Afghanistan and Pakistan." Foreign Affairs, Vol. 87, No. 6 (November/December 2008), 30-44.
[20] Kenneth Menkhaus, "The Crisis in Somalia: Tragedy in Five Acts." African Affairs Vol. 106, No. 423 (2007): 185-356.
[21] Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." Journal of Eastern African Studies. Vol.1, No. 2 (July 2007), 160-170; Kenneth Menkhaus, "There and

However, while regional players are certainly important pieces to the puzzle, their involvement doesn't adequately explain the momentum gained by some Islamic groups over others. Many other groups in Afghanistan and Somalia also received ample support from neighbouring states, which was comparable to and at times greater than the support received by both the Taliban and the ICU during their initial assent. In Afghanistan, Pakistani support was extended to several armed groups. Virtually all armed factions received external support from neighbouring states during the civil war. In Somalia, Eritrean and Ethiopian sponsorship of armed groups pre-dates the collapse of the state, with virtually all of the leading clan factions relying on regional backers to finance their war efforts. As such, external support cannot explain the variation in why these two particular Islamic groups were more successful than other groups with similar identities and ideologies.

Another approach that emphasizes the role of external actors looks to the role of transnational terrorist organizations in supporting, sponsoring, and co-opting Islamic groups.[22] While the presence of transnational terrorist organizations in weak or failed states is an important and pressing policy issue, the threat produced by these groups has skewed analysis of Islamic movements in failed states towards over-emphasizing the role of these groups in shaping or controlling these movements.[23] Such explanations ignore the domestic political, economic, and social realities that help shape Islamic movements, as well as the

Back Again in Somalia." Middle East Report Online. February 11, 2007.
<http://www.merip.org/mero/mero021107.html>
[22] Robert Rotberg (ed.), Battling Terrorism in the Horn of Africa (2005).
[23] Harry Verhoeven, "The Self-fulfilling Prophesy of Failed States." Journal of East African Studies (2009), 405-425.

choice sets available to the leaders of these groups, which either aid or constrain their potential for success.

Furthermore, transnational terrorists have previously allied with and supported other Islamic movements in both Afghanistan and Somalia, such as Abdul Rasool Sayyaf's *Ittehad al-Islami* in Afghanistan and Sheikh Hassan Awey's *Al-Ittihad Al-Islamiyya* in Somalia. Despite both Sayyaf and Aweys' groups being more ideologically compatible with radical transnational terrorist groups, neither of these Islamist movements achieved comparable success to the Taliban and ICU respectively. As such, explanations that point to transnational terrorist influence cannot explain variation in why some Islamic groups were more successful than others.

b) Ethnic or Tribal Identity:

Both Somalia and Afghanistan are complex cultural environments, in which ethnic and tribal identities act as powerful motivators of social behaviour. As such, there is a tendency among some scholars to emphasize the role of either ethnic or tribal politics to explain the success of the Taliban and the ICU.[24] In the Afghan case, Rasul Bakhsh Rais argues that the reason that the Taliban gained the voluntary support of the south and the east is because they capitalized on a combination of both Pashtun and Islamic nationalism, which has traditionally

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[24] Kenneth Menkhaus, "There and Back Again in Somalia." <u>Middle East Report Online</u>. (2007) provides a clan explanation of the ICU in Somalia; Rasul Bakhsh Rais, <u>Recovering the Frontier State: War, Ethnicity, and the State in Afghanistan</u> (Karachi: Oxford University Press, 2008) and Abdulkader Sinno, "Explaining the Taliban's Ability to Mobilize the Pashtuns." <u>The Taliban and the Crisis of Afghanistan</u>. Eds. Robert S. Crews and Amin Tarzi (Cambridge: Harvard University Press, 2008) provide an ethnic explanation of the Taliban's success in Afghanistan.

legitimated the Afghan state for the ethnically dominant Pashtuns.[25] By unifying the previously divided Pashtun people, the Taliban gained the momentum to forcibly capture the non-Pashtun and ethnically diverse west and north of Afghanistan. Ahmed Rashid's work also highlights the Pashtun ethnic dominance within the Taliban's higher ranks, particularly from the Ghilzai Pashtun tribe, which is dominant in Kandahar, Urozgan, and Nimroz provinces.[26] Identity-based explanations all highlight the fact that prior to the Taliban's ascent, the Pashtun tribes were engaged in heavy in fighting along tribal divisions.

However, the identity-based approach cannot explain the variation in why the Taliban and not any other Pashtun-dominated Islamic groups were able to consolidate support from the south. Specifically, based on an identity-based explanation, several other Pashtun Islamist contenders should have fared better than they did: Hekmatyar's *Hizb-i-Islami (HIG)*, Khalis' *Hizb-i-Islami (HIK)*, Maulvi Mohammed Nabi Mohammadi's *Harakat-i-Inqilab*, and Abdul Rasool Sayyaf's *Ittehad al-Islami*. While Rashid states that Hekmatyar failed to earn the support of the majority of his Pashtun co-ethnics, he does not explain why. Rashid notes that Pakistan grew frustrated with financially supporting a "loser", but he does not explain what caused Hekmatyar and other Pashtun Islamist groups to be a losing bet and what made the Taliban a winning ticket.[27] Therefore, an explanation of the variation in why these Pashtun Islamist groups failed while the Taliban succeeded must move beyond an analysis of ethnic and identity politics.

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[25] Rasul Bakhsh Rais, Recovering the Frontier State: War, Ethnicity, and the State in Afghanistan (2008), 5.
[26] Ahmed Rashid, Taliban (2001), 59-60.
[27] Ahmed Rashid, Taliban (2001), 26.

Similarly, some scholars of Somalia have tried to explain the rise of Islamism through the analytical lens of tribal politics.[28] This is understandable given that clan divisions have historically characterized Somali politics.[29] The tribal identity explanation is convincing because of what appears to be an over-representation of the Hawiye-Habr Gidir-Ayr sub-clan in the ICU leadership. The fact that 10 out of the 11 original Islamic Courts were from the Hawiye clan has prompted analysts to frame the emergence of the ICU in tribal terms.[30]

However, the tribal explanation of the Islamic Courts fails to adequately explain the shift towards political Islamic identity in Somalia. Notably, Sheikhs from the rival Darod clan that were directly involved in the early ICU period have defended the Courts for this bias, saying that the Hawiye presence in the leadership was a reflection of the existing clan composition in participating Mogadishu neighbourhoods.[31] They insisted that the ICU leadership worked alongside and negotiated with rival sub-clan structures, rather than asserting the dominance of any one clan over another. Furthermore, since the collapse of the ICU, the militant wing of the courts, known as Al-Shabaab, have completely rejected tribalism and have embraced Islamic identity as the sole legitimate political identity. This recent shift is dramatic, as clan politics have characterized Somali politics even prior to the collapse of the state. The fact that Al-Shabaab

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[28] Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." <u>Islamism and its Enemies in the Horn of Africa</u> ed. Alex de Waal. (Indianapolis: Hurst and Co. Publishers, 2004); Kenneth Menkhaus, "Political Islam in Somalia." <u>Middle East Policy</u>. Vol. 9, No. 1 (March 2002), 109-123; Kenneth Menkhaus, "There and Back Again in Somalia." <u>Middle East Report Online</u>. (2007).

[29] See Kenneth Menkhaus, "The Crisis in Somalia: Tragedy in Five Acts." <u>African Affairs</u> (2007), 185-356 and Marleen Renders, "New religious men in Somaliland." <u>Institute for Islam in the Modern World Review</u>. (Fall 2007), 24-25 for a discussion.

[30] Kenneth Menkhaus, "There and Back Again in Somalia." <u>Middle East Report Online</u>. (2007).

[31] Interview with S1, Mogadishu-based Darod Sheikh (August, 2009)

has genuinely abandoned clan identities for Islamic identities indicates that the ICU experience should not be treated as epiphenomenal of clan politics.

Without question, identity politics is of great importance in understanding the emergence and dynamics of any Islamic movements in failed states. Failed states are characterized by internal fragmentation along sub-state identity-based divisions. However, explanations that have treated these Islamic movements as epiphenomenal of ethnic or tribal politics cannot effectively explain the variation in the success and failure of similar Islamic movements.

c) Islamic Ideology:

Other analysts argue that certain types of Islamic ideology explain the rise of Islamism.[32] However, such explanations fail to explain why ideologically comparable groups have varying levels of success in political and military competition. In Afghanistan, Hekmatyar's HIG faction adopted an ideological religious position that was comparable to Pakistan's religiously conservative *Jamaat-i-Islami* political party.[33] With respect to ideological content, Hekmatyar's brand of religiosity was not drastically different than the Taliban. Furthermore, Sayyaf's Ittehad championed a radical doctrine that was most compatible with Al Qaeda. In fact, Sayyaf, who is now an influential parliamentarian in the Afghan Loya Jirga, was a close colleague of Osama bin Laden for many years during the Soviet-Afghan War. During the civil war,

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[32] Saul Shay, Somalia between Jihad and Restoration (New Brunswick: Transaction Publishers, 2008); Robert Rotberg (ed.), Battling Terrorism in the Horn of Africa (2005.); Farhad Khosrokhavar, Inside Jihadism: Understanding Jihadi Movements Worldwide (Boulder: Paradigm Publishers, 2009); Angel Rabasa, Radical Islam in East Africa (Santa Monica: RAND Corporation, 2009)

[33] Others have argued the Hekmatyar was close to Egypt's *Ikhwan-ul-Muslimeen*, or Muslim Brotherhood.

virtually all groups in Afghanistan adopted some form of political Islamic ideology. However, none were able to achieve the level of domestic political momentum as the Taliban.

Political Islamic groups also have a long history in civil war Somalia. Over the past 21 years, several Islamic groups have tried and failed to generate broad-based political momentum, including several attempts in the 1990s to utilize clan-based Islamic courts to reconstruct political order.[34] During the 1990s, the Awey's Islamist group Al-Ittihad tried to transcend clan politics to generate widespread political support, but failed to capture the state because of perceptions that the movement represented the Darod clan. Despite these many efforts, no other Islamic groups succeeded in creating a broad-based political movement capable of reconstructing centralized state institutions. As such, explanations that rely on Islamic ideology fail to explain the variation in success of competing Islamic movements.

In a more nuanced analysis, Kathleen Collins argues that the success of a movement is contingent on its ideological compatibility with its host society. She posits that groups that tie themselves to "local Islamist ideology" fare better than those that tie themselves to transnational agendas.[35] However, even this proposition fails to account for cases where Islamist groups are able to co-opt local grievances. In cases such as Iran, Afghanistan, and Somalia, Islamists who held far more conservative religious views than mainstream society still managed

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[34] Kenneth Menkhaus, "Governance without Government in Somalia: Spoilers, State Building, and the Politics of Coping." International Security. Vol. 31, No.3 (Winter 2007), 74-106.
[35] Kathleen Collins, "Ideas, Networks, and Islamic Movements: Evidence from Central Asia and the Caucuses." World Politics Vol. 60, No. 1 (October 2007), 64-96.

to generate widespread public support. Furthermore, it is difficult to measure or test the acceptability of an Islamic group's ideology without looking to the dependent variable, which is the "relative success" of the group in generating public support. As such, Collins' proposal that specific cultural and historical realities will determine how Islamist ideas resonate in different societies appears tautological.

d) Need for Security:

Another group of scholars have argued that the reason the Taliban and ICU succeeded was because these Islamic movements provided security that was desperately needed by their populations.[36] In both Afghanistan and Somalia, the civil war periods were marked by extreme insecurity and systemic human rights abuses. Respite from this unpredictable violence and re-establishment of the rule of law was therefore of paramount importance to the domestic population.

However, while the Taliban and ICU certainly improved their respective security environments after they came to power, the security explanations fails to explain why these movements were able to provide law and order in the first place. That is, in order for these Islamic groups to provide security to begin with, they would need to first acquire sufficient political and military power to establish a relative monopoly on the use of force. Otherwise, these groups would have been unable to prevent the perpetrators of violence from exacerbating insecurity. Accordingly, the Taliban and ICU did not come to power because they were able to provide security; rather, these Islamic groups were able to establish better

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[36] Stig Jarle Hansen, Atle Mesoy and Tuncay Kardas. The Borders of Islam: Exploring Huntington's faultlines from Al-Andalus to the virtual ummah (New York: Columbia University Press, 2009); Ahmed Rashid, Taliban. (2001).

security because they had already acquired a relative monopoly on the use of force. The security explanation therefore appears to be fundamentally tautological.

Business Interests: A Gap in the Literature:

This dissertation argues that domestic economic interests play an essential role in the rise of Islamist movements. It proposes that domestic economic factors in failed state compel members of the local business community to seek out new identities to overcome the high transaction costs associated with deep social fragmentation. It posits that in failed states, Islamic movements are better able to court members of the business community than their ethnic and tribal political rivals, thus giving some Islamists a competitive edge on the battlefield.

The local business community has been featured in the literature in both the Taliban in Afghanistan and the ICU in Somalia. However, the business community has thus far been considered a secondary or supporting explanatory variable. In the case of Afghanistan, Rashid points to the significance of the "transport mafia" between Quetta and Kandahar, which mobilized its resources to support the Taliban movements in order to open key transit routes.[37] He argues that the transport mafia turned to the Taliban to secure their transactions in the face of other predatory and rent-seeking mid-level commanders.[38] Barnett Rubin also points to the importance of the transit trade in fuelling the war economy in Afghanistan and he specifically explores how taxation of cross border smuggling

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[37] Ahmed Rashid, <u>Taliban</u> (2001), 27.
[38] Ibid, 27-29.

and drug trafficking activities financed the Taliban movement.[39] In the same article, Rubin highlights the fact that the Taliban had access to social capital acquired through the madrassa system, which gave them an advantage over other corrupt groups. This allowed Pak-Afghan traders to capitalize on Islamic social capital to reduce transaction costs.[40]

This literature certainly indicates the importance of business community support for the Taliban; however, none of these works systematically explores the relationship between the material interests of the transport mafia and the success or failure of various Pashtun Islamist groups. Yet, there is sufficient evidence of the importance of the Pakistan-Afghanistan business community in supporting Islamism to warrant such a study.

Similarly, genealogies of Islamic movements and state failure in Somalia have pointed to the relationship between the business community and Islamic groups.[41] The Mogadishu business community is well known to have financed the 2000 Arta peace process and has openly supported various political groups throughout Somalia's lengthy civil war. Moreover, the business community has long history of working with Islamic groups to help manage the uncertainty and cost of doing business in the absence of state institutions.[42]

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[39] Barnett Rubin, "The Political Economy of War and Peace in Afghanistan" <u>World Development</u> Vol. 28, No. 10 (2000), 1789-1803.
[40] Ibid.
[41] Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." <u>Journal of Eastern African Studies</u>. (2007), 160-170; Stig Jarle Hansen, "Somalia – Grievance, Religion, Clan and Profit" in <u>The Borders of Islam.</u> Ed. Stig Jarle Hansen, Atle Mesoy and Tuncay Kardas. (2009), 127-138; Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." <u>Islamism and its Enemies in the Horn of Africa</u> ed. Alex de Waal. (2004), 114-145.
[42] Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." <u>Journal of Eastern African Studies</u>. (2007), 160-170.

The Mogadishu business community developed its relationship with the Islamic Courts beginning in the 1990s.[43] Confronted with rapacious militias, local Mogadishu communities constructed clan-based Sharia Courts in order to manage criminality and insecurity in local neighbourhoods. Hoping to reduce the level of extortion and theft that was undermining their business interests, the business community financed clan-based Sharia Courts, which were supplied with their own militias.[44] These Courts, which served as the predecessor to the ICU, gained popular acclaim for providing a modicum of order in Mogadishu. However, because the early court system did not transcend clan divisions, it failed to provide anything more than temporary and isolated pockets of stability. Nonetheless, the relationship forged between the business community and Islamic groups, which began during the 1990s, established a path dependent process that led to the creation of ICU institutions and the Islamicization of ideas within the Mogadishu business community.

The literature thus indicates a notable and substantive relationship between Islamists in Somalia and the business community; and yet, no existing study has theorized the role of the business community with respect to the dynamics of contention. That is, no systematic study has been done of why the ICU fared better than its predecessors and competitors, Islamic and secular alike. Every faction, Islamist and secular alike, had relationships with and garnered support from the Mogadishu business community. Yet little theoretically grounded work

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[43] Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." Islamism and its Enemies in the Horn of Africa ed. Alex de Waal. (2004), 132-135.
[44] Ibid, 132-135.

has thus far been done to explain why the ICU and no other groups were able to achieve the level of political and military success in breaking the civil war stalemate. This dissertation seeks to fill this gap.

<u>The Argument:</u>

This dissertation examines how political order can emerge out of anarchy, through a process of endogenous social change. It asks why and under what conditions some societies that have suffered enduring civil war stalemate can change course and develop centralized governing structures. How can states that have failed be reconstituted? Why and under what conditions are some societies that have suffered enduring civil war stalemate able to change course and develop centralized governing structures?

To answer these questions, I examine the economic foundations of political decision-making in a civil war stalemate. I posit that the reconstruction of collapsed states is an endogenous process, involving the complex and dynamic reconfiguration of identities[45] and the creation of informal institutions[46] to reduce the high transaction costs associated with deep social fragmentation. Within this endogenous process, I argue that members of the business community wield a unique political power in civil war competition. Because the business community have access to large amounts of liquid assets – cash – they are able to "vote with

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[45] Benedict Anderson, <u>Imagined Communities: Reflections on the Origin and Spread of Nationalism</u> (New York and London: Verso, 1983); Ernest Gellner, <u>Nations and Nationalism</u> (Ithaca: Cornell University Press, 1983); David Miller, <u>On Nationality</u> (Oxford: Oxford University Press, 1995); Crawford Young, <u>The Politics of Cultural Pluralism</u> (Wisconsin: University of Wisconsin Press, 1979).

[46] Deborah Brautigam, "Substituting for the State: Institutions and Industrial Development in Eastern Nigeria." <u>World Development</u>. Vol. 25, No. 7 (1997), 1063-1080; Douglass C. North, <u>Institutions, Institutional Change, and Economic Performance</u>(1990); Jean-Phillipe Platteau, "Institutional Obstacles to African Economic Development: State, Ethnicity, and Custom." <u>Journal of Economic Behaviour and Organization</u>, Vol. 71, No. 1 (2009), 669-689.

their dollar" for the group that they determine best serves their material self-interest and collectively mobilize against a system of authority that they find disadvantageous. In failed states, the security architecture itself is subject to free market competition. In this way, the business community has the ability to act as either kingmaker or spoiler in the political competition.

These business interests can give certain Islamists a strategic advantage over their political rivals. Although the absence of government creates lucrative opportunities in tax- and regulation-free trade, the ethnic and tribal fragmentation in failed states also results in reduced market access, lost opportunities, uncertainty, unpredictability, and increased protection payments. A common Islamic identity can provide a mechanism to mitigate these costs and capitalize on business opportunities.

Islamic identity provides a robust form of social capital, which has been used for facilitating economic relations between different ethnic and linguistic groups for over a millennium. In the Muslim world, Islamic identity is one of the most useful and versatile identities available to the business community. As such, when faced with the extraordinary costs and risks associated with state failure, Islamic groups have a unique advantage over other political groups. The business community's need for social capital thus creates a powerful business-Islamist alliance, which can mobilize social and political change.

This dissertation presents a microeconomic explanation of Islamic state formation out of collapse, which explains why some Islamic groups succeed politically, while other comparable groups fail. It argues that two processes lead

to the emergence of Islamic regimes in failed states: first, a long-term process of Islamic identity transformation within the local business community; and second, a short-term strategic calculation within the business community to reduce their costs. First, it explores how the high costs of state failure drive the business community to seek out an Islamic social identity, in order to gain access to markets and reduce transaction costs. Second, it examines how the business community uses its economic power to create political change within the failed state, which can lead to the rise of Islamic movements. By exploring two cases of enduring state collapse, it explains exactly why and under what conditions the interests of the secular business community align with those of political Islamists, resulting in a shift away from social and political fragmentation and towards Islamic state formation.

I propose that the emergence of these centralized Islamic regimes constitutes an endogenous process of modern state formation, in which societies living under conditions of state collapse resolve the challenge of fixed borders and social fragmentation by constructing new identities and institutions. Having the greatest liquid resources at their disposal, the business community is uniquely positioned to construct these identities and mobilize political change.

Businesspeople everywhere have an economic power that they leverage into political influence, which they use to maximize their interests and lowering their costs. This dissertation argues that in parts of the Muslim world where the state is weak or failing – which is much of the Muslim world – Islamists may have an advantage in capitalizing on these material interests and forging a

relationship with the business community. The subsequent business-Islamist alliance gives an Islamist movement the capacity to capture and reconstruct the state.

<u>Concepts:</u>

The concepts of state failure, warlord, political Islam, jihad, and business community each require a brief explanation. I employ a conservative definition of state failure using two criteria. First, a failed state is a country that does not meet the classic Weberian definition of statehood; that is, in failed states, there is no entity that "successfully upholds the claim to the monopoly of the legitimate use of physical force in the enforcement of its order".[47] Second, I measure state failure according to the legal definition of statehood as specified in the 1934 Montevideo Convention on the Rights and Duties of States. That is, a failed state is a country that has acquired *de jure* statehood, but which does not meet the four *de facto* attributes of statehood outlined in Article 1 of the Montevideo Convention, which are: (a) a permanent population; (b) a defined territory; (c) government; and (d) capacity to enter into relations with the other states.[48] Although other broader definitions of state failure exist in the literature, these definitions are the most basic and parsimonious.

However, despite these conceptual differences of opinion, all of these definitions apply to the cases covered in this research. Afghanistan has made the top 10 list on the Failed States Index for the past 6 years consecutively, and has

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[47] Max Weber, <u>The Theory of Social and Economic Organization</u>. Trans. Talcott Parsons. (USA: The Free Press, 1947), 154
[48] "Montevideo Convention on the Rights and Duties of States, Dec. 26 1933." <u>UiO Faculty of Law</u>. <http://www.jus.uio.no/english/services/library/treaties/01/1-02/rights-duties-states.xml>

one of the lowest United Nations International Human Development Index (HDI) ratings in the world. From 1992-96, the country existed in de facto political anarchy, with no functioning central government and violent internecine conflict bordering on ethnic genocide. The Somali case is equally appropriate. Since the collapse of the state in 1991, there has been no semblance of functioning government in Somalia and most of the countryside has been ruled by warlord fiefdoms. In the past 4 years consecutively, Somalia has ranked #1 on the Failed States Index. The country is so inaccessible that sufficient information cannot be acquired to even provide a ranking for the HDI. These are archetypal failed states.

Second, the term warlord is controversial and requires clarification. I apply this term here without any intended pejorative connotations.[49] For the purpose of this analysis, I define a warlord as a military commander who exercises autonomous political authority and a monopoly on the use of physical force over a sub-state territorial unit, who is not recognized by the international community as a legitimate governing actor.[50] In my analysis, I propose that warlords can behave as local security providers, who govern their turfs much like protection rackets.

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[49] See Roland Marchal, "Warlordism and Terrorism: How to obscure an already confusing crisis? The case of Somalia." International Affairs. Vol. 83 No. 6 (2007): 1091-1106 for a critique.
[50] Will Reno, Warlord politics and African states (1998), 2-3 offers a broader definition of warlordism. Antonio Giustozzi, "Respectable Warlords? The Politics of State-Building in Post-Taleban Afghanistan" Crisis States Programme, Working Paper 1, 2003 proposes that a warlord "is a particular type of ruler, whose basic characteristics are his independence from any higher authority and his control of a 'private army', which responds to him personally. A warlord who accepts subordination to another warlord becomes, in this definition, a vassal or a client warlord. Roland Marchal, "Warlordism and Terrorism." International Affairs. (2007), 1091-1106 provides an important critique of this term.

There are a multitude of competing definitions and terms used to describe political Islam in the existing literature.[51] The literature often uses the terms political Islam and Islamism interchangeably, and refers to the adherents of political Islam as "Islamists". Sheri Berman defines Islamism as "the belief that Islam should guide social and political as well as personal life".[52] Quintan Wiktorowicz employs the term "Islamic activism - the mobilization of contention to support Muslim causes".[53] Wiktorowicz's broad definition encompasses a wide range of possible groups, including "propagation movements, terrorist groups, collective action rooted in Islamic symbols and identities, explicitly political movements that seek to establish an Islamic state, and inward-looking groups that promote Islamic spirituality through collective efforts." Graham Fuller's defines an Islamist as someone who believes "that Islam as a body of faith has something important to say about the way politics and society should be ordered in the contemporary Muslim world and who seeks to implement this idea in some fashion".[54] Olivier Roy refers to Islamist movements as "the activist groups who see Islam as much a political ideology as a religion".[55] These definitions broadly conceptualize political Islamic groups, including a wide range of moderate and extremist elements. Drawing upon this literature, this dissertation defines a

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[51] Olivier Roy, Globalized Islam: The Search for a New Ummah (New York: Columbia University Press, 2004); Cheryl Benard, Civil Democratic Islam: Partners, Resources, and Strategies (Santa Monica: RAND Corporation – National Security Research Division, 2003); Nathan Funk and Abdul Aziz Said, Islam and Peacemaking in the Middle East (Boulder: Lynne Rienner Publishers, 2009).

[52] Sheri Berman, "Islamism, Revolution, and Civil Society" Perspectives on Politics. Vol. 1, No. 2 (2003), 257-272.

[53] Quintan Wiktorowicz (ed.) Islamic Activism: A Social Movement Approach (Indianapolis: Indiana University Press, 2004), 2.

[54] Graham Fuller, The Future of Political Islam. (New York: Palgrave Macmillan, 2003).

[55] Olivier Roy, The Failure of Political Islam. Trans. by Carol Volk (Cambridge, MA: Harvard University Press, 1994), vii.

political Islamic movement as a group that draws upon Islamic ideas, identity, symbols, or rhetoric in the mobilization of social and political causes.

Third, the term *jihad* is also highly contentious. There is an active debate about the meaning of jihad and the limitations of its applicability both within academic circles[56] and among Muslim thinkers.[57] The literal definition of jihad is "to struggle", and is used to describe struggle against personal hardships as well as struggle against political or military repression. In the latter case, jihad can connote direct form of struggle, including warfare, against the source of that oppression. This debate over definitions is important and ongoing. However, for the purposes of this dissertation, *jihad* is defined as the utilization of physical force by any state or sub-state actor for the purposes of enhancing social or political causes that have an Islamic character, motivation, or mandate. The term *mujahid* refers to an individual who participates in jihad; *mujahideen* is the plural form connoting a group of people involved in jihad.

Finally, the term "business community" refers to the collective body of individuals participating in for-profit business activities within a given geographic space. Inside a failed state, these activities often involve a combination of licit and illicit types of industry. These illicit businesses include smuggling, narcotics dealing, arms trafficking, human trafficking, and racketeering.

Methodology:

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[56] Michael David Bonner, Jihad in Islamic History: Doctrines and Practice (Princeton: Princeton University Press, 2008); Bernard Lewis and Buntzie Churchill, Islam: The Religion and the People (Indianapolis: Wharton Press, 2009); Ahmed Rashid, Jihad: The Rise of Militant Islam in Central Asia (New Haven: Yale University Press, 2002)

[57] Sayed Abdul Ala Maudoodi, Jihad in Islam, 7th Edition (Lahore: Islamic Publications, 2001); Sayyid Qutb, Social Justice in Islam (New York: Islamic Publications International, 2000); Mahmoud Ayoob, Islam: Faith and History (Oxford: Oneworld, 2004).

I am primarily interested in determining what drives state formation out of collapse and why the state-building process sometimes adopts a political Islamic character. The dissertation focuses on explaining the specific causal mechanisms through which an Islamic regime can emerge out of state collapse, rather than just establishing broad correlations.

I present an economic model to explain the variation in the dependent variable. First, I propose that economic pressures under conditions of state failure drive members of the business community to reconfigure their identities, and Islamic identity can be an advantage for businesspeople over other social identities. This business-Islamist alliance is a necessary, but not sufficient condition for the emergence of an Islamic state out of collapse.

Second, I argue that the high price of purchasing protection under conditions of state failure causes members of the business community to collectively mobilize in support of a political alternative, and political Islamists can have an advantage over their political rivals in recruiting and mobilizing this material support. I posit that this collective mobilization of the business community is necessary to create the political momentum for Islamic state formation. The argument is therefore a rationalist explanation of individual decision-making, looking primarily at the decisions of elite actors within the local business community to explain political change in failed states.

The causal process specified by the dissertation operates under specific pre-conditions. This explanation of state behaviour is relevant only within failed states that are home to a sizeable Muslim population, but which are fragmented

along other social divisions, such as ethnicity or tribe. This specific explanation of Islamic state-building can only operate in societies where Islamic identity is salient; however, the logic of this argument extends to other parts of the world. In failed states across the non-Muslim world, sub-state political groups that can credibly promise to lower business expenses will have a similar ability to win the support of the local business community. In all regions of the world, the local business community has the potential to mobilize their economic power to create political order.

The dependent variable under investigation is the emergence of centralized state power out of state failure. The dependent variable is therefore a dichotomous variable, wherein the absence of a monopoly on the use of force is negative and the existence of a relative monopoly on the use of force within defined territorial boundaries is positive. Accordingly, in a chronic failed state the value on the dependent variable is most often negative, as power is decentralized among multiple and competing armed factions. Only in an exceptional instance is there a positive value on the dependent variable. The phenomenon under investigation is therefore a rare event.

The independent variable used in the analysis is the total price paid by the business community for the provision of security in order to conduct their business affairs. That is, it is the rate of taxation within a state or sub-state protection racket. This taxation was not measured by exact dollar amounts, but rather by broader estimations made by members of the business community themselves. By these criteria, there is variation in both the dependent and

independent variables. This variation reduces the risk of selection on the dependent variable, which could bias the research.[58]

Because I am focused on explaining a rare event, I use a small-N comparative case study method. Given that I am testing for necessary conditions, rather than establishing sufficiency, the use of a small-N comparison is appropriate. To test its hypotheses, I employ two types of comparison: cross-case comparison and within-case comparison. First, I use cross-case comparison of armed groups in two of the most notable collapsed states in the Muslim world today: Somalia and Afghanistan. The unit of analysis in the investigation is the sub-state armed faction. Both of these countries have experienced decades of enduring civil war and state failure, through which a number of armed factions, both Islamic and secular, have sought to establish political hegemony over the state. In each country, a number of factions tried and failed to achieve decisive military victory and only in rare cases did an Islamist movement win out. What made the Taliban in Afghanistan (1994-96) and the Islamic Courts Union (2004-06) different than other similar armed groups?

In Afghanistan, I compare over 10 different armed political groups in Afghanistan, including the leading foreign-sponsored, ethnic, and/or religious groups of the 1992-96 civil war period. These include, Gulbuddin Hekmatyar's *Hizb-i-Islami (G),* Maulvi Khalis' *Hizb-i-Islami (K),* Burhannuddin Rabbani's *Jamiat-i-Islami,* Abdul Rasool Sayyaf's *Ittehad al-Islami,* Mohammad Nabi Mohammadi's *Harakat-i-Inqilab,* Abdul Ali Mazari's *Hizb-i-Wahdat,* General

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[58] Barbara Geddes, "How the Cases You Choose Affect the Answers You Get: Selection Bias in Comparative Politics," <u>Political Analysis</u>. Vol. 2, No. 1, 1990, 131-150.

Rashid Dostum's *Junbesh-i-Milli,* Pir Sayed Ahmed Gailani's *Mahaz-i-Milli,* Sighbatullah Mojaddedi's *Jebhe-Nejat-i-Milli,* and Mullah Mohammad Omar's *Taliban*.

In Somalia, I compare the leading armed groups throughout the Somali civil war from 1991 to 2007, including both clan warlord groups and Somali Islamist movements. Specifically, I compare the late-1990s coalition of Islamic courts, the 2000-04 Transitional National Government (TNG), the 2004-07 Transitional Federal Government (TFG), the 2004-06 Islamic Courts Union (ICU) movement, and three other Somali Islamist groups: Hassan Dahir Aweys' Salafi group *Al-Ittihad Al-Islamiyya,* the Islamist Sufi faction *Ahle Sunna Waljama',* and the politically moderate and Muslim Brotherhood affiliated group *Harakat Al-Islah*.[59]

Each of these groups represented a sub-state domestic constituency. In both Afghanistan and Somalia, only in a rare case did a particular Islamist group manage to capture the state and reconstruct it in an Islamic image. Why did the Taliban and ICU alone succeed in reconstructing centralized state power, while other similar groups failed to achieve comparable political power? The empirical chapters use these cases to evaluate the ethnic, tribal, ideological, and foreign sponsorship explanations against the microeconomic hypothesis. In the Somalia chapters, the qualitative case studies are complemented by a quantitative analysis comparing the TFG, TNG, and ICU, based on a survey of the Mogadishu business community. By comparing a wide range of these groups, Islamic and secular

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[59] Aburahman M. Abdullahi (Baadiyow), "The Islah Movement: Islamic Moderation in War-Torn Somalia" Conference paper presented at Second Nordic Horn of Africa Conference: Oslo, Norway, Oct 31-Nov 1, 2008, pg. 6.

alike, the dissertation seeks to explain both the necessary and sufficient causes of this variation.

Second, I use within-case analysis of both the Taliban and ICU to test the microeconomic explanation against other potentially correct hypotheses. By closely examining the rise of these Islamist movements, I explore the possibility that another independent variable might explain the process of Islamic state formation in these failed states. During their initial rise to power, the Taliban and ICU both experienced variation in their degree of political power, with their influence increasing gradually over the course of their development. The dissertation uses process tracing and in-depth case study analysis, the within-case analysis allowed for the revelation of other possible explanations or intervening variables, which were not envisioned at the outset of the research. This method also helped to avoid the problems of omitted variable bias or incorrectly specified relationships between independent variables.[60]

Finally, these cases provide generalizable insights for other weak or failed states. Both Afghanistan and Somalia were paradigmatic cases of enduring state failure, wherein deep and violent social fragmentation was coupled with a complete destruction of central governing institutions. By using these cases, this dissertation makes a theoretical contribution that is broadly applicable to understanding both the rise of political Islam and the process of state formation in failed states.

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[60] James Mahoney, "Qualitative Methodology and Comparative Politics" Comparative Political Studies. Vol. 40, No. 2 (2007), 130.

Given these ideal conditions, testing the success and failure of multiple sub-state armed groups in these countries can help explain why and under what conditions certain groups succeed in capturing and reconstructing the state. Specifically, the dissertation shows that formal and informal taxation play an important role in the state formation process in failed states, specifically by mobilizing the business class. This theoretical model may help to explain endogenous processes of state formation in other cases of state failure, in both the Muslim and non-Muslim world alike. In all failed states, the rate of taxation will have a direct impact on the political preferences of the local business community, which has a unique ability to sponsor social and political change. Given the proliferation of weak and failing states, this research agenda is significant to scholars, analysts, and practitioners alike.

Outline of the Book:

The following six chapters embark on an effort to understand why these particular Islamist groups were able to capture and reconstruct the state out of failure. The second chapter outlines the microeconomic theory and situates it in the relevant literature on identity, trust, and state formation. The third and fourth chapters present the Afghanistan case. Chapter 3 chronicles why and how the Pakistan-Afghanistan business community adopted an increasingly Islamic political identity throughout the course of the Soviet-Afghan War (1979-89), which subsequently affected their economic and social behaviour. This chapter also illustrates how the anti-communist created a strong social link between the trade community and armed guerrilla factions, which endured long after the

Soviet withdrawal in 1989. Chapter 4 details the Afghan civil war period (1992-96), and examines the relative success and failure of various Islamist armed factions in the civil war. Looking at all of the major armed factions in the Afghan civil war, chapter 4 tests the microeconomic explanation for the Taliban's rise to power against other competing hypotheses. The chapter also uses qualitative data to illustrate how the price of protection drove the political preferences of the transit trade and smuggling communities.

The fifth and sixth chapters present the Somalia case. Chapter 5 explains the drivers of Islamic identity transformation within the business community throughout the course of the Somali civil war (1991-2004). It examines why and how the Mogadishu business community actively constructed a political Islamic identity throughout the mid- to late-1990s, and how that Islamic identity subsequently shaped and constrained the social and political decisions of the business community. Chapter 6 uses original survey data to test the impact of Islam, tribalism, and price of protection on the political preferences of the Mogadishu business community. The quantitative analysis demonstrates the importance of the price of protection in determining political preference. The final chapter concludes with a discussion of the broader theoretical implications of the research and its relevance for international security policy.

Chapter 2: Islam, the State and the Economy

State failure is one of the most pressing international security concerns in the world today. Collapsed states are characterized by violent social fragmentation, dissolution or impotence of centralized governing institutions, proliferation of spoiler groups, and prolonged civil war stalemate.[61] The regional consequences of an enduring civil war stalemate include the proliferation of illicit arms trafficking networks, massive refugee exodus, exacerbation of ethnic tensions in neighbouring states, and regional destabilization.[62] The international consequences are equally grave. In the absence of the rule of law, collapsed states are at risk of becoming havens for international criminals and bases for transnational terrorist organizations.[63]

Given the profound regional and international security risks associated with collapse, the international community has invested heavy financial, military, and civilian resources into complex, multidimensional nation-building initiatives designed to rescue failing states.[64] Despite multi-billion dollar budgets and countless prescriptions for effective peace-building interventions[65], these

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[61] Robert Bates, When Things Fall Apart (New York: Cambridge University Press, 2008); Tiffiany O. Howard, The Tragedy of Failure (2010); Robert I. Rotberg, (ed.) When States Fail: Causes and Consequences (2004); I. William Zartman, Collapsed States: The Disintegration and Restoration of Legitimate Authority (Boulder: Lynne Rienner Publishers, 1995); Simon Chesterman, Michael Ignatieff and Ramesh Thakur Making States Work: State Failure and the Crisis of Governance. (Tokyo: United Nations University Press, 2005.

[62] Halvard Buhaug and Kristian Skrede Gleditsch "Contagion or Confusion?." International Studies Quarterly. (2008); David Lake and Donald Rothchild (eds.), The International Spread of Ethnic Conflict (1998).

[63] Tiffiany O. Howard, The Tragedy of Failure (2010); Robert Rotberg (ed.), Battling Terrorism in the Horn of Africa (2005.); Robert I. Rotberg (ed.), State Failure and State Weakness in a Time of Terror (2003).

[64] Boutros-Boutros Ghali, An Agenda for Peace (New York: UN General Assembly, 2002).

[65] Sven Gunnar Simonsen, "Nationbuilding as Peacebuilding: Racing to Define the Kosovar." International Peacekeeping Vol. 11, No. 2 (2004), 289-311; Tiffiany O. Howard, The Tragedy of Failure (2010); Simon Chesterman, Michael Ignatieff and Ramesh Thakur Making States Work:

international initiatives have often proved unsuccessful in producing peaceful, self-sustaining sovereign states.[66] There is simply no clear-cut remedy for reconstructing a state after it has collapsed. Once a state's structures of authority disintegrate, these institutions are extraordinarily difficult to rebuild.

The reason that these internationally-sponsored efforts have largely failed is because state formation is an *endogenous* process, involving the complex and dynamic reconfiguration of identities[67] and the creation of informal institutions to reduce the high transaction costs associated with deep social fragmentation,[68] which cannot be constructed from the outside-in or top-down. These international initiatives often fail to recognize the active processes of identity construction and

State Failure and the Crisis of Governance. (2005); John Paul Lederach, Building Peace: Sustainable Reconciliation in Divided Societies (Washington: United States Institute of Peace Press, 1997); Elizabeth King, "Educating for Conflict or Peace: Challenges and Dilemmas for Post-Conflict Rwanda." International Journal. Vol. 60, no. 4 (Autumn 2005), 908-918; Elisabeth Porter, Peacebuilding: Women in international perspective (New York: Routledge, 2007); Abdi Samatar, "Faithless Power as Fraticide: Is there an Alternative in Somalia?" International Journal of Somali Studies. Vol. 9 (2009), 63-81; Kizito Sabala, Aisha Ahmad and Edwin Rutto. "The Somali Peace Process: from Arta to Eldoret to Mbagathi." The Resolution of African Conflicts: The Management of Conflict Resolution and Post-Conflict Reconstruction Ed. Alfred Nhema and Paul T. Zeleza (Athens: Ohio University Press: 2008); Ashraf Ghani and Clare Lockhart. Fixing Failed States: A Framework for Rebuilding a Fractured World (2008); Robert I. Rotberg (ed.), When States Fail: Causes and Consequences (2004); Walter S. Clarke and Robert Gosende, "Somalia: Can a Collapsed State Reconstitute Itself?" State Failure and State Weakness in a Time of Terror. ed. Robert I Rotberg (Washington: Brookings Institution Press, 2003); Chester A. Crocker, Fen Osler Hampson, and Pamela R. Aall, Leashing the Dogs of War: Conflict Management in a Divided World (2007); Stephen John Stedman, Donald Rothchild and Susan M. Cousens, eds. Ending Civil Wars: The Implementation of Peace Agreements (Boulder: Lynne Reiner Publishers Inc., 2002); Matt Bryden and Jeremy Brickhill "Disarming Somalia: Lessons in Stabilisation from a Collapsed State" Conflict, Security and Development Vol. 10, No. 2, (2010), 239-262.

[66] Taisier M. Ali and Robert O. Matthews, "The Long and Difficult Road to Peace." Durable Peace: Challenges for Peacebuilding in Africa ed. Taisier M. Ali and Robert O. Matthews. (Toronto: University of Toronto Press, 2004).

[67] Benedict Anderson, Imagined Communities: Reflections on the Origin and Spread of Nationalism (1983); Ernest Gellner, Nations and Nationalism (1983); David Miller, On Nationality (1995); Young, The Politics of Cultural Pluralism (1979).

[68] Deborah Brautigam, "Substituting for the State." World Development. (1997), 1063-1080; Douglass C. North, Institutions, Institutional Change, and Economic Performance(1990); Jean-Phillipe Platteau, "Institutional Obstacles to African Economic Development." Journal of Economic Behaviour and Organization, (2009), 669-689.

informal institution-building that are already at work within failed states. Simple observation suggests that collapsed states exist in a political black hole, trapped in a repetitive cycle of unending conflict and futility. However, underneath this persistent violence and fragmentation, individuals and societies living under conditions of collapse undergo a process of profound adaptation and social transformation.[69] They are creative and responsive. They reconfigure identity politics and construct informal institutions to facilitate social and economic life.[70] These informal, endogenous responses to state failure ignite the engine of social and political change within failed states, and in some cases, can drive the very process of state formation.

This dissertation asks why and how some societies that have suffered from enduring state failure are able to reconstruct domestic institutions to provide order and the rule of law. Political order is a public good. When a government provides order, it lowers transaction costs and facilitates social and economic cooperation. When the state fails, social trust is eroded and transaction costs increase. The absence of political order is therefore indicative of a collective action problem. How then do societies overcome this collective action problem and reconstruct a state out of collapse?

This dissertation argues that these domestic economic elites play a critical role in the reconstruction of a failed state. It proposes that members of the local

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[69] Patrick Chabal and Jean-Pascal Daloz, <u>Africa Works: Disorder as a Political Instrument</u> (Oxford: The International African Institute and Indiana University Press, 1999); Theodore Trefon, <u>Reinventing Order in the Congo: How People Respond to State Failure in Kinshasa</u> (Kampala: Zed Books, 2004).
[70] Deborah Brautigam, "Substituting for the State." <u>World Development</u>. (1997), 1063-1080; Douglass C. North, <u>Institutions, Institutional Change, and Economic Performance</u> (1990); George Klay Jr. Kieh (ed.), <u>Beyond State Failure and Collapse: Making the State Relevant in Africa</u> (Lanham: Lexington Books, 2008); Peter D. Little, <u>Somalia: Economy Without State</u> (2003).

business community play a crucial role in reconstructing the state out of failure. This chapter lays out two specific causal processes of state formation out of collapse: first, a long-term phenomenon of identity transformation within the business community, as a mechanism to reduce transaction costs and improve access to markets; and second, a short-term strategic calculation of the cost of operating under warlord protection rackets versus the cost of financing a political alternative. It posits that in the Muslim world, Islamic identity is a particularly robust form of social capital that can mitigate the trust deficit in failed states.

However, the chapter also argues that the business community's decision to support a particular Islamist movement stems from a more strictly economic motivation to minimize costs and maximize opportunities. It proposes that members of the business community wield unique political power in civil war competition: they are able to literally vote with their dollars to either finance a group that benefits them or collectively mobilize against a system of authority that they find disadvantageous. In failed states, the security architecture itself is subject to free market competition. The business community therefore has the ability to act as either kingmaker or spoiler in the political competition.

The chapter proceeds in four parts. The first section explains why Islamic identity and institutions can help mitigate the extreme trust deficit in failed states. The second section presents a market explanation of state formation, looking at how the business community is able act as kingmaker in a failed state. It explains why and under what conditions the business community engages in collective action to change the balance of power of the battlefield, leading to a process of

endogenous state formation. The third part outlines the core theoretical argument of the dissertation. The fourth concludes with a description of the field research.

<u>State Failure, Trust, and Identity:</u>

Economic life relies on trust. John Stuart Mill argued, "The most serious impediment to conducting business concerns on a large scale is the rarity of persons who are supposed fit to be trusted with the receipt and expenditure of large sums of money".[71] Whether trade occurs between large industrialized states or between Somali merchants, business partners must be confident that agreements will be kept. Kenneth Arrow aptly states, "Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence."[72]

The literature on trust and identity strongly suggests that societal heterogeneity undermines social trust, which leads to economic underperformance and low trade.[73] Recent experimental and quantitative research on trust and economic performance indicates that in an economic agreement, people are more likely to trust members of their own ethnic, racial, or tribal group than outsiders to that group.[74] Experimental research by Glaeser et al. on ethnicity, discrimination,

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[71] John Stuart Mill, <u>Principles of Political Economy with some of their applications to social policy</u> (London: Longmans, Green and Co., 1848), 69.

[72] Kenneth Arrow, "Gifts and Exchanges." <u>Philosophy and Public Affairs.</u> Vol. 1, No. 4 (1972), 357.

[73] D. Nettle, "Linguistic fragmentation and the wealth of nations: The Fishman-Pool hypothesis re-examined." <u>Economic Development and Cultural Change</u>. Vol. 48, No. 2 (2000), 335-348.

[74] William Easterly and Ross Levine. "Africa's Growth Tragedy: Policies and Ethnic Divisions." <u>Quarterly Journal of Economics</u>. Vol. 112, No. 4 (1997), 1203-1250; Chaim Fershtman and Uri Gneezy, "Discrimination in a Segmented Society: An Experimental Approach." <u>The Quarterly</u>

and trust suggests that individuals make information shortcuts when dealing with people they don't know, and common racial or linguistic identity is used (often erroneously) to mitigate conditions of uncertainty.[75] Because trust within groups is determined to be higher than trust between groups, much research has been done on how social diversity causes economic underdevelopment. Heterogeneous societies and weaker institutions result in low-trust societies, which in turn produce poor economic performance.

Failed states are low-trust environments of an extreme form. With the collapse of formal state institutions and the rule of law to enforce agreements, prospective business partners face a profound degree of uncertainty, coupled with great distrust for members of rival groups. Without formal institutions, market opportunities are limited by lack of enforcement of property rights and contracts, along with high transaction costs and barriers for entry into markets for new participants.[76] In failed states, the added costs of corruption, extortion, and taxation by local militias further disrupt markets, and tribal favouritism and xenophobia undermines competition among rival groups.[77] Uncertainty and social fragmentation results in exceedingly high transaction and enforcement costs, which undermine the prospect of development.[78] Douglas North explains, "Trade does exist, even in *stateless* societies. Yet… the inability of societies to develop

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Journal of Economics. Vol. 116, No. 1, (Feb 2001), 351-377; Paul J. Zak and Stephen Knack. "Trust and growth" The Economic Journal. Vol. 111, No. 470 (2001), 295-321.

[75] Edward Glaeser, David Laibson, Jose Scheinkman, and Christine Soutter. "Measuring trust." Quarterly Journal of Economics. Vol. 115, No. 3 (2000), 811-846.

[76] Douglass C. North, Institutions, Institutional Change, and Economic Performance (1990)

[77] World Bank Report, Building Institutions For Markets (New York: Oxford University Press, 2002).

[78] Jean-Phillipe Platteau, "Institutional Obstacles to African Economic Development." Journal of Economic Behaviour and Organization, (2009), 669-689; World Bank Report Building Institutions For Markets (New York: Oxford University Press, 2002).

effective, low-cost enforcement of contracts is the most important source of both historical stagnation and contemporary underdevelopment in the Third World".[79]

Without any governing institutions, markets in failed states are characterized by unchecked material self-interest, which manifests as corruption and other distortions that result in losses.[80] As a response to state failure, individuals increasingly rely on informal institutions to govern economic relations and reduce uncertainty in transactions. Culture is one such informal institution, which can facilitate market transactions and lower transaction costs.[81] A culture provides a set of norms that govern social interactions, which in the absence of state institutions, make behaviours predictable and create circles of trust among those that abide by these norms.[82] A culture provides a network of social capital that can help mitigate the conditions of statelessness.

However, in a failed state, cultural circles of social trust can also be the fault lines of intrastate violence. For example, informal institutions that rely on ethnic or tribal affiliations are by definition exclusive of out-group members. In heterogeneous societies, reliance on these more exclusive social bonds exacerbates domestic fragmentation and prevents the emergence of a more civic culture.[83] Therefore, while transaction costs may be lowered within groups, they remain high between groups.[84] State failure thus provides a detrimental trust environment for successful economic life. The desire to overcome across these

[79] Douglass C. North, Institutions, Institutional Change, and Economic Performance (1990), 54.
[80] Deborah Brautigam, "Substituting for the State." World Development. (1997), 1063-1080.
[81] Douglass C. North, Institutions, Institutional Change, and Economic Performance (1990)
[82] Ibid.
[83] Robert Putnam, Making Democracy Work: Civil Traditions in Modern Italy (Princeton: Princeton University Press, 1993).
[84] James D. Fearon and David D. Laitin, "Violence and the Social Construction of Ethnic Identity." International Organization Vol. 54, No. 4 (2000), 845-877.

obstacles to trade drives the business community to seek out a more cohesive

social identity.

Identity Construction:

      In failed states, the absence of a common national identity is incredibly

costly.[85] Violent social fragmentation makes it incredibly difficult to establish

business partnerships and trade across social divisions. Lack of social trust results

in higher transaction costs when operating outside of one's own group, thus

limiting economic growth.[86]

      Even in functioning states, social heterogeneity stands accused of causing

civil discord[87] and economic underdevelopment.[88] Developing a new social

cohesion around a common, perhaps imagined, identity[89] is therefore of central

concern to those interested in reconstituting failed states.

      How then can such an identity be constructed? Much has been written

about the sources of identity and the causes of identity transformation. Classical

primordial explanations of identity[90] have been systematically refuted by

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[85] The nationalism literature has shown that the modern state requires the development of a coherent national identity, which can organize and facilitate the governance of social, economic, and political life. David D. Laitin, Identity in Formation: The Russian-Speaking Populations in the Near Abroad (Ithica: Cornell University Press, 1998). See also Ernest Gellner, Nations and Nationalism (1983).

[86] Francis Fukuyama, Trust: The Social Virtues and the Creation of Prosperity (New York: Free Press, 1995).

[87] Halvard Buhaug and Kristian Skrede Gleditsch "Contagion or Confusion?" International Studies Quarterly. (2008; Donald L. Horowitz, Ethnic groups in conflict (Berkeley: University of California Press, 1985); Kuran Timur, "Ethnic Dissimilation and International Diffusion" The International Spread of Ethnic Conflict. Ed. David Lake and Donald Rothchild (Princeton: Princeton University Press, 1998).

[88] D. Nettle, "Linguistic fragmentation and the wealth of nations." Economic Development and Cultural Change. (2000), 335-348.

[89] Benedict Anderson, Imagined Communities: Reflections on the Origin and Spread of Nationalism (1983).

[90] Clifford Geertz, The Interpretation of Cultures. (New York: Basic Books, 1973).

theoretically rich and empirically rigorous studies of identity change in Africa[91] and Eastern Europe.[92] Laitin's "tipping point" model reveals a rational decision-making process among minority Russian-speaking populations in former Soviet states. He finds that identity transformation occurs as a direct response to real changes in political and economic circumstances: as linguistic minorities perceive the benefit of participation in the dominant language, they accept a process of assimilation that will increase their social and economic opportunities. This rational assimilation subsequently bolsters the nationalist project.[93] These rational choice explanations of group identification point to a strategic calculus at the individual level regarding construction, selection and transformation of one's identity.[94] Identity, though multidimensional and subjectively defined, can be understood as the product of interest and opportunity.

Strictly rationalist treatments of identity[95] are challenged by culturalist explanations, which reject the notion that identity is epiphenomenal of material factors.[96] These explanations quite correctly point to the role of image, symbol

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[91] David D. Laitin, <u>Language Repertoires and State Construction in Africa</u> (New York: Cambridge University Press, 1992); Gunther Schlee, <u>How Enemies are made: towards a theory of ethnic and religious conflict</u> (Oxford, New York: Berghahn Books, 2008).

[92] David D. Laitin, <u>Identity in Formation</u> (1998).

[93] Laitin, <u>Identity in Formation</u> (1998).

[94] Randall Calvert, "Rationality, Identity, and Expression." <u>Political Science: The State of the Discipline - 3rd edition</u>. Eds. Ira Katznelson and Helen Milner (Washington: W.W. Norton and American Political Science Association, 2002); Russell Hardin, <u>One for All: The Logic of Group Conflict</u> (Princeton: Princeton University Press, 1995); Michael Hechter, <u>Principles of Group Solidarity</u> (Los Angeles: University of California Press, 1987); Gunther Schlee, <u>How Enemies are made: towards a theory of ethnic and religious conflict</u> (2008).

[95] Ronald Rogowski, "Causes and Varieties of Nationalism: A Rationalist Account." <u>New Nationalisms in the Developed West</u> ed. Edward Tiryakian and Ronald Rogowski (Boston: Allen and Unwin, 1985).

[96] Stuart J. Kaufman, "Escaping the Symbolic Politics Trap: Reconciliation Initiatives and Conflict Resolution in Ethnic Wars." <u>Journal of Peace Research</u> Vol. 43, No. 2 (2006), 201-218; Lisa Wedeen, "Conceptualizing Culture: Possibilities for Political Science." <u>American Political Science Review</u>. Vol. 96, No. 4 (December 2002), 713-728.

and myth in group identification and decision-making. However, the fact that symbol and group narrative affect social behaviour is not fundamentally incompatible with the rationalist approach. In fact, it is precisely because images, symbols and myths have such persuasive power that an individual may choose to emphasize one identity over another. If an identity label lacks the ability to generate an emotional or cognitive response (fear, friendliness, trust), it is an identity without much social consequence. However, an identity that evokes an emotional response or an information shortcut is socially significant; it can be either beneficial or alienating, depending on its symbolic content.

The inherent value of an identity is therefore the social power of its associated meaning. Identity is fundamentally a social variable: it matters to the extent that it is recognized. Thus, the value of a given identity is measured by the social power of its myths, symbols and images on cognitive processes; this value then affects the rational calculation of individual identity selection and transformation. Wherever possible, more socially valuable identities are preferred over those that are inconsequential or negative. In a failed state, identity transformation occurs as a product of this symbolic-rationalist process.

In a failed state economy, the need for a new identity – for a national identity – is born of market forces. Violent social fragmentation presents an obstacle to the human drive to "truck, barter and exchange", thus creating a market demand for a more inclusive identity paradigm. In the same spirit as Russian-speakers in Eastern Europe,[97] individuals living under conditions of collapse evaluate the utility of identities on the basis of their existing political and

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[97] Laitin, Identity in Formation (1998).

economic circumstances, making strategic decisions about group associations that can improve their lot. Those identities that have more inclusive social frames and which evoke positive cognitive shortcuts can be particularly useful. Of special value are identities that embrace wider social circles, permit and facilitate inter-group cooperation, and evoke feelings of trust and confidence.

Given the lack of social cohesion in societies suffering from state collapse, one would imagine that such violent and extreme social fragmentation has made healthy trade virtually impossible. This is not so. Mill, Arrow, and North are certainly right that lack of trust is a great determinant of poor economic performance. Knack and Zak, and others have also been apt to point out how heterogeneity results in lower levels of trust. However, this trust deficit can be mitigated by the active social construction of new identities that cut across problematic ethnic, racial, or tribal divisions. The need to reduce the costs associated with social fragmentation drives the business community to seek out political alternatives, and in particular, alternatives that can effectively facilitate interactions across ethnic or tribal divisions. This need creates an opportunity for political entrepreneurs that have the ability to work across ethnic or tribal lines to present themselves as a solution to the problem of fragmentation. In failed states, Islamic movements can be especially adept at making this pitch.[98]

Islam and Business:

Islam has played a significant role in international trade for well over a millennium. The 7th C expansion of Arab Islamic power into Asia and Africa

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[98] See Quintan Wiktorowicz (ed.) Islamic Activism: A Social Movement Approach (2004) for a political opportunities model and multiple case studies of Islamic movements

increased the level of economic interaction between regional powers through both land and sea trade.[99] The Umayyad (660-749 AD) and the Abbasid (750-870AD) Caliphates consolidated this new Arab Islamic power over a vast expanse of territory, spanning from Northwest Africa to Central Asia.[100] With access to and control over the Mediterranean and Indian Oceans, the caliphates were able to increase their volume of trade and their access to new markets. Over the course of several centuries, trade with Arab Muslims in East Africa and South Asia facilitated religious conversion to Islam. This conversion was not just a product of Arab proselytizing; adoption of Islam also provided clear material benefits. For those living under the caliphates, conversion meant the avoidance of paying the *jizya* tax.[101] For traders seeking to engage the lucrative markets across the Muslim world, Islamic identity served as a useful form of social capital that could smooth business relations across linguistic, ethnic and cultural divides. With Arab dominance over the ancient Silk Route and the Indian Ocean trade, Islam became an important mediating force to facilitate economic interactions between distant communities. Long before the formation of the modern nation-state, Islam played an important role in economic life across the Muslim world.

Islamic identity and institutions have a similar utility in modern failed states. Within the Muslim world, Islamic frames provide a valuable source of meaning and understanding in economic and political life. According to Wiktorowicz, "Frames represent interpretive schemata that offer a language and

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[99] Maurice Lombard, The Golden Age of Islam (Princeton: Markus Wiener Publishers, 2003).
[100] George F. Hourani and John Carswell Arab Seafaring in the Indian Ocean in Ancient and Early Medieval Times (Princeton: Princeton University Press, 1995), 62.
[101] The jizya tax was levied upon the "dhimmi" population, that is, non-Muslim subjects living under Muslim rule. It is also referred to as the dhimmi tax.

cognitive tools for making sense of experiences and events in the 'world out there.'"[102] In Muslim countries suffering from violent ethnic or tribal fragmentation, Islam is therefore a social endowment that can facilitate economic relations across these divisions. According to Weinstein, "Social endowments" [are] beliefs and norms of reciprocity that lower transaction costs and facilitate cooperation."[103] Islamic law provides a common set of rules, norms, and beliefs that can reduce uncertainty and increase trust. Furthermore, in the absence of formal governing institutions that can guarantee agreements, Islamic institutions and laws can therefore help to mediate disputes and build confidence between prospective business partners.

Islam therefore offers a multidimensional set of solutions to the problems presented by state failure. Islam provides reputational benefits and social capital to overcome a low trust business environment.[104] It "nurtures loyalty and identity towards a large reference group that exceeds ethnic boundaries",[105] which expands opportunities for business partnerships and development. And it even provides a religious legal system, *Sharia* that can be used as an informal mechanism to govern and regulate social and economic life. These practical, material motivations drive the formation of a business-Islamist alliance in stateless societies.

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[102] Quintan Wiktorowicz Islamic Activism (2004), 15.
[103] Jeremy Weinstein, Inside Rebellion: The Politics of Insurgent Violence. (New York: Cambridge University Press, 2007), 49.
[104] Howard J. Rotblat, "Social Organization and Development in an Iranian Provincial Bazaar." Economic Development and Cultural Change. Vol. 23, No. 2 (Jan. 1975), 292-305.
[105] Quoted in Jean-Phillipe Platteau, "Institutional Obstacles to African Economic Development: State, Ethnicity, and Custom." Journal of Economic Behaviour and Organization, (2009). 686. See also: Stephen P. Cohen, The Idea of Pakistan (Washington: Brookings Institution Press, 2004); Seyyed Vali Reza Nasr, Islamic Leviathan: Islam and the Making of State Power (New York: Oxford University Press, 2001).

The utility of the business-Islamist alliance is well established in the literature on Iran.[106] In pre-revolutionary Iran, the state was authoritarian and "un-embedded" from society. That is, while the state was able to enforce the rule of law, its relationship with society was remote, and in some ways predatory.[107] Significantly, the relationship between the clerical class (ulema) and the merchant class (bazaar) formed over the course of two decades, and until 1975 the Shah essentially ignored the bazaar and let the religious leadership be.[108] However, from 1975 until the fall of the regime in 1979, the Shah took new and drastic measures to impose state control over the bazaar and to undermine the power of the clerical class.[109] As the Shah imposed new regulations on the previously unregulated bazaar economy, transaction costs, loan prices, and costs for small businesses skyrocketed.[110]

Additionally, as part of his hyper-aggressive modernization program, the Shah physically demolished entire districts in the bazaar, and jailed thousands of small businessmen for "profiteering".[111] This assault on the business community cemented their relationship with the ulema, who were also under threat from the

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[106] Ervand Abrahamian, "Structural Causes of the Iranian Revolution." MERIP Reports, No. 87 (May 1980): 21-26; Said Arjomand, "Iran's Islamic Revolution in Comparative Perspective." World Politics. Vol. 38, No. 3 (1986), 383-414; Mehdi Mozaffari, "Why the Bazaar Rebels." Journal of Peace Research. Vol. 28, No. 4 (Nov., 1991), 377-391; Misagh Parsa, Social Origins of the Iranian Revolution (New Brunswick: Rutgers University Press, 1989); Howard J. Rotblat, "Social Organization and Development." Economic Development and Cultural Change (1975); Benjamin Smith, "Collective Action With or Without Islam: Mobilizing the Bazaar in Iran." Islamic Activism: A Social Movement Approach. Ed. Quintan Quintan Wiktorowicz (2004).
[107] Peter Evans, Embedded Autonomy: States and Industrial Transformation (Princeton: Princeton University Press, 1995).
[108] Ervand Abrahamian, "Structural Causes of the Iranian Revolution." MERIP Reports (1980): 21-26.
[109] Ibid.
[110] Misagh Parsa, Social Origins of the Iranian Revolution (1989), 123-124.
[111] Ervand Abrahamian, "Structural Causes of the Iranian Revolution." MERIP Reports (1980), 25.

Shah.[112] Therefore, despite the Shah's immense oil revenues, the ulema's alliance with the bazaar gave them the financial resources to compete against the state. The fact that the state drew upon its vast oil reserves, while the revolutionary guard relied on the voluntary contributions of the bazaar indicates the importance of domestic support in predicting success or failure different groups and movements.[113]

While there are significant differences between the Iranian Revolution and political Islamic movements in collapsed states, the Iran case still provides generalizable insights on the economic drivers of Islamic movements in other cases. Notably, although the Iranian state was strong and functioning up until the fall of the Shah regime, the economic life of the *bazaar* remained unregulated and off-the-books.[114] In that sense, it was an economy free from the state. It was precisely because the state had little knowledge of and influence over the workings of the bazaar that a business-Islamist alliance in Iran was able to take root.

The relationship between the Iranian merchant class (*bazaari*) and the clerical class (*ulema*) developed over the course of two decades before the start of the 1979 Islamic Revolution. By the mid-1960s, the failed modernization policies of the Shah undermined the interests of the small business owner and left the material expectations of the business community unmet.[115] In response to this

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[112] Misagh Parsa, <u>Social Origins of the Iranian Revolution</u> (1989), 123-125.
[113] Misagh Parsa, <u>Social Origins of the Iranian Revolution</u> (1989); Jeremy Weinstein, <u>Inside Rebellion</u> (2007).
[114] Mehdi Mozaffari, "Why the Bazaar Rebels." <u>Journal of Peace Research</u> (1991).
[115] Nikki Keddie, <u>Modern Iran: Roots and Results of Revolution</u> (New Haven: Yale University Press, 2006).

alienation, the bazaari class forged a deeper relationship with the clergy. The relationship was mutually beneficial: businessmen received social legitimacy and a moral "green light" from ulema to circumvent government regulations, and in return, the clerical class was privately financed by the bazaar, making them financially independent of the state.[116] However, this long-term friendship did not translate into collective mobilization until the immediate interests of these two groups coincided between 1975-79, during which the Shah attempted to impose highly invasive state control over the unregulated bazaar and also actively sought to undermine the unofficial power of the ulema.[117] As transaction costs and loan prices skyrocketed under these new regulations, the bazaar-ulema alliance took the lead in generating popular mobilization against the Shah.

Why did the Iranian business community choose to ally with the clerical class, in both the long- and short-term? What caused the friendship between the mosque and the market? There are two components to this answer, which are especially relevant in understanding Islamism in failed states: first, as Mozaffari and Rotblat both explain, Islamic social capital provided merchants with a valuable reputational advantage in their business dealings, which encouraged the development of close relations between members of the bazaar and the clergy;[118] and second, because the ulema were entrusted with governing the economic life of the bazaar, Islamic norms, laws, and institutions became the primary mechanisms

[116] Mehdi Mozaffari, "Why the Bazaar Rebels." Journal of Peace Research (1991), 381; Howard J. Rotblat, "Social Organization and Development in an Iranian Provincial Bazaar." (Jan. 1975); Howard J. Rotblat, "Social Organization and Development in an Iranian Provincial Bazaar." Economic Development and Cultural Change (1975), 297-302.

[117] Ervand Abrahamian, "Structural Causes of the Iranian Revolution." MERIP Reports (1980), 25; Misagh Parsa, Social Origins of the Iranian Revolution (1989), 123-125.

[118] Mehdi Mozaffari, "Why the Bazaar Rebels." Journal of Peace Research (1991); Howard J. Rotblat, "Social Organization and Development in an Iranian Provincial Bazaar." (Jan. 1975)

for regulating business transactions, which set forth a path dependent process of Islamic institution-building that eventually supplanted formal government.

The business-Islamist alliance in failed states emerges for these same reasons. First, in the absence of formal enforcement mechanisms and guarantees of transactions, Islam provides businesspeople with a reputational advantage that can mitigate the trust problem between ethnic or tribal rivals. Second, to capitalize on this Islamic reputational advantage, members of the business community financed Islamic charities, schools, and institutions to prove their religious credentials. With this steady flow of financial resources, these Islamic institutions begin to play a greater role in social and economic life, filling many of the roles normally played by government, such as education, public health, and legal arbitration. As these institutions fill the role of government, they legitimate the concept of Islamic governance as a meaningful solution to the problem of state failure.

<u>The Business of State-Making:</u>

For much of the world, the modern sovereign state is a relatively new form of social organization. Historically, political power in Africa and Asia meant the exercise of control over populations, city centres, and key trade routes, rather than the defence of meticulously delineated of territorial boundaries.[119] For the Muslim world, much like the majority of non-European civilizations, the modern state was imposed upon society through the experience of European colonialism, beginning in the 16th C and culminating in the nationalist struggles for independence in the

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[119] Jeffrey Herbst, <u>States and Power in Africa</u> (New Jersey: Princeton University Press, 2000); Hendrik Spruyt, <u>The Sovereign State and Its Competitors: An Analysis of Systems Change</u> (1994)

mid-20th C. Throughout Africa and Asia, these nationalist projects gave birth to a multitude of new states, whose boundaries and administrations were most often inherited from the legacy of European imperialism.[120] The success of these new states has varied significantly. Given the propensity of these new states towards weakness, and sometimes failure, much has been written on why some newly independent states have succeeded while others have failed to consolidate political power.[121]

One of the biggest sources of debate is whether the absence of inter-state war and boundary redefinition has condemned some states to remain perpetually weak or to fail completely.[122] According to the bellicist explanation of state formation, violence is part of the natural process of state formation. Tilly argues that the treat of war caused European states to construct standing armies, thus necessitating the development of state institutions to extract resources from the domestic population.[123] In this way, war had inherently state-making properties. Cohen, Brown and Organski argue that violence within new non-European states is an ordinary feature state formation, not unlike processes in early European

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[120] Jeffery Herbst, States and Power in Africa (2000).
[121] Peter Evans, Embedded Autonomy: States and Industrial Transformation (1995); Joel S. Migdal, Atul Kohli, and Vivienne Shue State Power and Social Forces: Domination and Transformation in the Third World (Cambridge: Cambridge University Press, 1994); Robert H. Jackson and Carl G. Rosberg, "Why Africa's Weak States Persist: The Empirical and the Juridical in Statehood." World Politics. Vol. 35, No. 1 (1982), 1-24; I. William Zartman, Collapsed States (1995).
[122] Boaz Atzili, "When Good Fences Make Bad Neighbors: Fixed Borders, State Weakness, and International Conflict." International Security Vol. 31, No. 3 (Winter 2006/2007), 139-173.
[123] Charles Tilly, The Formation of National States in Western Europe (1975); Charles Tilly, "War Making and State Making as Organized Crime." Bringing the State Back In. eds. Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (Cambridge: Cambridge University Press, 1985).

state-building.[124] From this perspective, violence is a "usual feature of the process of primitive accumulation of power", which eventually leads to the development of modern statehood.[125]

This bellicist explanation of state formation has received heavy criticism. First, the types of wars that many new states are engaged in are intra-state conflicts, which are unlike the inter-state wars of territorial acquisition that were waged in early modern Europe. These scholars argue that the principle of territorial integrity and the absence of major interstate wars have actually presented an obstacle to the natural evolution of the modern state and perpetuated failure.[126] Jackson and Rosberg argue that new international laws and norms preserve failed states when there is no empirical justification of their sovereignty.[127] Herbst goes further, proposing that some African states ought to be allowed to disintegrate, so that new and more sustainable territorial units can take their place.[128] Citing empirical work in West Africa, Reno adds that warlord violence in many weak or failed African states is driven by the desire to control

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[124] Youssef Cohen, Brian R. Brown and A. F. K. Organski, "The Paradoxical Nature of State-Making: The Violent Creation of Order." American Political Science Review. Vol. 75, No. 4 (1981), 901-910.

[125] Ibid, 901

[126] Boaz Atzili, "When Good Fences Make Bad Neighbors." International Security (2006/2007), 139-173; Mohammed Ayoob, The Third World Security Predicament: State Making, Regional Conflict, and the International System (Boulder: Lynne Rienner Publishers, 1995); Michael C. Desch, "War and Strong States, Peace and Weak States?" International Organization. Vol. 50, No. 5 (Spring, 1996), 237-268; Herbst, States and Power in Africa (2000); Robert Jackson, Quasi-States: Sovereignty, International Relations, and the Third World (New York: Cambridge University Press, 1993).; Cameron G. Thies, "State-building, Interstate, and Intrastate Rivalry: A Study of Post-Colonial Developing Country Extractive Efforts, 1975-2000." International Studies Quarterly. Vol. 48 (2004), 53-72.; Cameron G. Thies, "The Political Economy of State Building in Sub-Saharan Africa." The Journal of Politics. Vol. 69, No. 3 (2007), 716-731;

[127] Robert H. Jackson and Carl G. Rosberg, "Why Africa's Weak States Persist: The Empirical and the Juridical in Statehood." World Politics. (1982), 1-24.

[128] Jeffrey Herbst, "Responding to State Failure in Africa." International Security Vol. 21, No. 3 (Winter 1996-97), 120-144.

economic opportunities, and therefore does not result in the type of institutional development that can lead to genuine state construction.[129] These and other anti-bellicist arguments including by Tilly himself, have challenged the applicability of the bellicist explanation of state-building in the contemporary developing world, arguing instead that intrastate violence causes increased fragmentation rather than centralization.[130] These authors insist that failed states are not on a path to modernization, but that this violence is inherently and perpetually state destroying.

Despite this rebuttal, the bellicist explanation of state formation may still provide meaningful insights on contemporary cases. Charles Tilly's famous quote "war made the state and the state made war" has an important application for failed states.[131] Tilly's description of the state as a protection racket is analogous to a warlord fiefdom, which extracts resources from its population in exchange for security from violence, often violence perpetrated by the warlord himself.[132] Much like the citizens of early European states, individuals living in failed states

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[129] Will Reno, "The Changing Nature of Warfare and the Absence of State-Building in West Africa." Irregular Armed Forces and their Role in Politics and State Formation Ed. Diane E. Davis and Anthony W. Pereira (Cambridge: Cambridge University Press, 2003). See also, Will Reno, "War, Markets, and the Reconfiguration of West Africa's Weak States," Comparative Politics. Vol. 29, No. 4 (July 1997), 493-510.

[130] Paul Collier, "The Political Economy of State Failure." Oxford Review of Economic Policy. Vol. 25, No. 2 (2009), 219-240; Diane E. Davis and Anthony W. Pereira. Irregular Armed Forces and their Role in Politics and State Formation (2003); Barnett Rubin, The Fragmentation of Afghanistan: State Formation and Collapse in the International System, Second Edition (New Haven: Yale University Press, 2002); Brian D. Taylor and Roxana Botea. "Tilly Tally: War-Making and State-Making in the Contemporary Third World." International Studies Review. Vol 10 (2008), 27-56; Charles Tilly, Coercion, Capital, and European States, AD 990-1992. (Cambridge: Blackwell Publishing, 1992).

[131] Charles Tilly, The Formation of National States in Western Europe. Princeton: Princeton University Press, 1975, 42.

[132] Charles Tilly, "War Making and State Making as Organized Crime." Bringing the State Back In. eds. Peter Evans, Dietrich Rueschemeyer and Theda Skocpol (Cambridge: Cambridge University Press, 1985).

require protection from two types of violence: violence came from the state itself, and the threat from neighbouring aggressors. Akin to taxes, in failed states individuals purchase their protection from warlords in order to defend against rival groups that pose an existential threat to their communities.[133] Through these taxes, warlords finance their fiefdoms and pay their militias to square off against their rivals.

Through this taxation-protection relationship, the very survival of a warlord is contingent on his ability to extract rents from his subjugated population, and over-extraction can lead to collective action against him, either by withholding support or by financing a political alternative.[134] It is this ability to defect from the state and engage in collective action that constrains the excesses of violence specialists in stateless societies.[135]

As Bates explains, political order occurs at an equilibrium point, in which both the guardian/warlord and the citizen/subject come to a mutual accord on acceptable terms of subjugation, wherein neither party has a strong enough incentive to defect from the political status quo. However, "Should the [violence] specialist opportunistically seize the wealth of a member of a group, his defection would trigger punishment by that citizen's confederates: They can withhold tax payments or mobilize fighting. If not sufficiently paid for the provision of

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[133] James D. Fearon and David D. Laitin, "Violence and the Social Construction of Ethnic Identity." <u>International Organization</u> (2000), 845-877.

[134] Robert Bates, <u>When Things Fall Apart</u> (2008); Ted Gurr, <u>Why Men Rebel</u> (New Jersey: Princeton University Press, 1970); James C. Scott, <u>The Moral Economy of the Peasant: Rebellion and Subsistence in Southeast Asia</u> (New Haven: Yale University Press, 1976). Jeremy Weinstein, <u>Inside Rebellion</u> (2007) addresses this issue, arguing that those groups that have external sources of funding are more likely to abuse the civilian population than those that rely on the local population for resources.

[135] Robert Bates, Avner Greif and Smita Singh. "Organizing Violence." <u>Journal of Conflict Resolution</u> Vol. 46, No. 5 (2002), 599-628; Jeremy Weinstein, <u>Inside Rebellion</u> (2007).

security, the specialist in violence can pay himself: he can turn from guardian to warlord. And if preyed upon or left undefended, then the citizens can furnish their own protection; they can take up arms."[136]

Furthermore, warlords that rely on the local economy to maintain their political power have an interest in keeping their support base competitive. As Mancur Olson argues, "the stationary bandit [warlord] keeps on gaining from reducing his rate of tax theft down to the point where what he gains (from tax theft on larger output) is just offset by what he loses (from taking a smaller share of that output). He is left at the revenue-maximizing rate of tax theft."[137] The successful warlord must reign in his rate of extortion to meet market conditions; if his protection fees are too high, then his business community supporters lose their comparative advantage and cannot sell products in neighbouring states. And if the engine of trade breaks down, the warlord will have bankrupted his own financial base. The rate of extortion must therefore remain at the equilibrium point: high enough so that the warlord can remain in power, but low enough to give the business community an incentive to compete in local and regional markets and not engage in rebellion.[138] Accordingly, both the warlord and the citizen alike must at some level agree to the terms of subjugation.[139] Even in collapsed states, a social contract must exist between ruler and subject.

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[136] Robert Bates, <u>When Things Fall Apart</u> (2008), 17.
[137] Macur Olson, <u>Power and Prosperity</u> (2000), 8.
[138] Robert Bates, Avner Greif and Smita Singh. "Organizing Violence." <u>Journal of Conflict Resolution</u> (2002), 599-628.
[139] Jean-Paul Azam and Alice Mesnard, "Civil War and the Social Contract." <u>Public Choice</u>. Vol. 115, No. 3-4 (2003), 455-475; Robert Bates, <u>When Things Fall Apart</u> (2008); Robert Bates, Avner Greif and Smita Singh. "Organizing Violence." <u>Journal of Conflict Resolution</u> (2002), 599-628; Thomas Hobbes, <u>Leviathan</u> (Oxford: Oxford University Press, 1998); Beatriz Magaloni, <u>Voting for Autocracy: Hegemonic Party Survival and its Demise in Mexico</u> (New York: Cambridge

However, in a civil war competition, the social contract between warlord and citizen is subject to constant negotiation and threat of defection. Because the authority structure in a collapsed state is defined by political competition, the capacity of citizens to renegotiate the terms and conditions of their subjugation under a warlord protection racket can be far higher than under a system of political authoritarianism. In collapsed states, persons that have access to financial resources have a unique political power, which they can use to mitigate the conditions of their repression. Businesspeople in failed states have liquid assets – that is, cash – that they can use to affect political outcomes. Cash, more than land or other forms of wealth or influence, allows the business community to directly support or withdraw support from a protection racket. Cash resources are especially useful for armed groups, which require liquid assets to pay foot soldiers and purchase supplies, arms, and ammunition in support the war effort.

Because warlords rely on the business community for these revenues, the business community exercises a greater degree of political influence over the warlords than other groups. The ability of the business community to engage in negotiations for the best possible terms of subjugation, in exchange for political acquiescence and monetary support, is the mechanism by which businesspeople in failed states can express their political voice. Individuals, especially moneyed individuals, are therefore far less the victim, and far more the agent of their political circumstances.

University Press, 2006); Bruce Bueno de Mesquita, Alastair Smith, Randolph M. Siverson, and James D. Morrow, The Logic of Political Survival (Cambridge, MA: MIT Press, 2003).

In this way, failed states are free markets for security provision. Where there is no monopoly on the use of force, individuals have more than one option in protection services. This creates a market competition for extortion rates, in which the business community is the biggest customer. Political order itself becomes a public good that is open to market competition. If Group A charges an individual a higher rate of extraction for less effective protection than Group B, then there is a material incentive for an individual to defect from A and shift support to B. As Bates et al. explain: if the rate of taxation in stateless societies is too high (so as to incite rebellion) or too low (causing the ruling elite to engage in predatory behaviour), then political order falls apart.[140] The successful warlord protection racket must therefore retain its support base by offering competitive terms of subjugation vis-à-vis its political rivals, lest the business community defect.

Whenever the cost of paying protection rents outweighs the cost of collective mobilization, political change becomes an available option. Once the system of warlord rule is no longer in the self-interest of citizens, they have the ability to defect from their negotiated agreements and pursue an alternative political arrangement.[141] Collective mobilization against individual warlord protection rackets has the power to change the balance of power on the battlefield, and members of the business community are particularly well positioned to sponsor and catalyze such mobilization. This collective action in support of a new

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[140] Robert Bates, Avner Greif and Smita Singh. "Organizing Violence." <u>Journal of Conflict Resolution</u> (2002), 599-628.
[141] Robert Bates, <u>When Things Fall Apart</u> (2008).

political order is the mechanism by which states can be reconstituted out of a situation of collapse.

The economic voting literature in civil war competition provides a useful framework for explaining the individual and collective decision-making behaviour within the business community. While most research on economic voting focuses on elections in advance industrialized countries,[142] the idea that economic self-interest affects individual political preference in civil wars has a useful application in understanding state failure and state-building. In much the same way that economic performance affects election results in modern democracies, economic factors also significantly influence political preferences in a civil war competition.

The presence of violent competition between political rivals generates incentives for warlords to maintain the allegiance of the business community, especially where a political alternative is present. As Anderson explains, in an election, the availability of a clear alternative increases the likelihood that a ruling party will be punished for economic underperformance.[143] The same logic can be applied to civil war competition. Where over-extraction is coupled with a clear

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[142] Christopher Anderson, "Economic Voting and Political Context: A Comparative Perspective." Electoral Studies Vol. 19 (2000), 151-190; Raymond M. Duch And Randolph T. Stevenson, The Economic Vote: How Political and Economic Institutions Condition Election Results (Cambridge: Cambridge University Press, 2008); Han Durossen and Michaell Taylor. Economic Voting (London and New York: Routledge, 2002); Michael S. Lewis-Beck and Martin Paldam, "Economic Voting: An Introduction." Electoral Studies Vol. 19 No. 2-3 (2000), 113-121; Kaspar Richter, "Wage Arrears and Economic Voting in Russia." American Political Science Review. Vol. 100, No. 1 (February 2006), 133-145; Wouter Van der Brug, Cees van der Eijk and Mark Franklin, The Economy and the Vote (Cambridge: Cambridge University Press, 2007).
[143] Christopher Anderson, "Economic Voting and Political Context." Electoral Studies (2000), 151-190.

political alternative, the business community is more likely to punish a predatory warlord protection racket by shifting its support toward the alternative.

Importantly, the ability of the business community, as well as all citizens and soldiers, to switch sides in a civil war competition is often constrained by ethnic and/or tribal identities.[144] Groups that are defined by ethnic or tribal characteristics are simply not viable alternatives for out-group members. No matter how competitive a rate Group B's protection racket might offer, there is no way a member of Group A can defect to B if the conditions of membership and alliance are defined by either ethnic or tribal affiliation. Therefore, in situations in which ethnic or tribal identities determine political affiliation, the business community has fewer options to punish warlords and build new alliances, and warlord protection rackets have a greater capacity to extort their subjects with impunity.

Accordingly, groups with a comparative advantage in social capital can therefore develop better relationships with business communities that need wider circles of social capital to improve access to markets, increase transparency, and reduce risks.[145] Where the population is internally divided along ethnic or tribal lines, Islamic movements can present a common identity, which can mitigate trust problems between ethnic or tribal rivals.[146] Islamic groups that have "inclusive informal social networks" generally fare better than those that are perceived to be

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[144] Donald L. Horowitz, Ethnic groups in conflict (1985); David Lake and Donald Rothchild (eds.), The International Spread of Ethnic Conflict (1998).
[145] Douglass C. North, Institutions, Institutional Change, and Economic Performance (1990).
[146] Stephen P. Cohen, The Idea of Pakistan (2004).

exclusive or biased towards a particular group.[147] As such, by employing an inclusive Islamic identity these movements can draw upon a wider support base than their political rivals, and are thus able to recruit supporters and encourage defection from multiple ethnic or tribal factions. These Islamic movements have the ability to court a wider segment of the business community than protection rackets that are defined by narrower identities. Because Islamists can access this wider pool for support, they are able to offer lower rates for protection.

Consequently, by courting the support of a wider segment of the business community, Islamists are able to generate larger revenues than their ethnic or tribal rivals. Accordingly, the business community's interests in paying lower margins for protection can produce a tangible change in the balance of power on the battlefield.

An Economic Theory of Islamic State Formation:

This dissertation presents an economic explanation of Islamic state formation out of failure. Looking at two classic cases of state failure – Afghanistan and Somalia – it proposes that the success of Islamic movements in failed states is a product of the long-term and short-term strategic interests of the business community, most especially their need to lower transaction costs and gain access to markets.

The role of business community is featured in some of the literatures on state failure in Afghanistan[148] and Somalia.[149] However, none of these works

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[147] Kathleen Collins, "Ideas, Networks, and Islamic Movements." World Politics (2007), 64-96.
[148] Ahmed Rashid, Taliban (2001); Barnett Rubin, "The Political Economy of War and Peace in Afghanistan" World Development (2000), 1789-1803.

systematically explores the relationship between the material interests of the business community and the success or failure of various Islamist groups. The role of traders and businessmen in supporting Islamic movements has largely been considered a secondary or tertiary explanatory variable in research on both Afghanistan and Somalia. To date, no existing study has theorized the role of the business community with respect to the dynamics of contention in either Afghanistan or Somalia. That is, no systematic study has been conducted on why some Islamists fared better than their competitors, Islamic and secular alike.

The literature on the Iranian revolution highlights the importance of the relationship between the *ulema* and *bazaari* class. Yet, only a few articles on Afghanistan and Somalia have given the support of the business community a more central explanatory role in understanding the rise of Islamic groups, and even these lack substantive theory building or testing. Therefore, while there is an apparent consensus that business community support is an important explanatory variable, the actual relationship between business communities, institutional development, and Islamic movements is currently under-theorized. This study picks up on these existing clues, and seeks to fill this gap.

This dissertation presents two causal processes that together lead to the emergence of weak but centralized Islamic states out of failure. First, the low-trust environment in failed states increases transaction costs and reduces market access, thus requiring the business community to seek out an alternative identity that can

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[149] Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." <u>Journal of Eastern African Studies</u>. (2007), 160-170; Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." <u>Islamism and its Enemies in the Horn of Africa</u> ed. Alex de Waal. (2004), 114-145.

cut across social divisions. In the Muslim world, the business community turns to Islam to reduce these high transaction costs, thus leading to a long-term process of Islamic identity formation within the business community.

Second, the business community continuously evaluates the costs of paying for protection services in a failed state. When the price of maintaining ethnic or tribal warlord protection racket exceeds the price of financing a given Islamic political alternative, the business community has the incentive to collectively mobilize in support of that Islamic movement, thus leading to the success of an Islamic state-building project.

The success of Islamic groups in failed states is therefore the product of a rational, economic calculation. To start, Islamic identity itself provides an economic utility in a failed state, especially in improving social trust. Moreover, in many cases throughout the Muslim world, Islamic groups have the opportunity to court a wider segment of the business community than their ethic or tribal political rivals.

In the free market competition for security provision, protection rackets that charge lower rates are more likely to successfully court the support of the business community than those with higher rates. The reason that Islamists are able to surpass their tribal and ethnic rivals is because they often have a more inclusive identity framework, thus allowing them to recruit from a wider pool of supporters whilst simultaneously charging a lower rate of taxation than rivals with more narrowly defined identities. Figure 1 provides a figurative illustration of how drawing support from a wider pool of recruits allows Islamic groups to offer

lower margins than groups based on narrower membership criteria. For example, if Groups A, B. and C are all defined by ethnic membership criteria, they can only draw material support from their own respective ethnic groups. In order to maintain the ethnic balance of power, each of these groups must therefore extract resources from their ethnic kin within the business community. Because they are relying on a more limited base of support, these ethnic protection rackets must therefore charge higher margins. However, because Islamic groups can theoretically recruit support across these ethnic divisions, Islamists can acquire greater revenues than their ethnic rivals by offering lower rates to a wider base of support.

Figure 1 illustrates this concept by abstracting that power parity between ethnic protection rackets A, B, and C is achieved at $5. In this case, each group must extract enough resources from its ethnic support base to reach $5. In order to maintain the ethnic balance of power, each group must extract sufficient resources from its base to check each rival. In contrast, the Islamist group can recruit support from across these ethnic divisions, offering a better rate for protection and subsequently acquiring higher revenues than all of their ethnic rivals. By offering lower margins to a wider segment of the business community, Islamic movements are able to draw support away from ethnic or tribal protection rackets and mobilize these resources in support of an Islamic state-building project.

The dissertation presents two processes of Islamic state formation. First, state failure prompts the business community to engage in a long-term process of Islamic identity transformation to reduce transaction costs and improve access to

markets. The dissertation argues that in the absence of the state, tribalism became the predominant informal institution used for governing society. Under state collapse, Afghan and Somali businesspeople primarily operated within their own tribal networks, utilizing those narrow circles of trust to secure their transactions. However, this social fragmentation resulted in exceedingly high transaction costs both within and across tribal divisions. Although Afghan and Somali businesspeople have had to work within the tribal framework, this framework caused ire, frustration, and economic losses for traders. Business communities have therefore sought out more inclusive networks of social capital, in order to protect their material interests. Islamic identity and institutions helped to serve this purpose.

Second, the dissertation argues that the business community shifts its collective support to an Islamist group when the costs of operating under tribal or ethnic warlord protection rackets exceed the cost of financing an Islamic political alternative. It proposes that Islamic movements have the ability to court a wider segment of the business community than protection rackets that are defined by narrower identities; because Islamists can access this wider pool for support, they are able to offer lower protection rates. It is the business community's desire for lower margins that drives their decision to switch their support in favour of Islamic movements.

Field Research and Data:

This dissertation relies on original qualitative and quantitative field research conducted in Pakistan, Afghanistan, Kenya, Somalia, and the United

Arab Emirates. For the Afghanistan case, the field research involved scores of interviews, including lengthy unstructured interviews with members of the original Taliban movement, Pakistan-Afghanistan transit traders, powerful smugglers that work the Pakistan-Afghanistan border region, Pakistani and Afghan academics and policy analysts who specialized in Pashtun politics, and several high-ranking members of the Pakistani Inter-Services Intelligence (ISI) that were directly involved in the financing of armed groups in Afghanistan.

Meetings with Taliban members, transit traders, academics, analysts, and members of the ISI took place on multiple occasions between 2005 and 2012 in Afghanistan and Pakistan, amounting to over a year of cumulative field research in that region. The interviews with the Pakistani intelligence community were extensive, in which elite decision-makers spent countless hours with me to explain their roles in sponsoring armed Afghan groups. Several elite-level Pakistani intelligence officers waived anonymity, and agreed to be formally identified and quoted. All interviews with business elites and Taliban members are treated as anonymous.

This research also draws upon years of observational data of the everyday business decisions of powerful members of the Pakistan-Afghanistan transit trade and smuggling community. In some ways, these observations started long before the formal research began, as many of the most powerful participants in this industry were my relatives and family friends. During the early and mid-1990s, I witnessed firsthand some of the more chaotic anecdotes about the business community that are relayed in the dissertation. That is, I was in the room while

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decisions about money and security were made by some of the wealthiest and most influential members of the Pakistan-Afghanistan transit trade and smuggling communities. I am aware of the specific contractual agreements between members of the business community and specific armed groups because these issues were decided in my presence, without censorship of details.

For the formal research, I recounted these episodes with these members of the business community to confirm the details of specific agreements and discussions I narrate in the dissertation. In the case that the individual was deceased, I spoke to their immediate relatives who were best positioned to give an eyewitness account of the episodes. These respondents confirmed and clarified the particular details of the empirical evidence provided in the dissertation. In this way, the dissertation relies on a combination of interview data and personal observations with the Pakistan-Afghanistan trade and smuggling communities. The personal names of all members of this business community have been kept anonymous and are identified by number in citations, except in cases where the individual is deceased or in the event that the individual has already been publicly identified, such as through a news report about an arrest or criminal conviction. Even in these cases, names and other personal information is withheld wherever families could be inadvertently identified.

The research in Somalia involved both qualitative and quantitative research. From 2007 to 2011, semi-structured and open-ended interviews were conducted with members of the Transitional Federal Government, founders of the original Islamic Courts Union (ICU) movement, Somali academics and policy

analysts, key military and political figures in the Somali civil war, and the leading members of the Mogadishu business community. Over two-dozen semi-structured interviews were conducted in Somalia, Kenya and the UAE with major players in the Mogadishu business community on their interests, identities, political leanings, and experiences of economic losses since the collapse of the state. These in-depth interviews were conducted with key supporters of the ICU that were centrally involved in the financing of the Islamic movement, but also with powerful ICU opponents of various political leanings. Considerable effort was made to assure that interviews were conducted without any clan bias.

The dissertation also draws upon observational field research on the illicit weapons smuggling industry between Kenya, Somalia and Ethiopia conducted between 2004 and 2007. This research involved unstructured interviews with criminal networks, arms traders, as well as observational research at the Kenyan-Somali border and in the Somali refugee-dominated Eastleigh district of Nairobi, Kenya. It gleaned insights from the practical methods of illicit arms smuggling to generate concrete research questions on how illicit business activities affect and are affected by the local security apparatus. Through these observations and research networks, it then engaged members of the Mogadishu business community to determine exactly how the security environment impacts their identities, interests, and political behaviour. The interviews and observational data that have informed the Somalia research amount to over a year of cumulative field research.

The dissertation also presents a quantitative analysis of original survey data from the over 1,000 respondents from the Mogadishu business community collected in 2009. The survey is the first and largest of its kind; two previous studies have presented simple statistical data based on smaller samples of the Mogadishu business community, but these researches provide descriptive statistics rather than complex analysis.[150] Because of the limitations in the existing data, this survey is a first effort towards testing the relationship between identity, interest, ideology, and political preferences in the Mogadishu business community.

Surveys in Somalia are extremely difficult to perform. As such, this dissertation took advantage of a unique survey opportunity presented by an exogenous flow of business refugees from Somalia to the Eastleigh district of Nairobi, Kenya between 2007 and 2009. This exodus took place as the result of a spike in violence due to the Ethiopian and AU military presence in Somalia, which turned Mogadishu into a virtual ghost town by mid-2009. Tens of thousands of businesspeople arrived in Eastleigh between 2007 and 2009, setting up remote offices in specific neighbourhoods. These business refugees shifted their operations to Nairobi on an interim basis, while business deals in Somalia were temporarily suspended due to fighting. So concentrated was this business refugee influx that whole sections of Eastleigh experienced an overnight economic boom as a result of the exodus. New shopping malls and commercial centres were physically constructed in Eastleigh within this two-year window.

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[150] Stig Jarle Hansen, "Civil War Economies, the hunt for profits and the incentives for peace (The Case of Somalia)" NIBR Working Paper No. 1, 2007 and Roland Marchal, A Survey of Mogadishu's Economy (Paris: European Commission Report, 2002).

Because of the intensity of fighting, members of all dominant clans in Mogadishu opted to temporarily shift their material resources to Eastleigh. This provided a unique opportunity to sample a widely representative sample of the Mogadishu business community.

This research uses survey data collected in 2009 from 1,004 new arrivals in Eastleigh that were active members of the Mogadishu business community throughout the period under investigation. Specifically, the survey respondents were Somali businesspeople who fled Mogadishu after the forcible expulsion of the ICU in 2007, and who had active business interests in Mogadishu under both the reign of warlords and the period of ICU emergence and dominance (between 2000 and 2006). The survey was conducted in Eastleigh by a five-person team led, in cooperation with the Mogadishu-based Centre for Research and Dialogue (CRD-Somalia).

The survey was reviewed by CRD and translated into Somali, and field workers were provided with a scripted introduction and questionnaire. All respondents were guaranteed complete anonymity and were encouraged to reflect carefully and honestly about their experiences during the period under study. Answers were recorded on sheets that contained no information that could be used to personally identify the respondent.

The respondents were businessmen and women residing in parts of Eastleigh that were known to have high concentrations of new arrivals from Mogadishu. Women play an important role in the Somali economy, and there are many large businesses owned by women. Businesswomen actually dominate

some industries, such the trade of *qaat,* a popular local narcotic. No effort was made to bias the sample on the basis of gender. Notably, 30% of all respondents in this survey are female.

The fact that respondents were physically located in Eastleigh drastically simplified the issues related to protecting the security of all research participants. However, this sample is therefore biased to include only those members of the business community that had the financial resources to leave Mogadishu with the onset of new fighting. Therefore, those persons that either could not or would not leave Mogadishu are not represented in this survey. This excludes both those that were too poor or vulnerable to leave, as well as those few that were powerful enough to stay.

However, these exclusions do not substantively undermine the goals and objectives of this particular study. On the one hand, businesspeople that were so poor that they could not change their own circumstances were also unlikely to be able to affect the level of political change that this study addresses. These poorest businesspeople lack the ability to vote with their dollar in a civil war competition. While a survey of the urban poor in Mogadishu might reveal other interesting insights, this particular class of businesspeople are not in fact the agents of social change that this dissertation is concerned with.

On the other hand, members of the business community who were powerful enough to remain in Mogadishu during heavy fighting do have a profound ability to affect their political circumstances. These individuals have their own private militias and are able to maintain their business concerns amidst

the active conflict. Ideally, they would have been included in the survey. Nonetheless, their exclusion does not significantly impact the study for two key reasons. First, the number of businesspeople in this class is a small handful, so their inclusion in the survey would not have made a significant statistical difference in the overall data. And second, extensive in-depth interviews were conducted with these exact businesspeople from this elite class. These interviews included a review of the preliminary results of the survey.

The following chapters test both of these hypotheses against the empirical record. Chapter 3 explores the origins of the business-Islamist alliance in the Pakistan-Afghanistan transit trade and smuggling communities over the course of the Soviet-Afghan War. It explains how Islamic identity and institutions provided an important source of social capital in the context of the civil war through the interaction between traders, *mujahideen* fighters, and the Pakistani intelligence community. Chapter 4 examines why the Taliban was able to achieve military and political victory from 1994-96, while no other group, Islamist or otherwise, achieved a comparable level of success. It argues that the strategic decision-making of the transit trade and smuggling communities gave the Taliban the financial resources to generate sufficient momentum to break the civil war stalemate.

Chapter 5 examines the origins of the business-Islamist alliance in Somalia, with a careful examination of the transformation of social identities within the business from the collapse of the state in 1991 until the rise of the Islamic courts movement in 2006. Chapter 6 addresses the short-term strategic

calculations of the Mogadishu business community, using the survey data to illustrate how the economic interests of the business community directly affected support for the ICU. Both chapters draw upon extensive interview data with members of the business community. In Chapter 7, the dissertation concludes with observations on implications for policy-makers, with a particular attention to state power, international intervention, and post-conflict peacebuilding. The conclusions challenge the conventional wisdom that Islamic movements in failed states are an inherent security threat, and present alternative strategies for engaging these new regimes.

Figure 1: Wider Pool, Lower Margins

Islam's Competitive Edge

Tribal protection rackets   Islamic protection racket

GROUP A = $5   GROUP B = $5   GROUP C = $5

$2.5 $1.25 $1.5

$2.5 $1.25 $1.5

$1.25 $2

$1.25

Islamic Group $9

$1
$1
$1
$1
$1
$1
$1
$1
$1
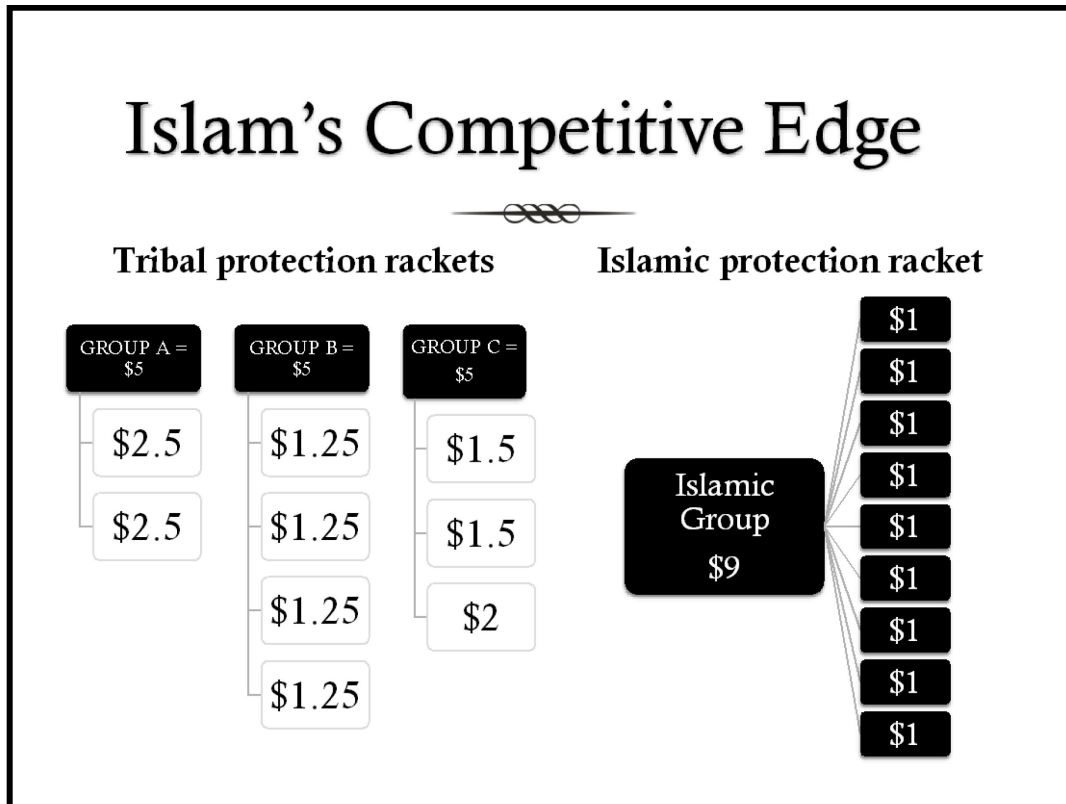
Chapter 3: Mafia and Mujahideen:
Origins and Evolution of Pakistan-Afghanistan Smuggling Business

The decade-long Soviet-Afghan War shattered the historically weak Afghan state and radicalized traditional Afghan society, economy, and politics. The Red Army's invasion resulted in an estimated total of one million deaths and six million refugees, along with the complete upheaval and destruction of the traditional Afghan economy. Communist land reforms devastated poor farmers and brutal Soviet aerial assaults destroyed vital irrigation systems, orchards and farmlands. With nearly 80% of Afghans dependent on agricultural, this displacement and destruction meant penury and death.

However, the Soviet-Afghan War also created lucrative new opportunities in the Pakistan-Afghanistan border region. Because American assistance to anti-communist forces was channelled through the mountainous Pakistan-Afghanistan border region, the 1980s jihad was a boon for the cross-border transit trade and smuggling industry. Covert American and Pakistani sponsorship of the anti-Soviet *mujahideen* resistance dramatically transformed the informal economy of the unruly Pakistan-Afghanistan border region. Traditional cross-border trade and smuggling routes served as key arms trafficking conduits through which the Pakistani intelligence community could supply the Islamic resistance with war materiel. Through these covert channels, the cross-border trade community proved to be an indispensible ally of the mujahideen.

Over the course of ten years, members of the Pakistan-Afghanistan trading community forged deep personal relationships with Afghan commanders. Political

Islam played an instrumental role in facilitating cooperation between the parties. Pakistani officials, Afghan commanders, and cross-border traders all rallied around the common cause of Islamic jihad. This chapter argues that the economic pressures of state failure in the 1980s drove the Pakistan-Afghanistan business community to develop an increasingly Islamic political and social identity. Modern state failure significantly increased the salience of Islamic identity and the power of local Islamic institutions within this trade and smuggling community. As a result of this political engagement, the traditional cross-border transit trade and smuggling industry evolved into a powerful and militarized social force, with an increasingly politicized Islamic identity.

The chapter unfolds in three parts. It begins with a brief history of Islam, trade and state formation in both Afghanistan and Pakistan, with a particular focus on how state weakness in both Afghanistan and Pakistan allowed the informal economy of the border region to develop autonomously. The second part examines how state failure then transformed the informal economy of the border region into a militarized criminal enterprise. It uncovers the origins of the Pakistan-Afghanistan smuggling business and then explains its evolution into an arms and drugs trafficking industry over the course of the Soviet-Afghan War. The third part explores how Islamic identity has helped mitigate the high costs of this state failure in the Pakistan-Afghanistan border region, with a particular attention to the role of Islam in increasing social capital. It concludes with an analysis of the power of the local business community to transform political outcomes on the battlefields of Afghanistan.

The chapter relies on original interviews with cross-border traders and Pakistani intelligence officers conducted between 2006 and 2011. All individuals are treated as anonymous, except if the individual has specifically waived anonymity or the individual is no longer living and disclosure would not cause harm to any other individual. In cases where the individual is publicly known for certain activities, such as having being arrested or identified by Interpol, some names have been revealed. In these cases, no new information has been disclosed about these individuals besides that which has already appeared in other published reports or journalistic accounts. It also draws upon detailed observational data of how the cross-border trade business operates in Pakistan and Afghanistan. The observational data also applies the above principles of anonymity. The research also relies on both primary and secondary sources, including journalistic interviews conducted during the Soviet-Afghan war.

<u>Islam, Trade and State Formation in Afghanistan:</u>

Trade was passing through the present-day Pakistan-Afghanistan border region for at least a millennium before either state was formed. The Pakistani city of Peshawar has been a transit hub for the region and a key connection between India and Central Asia along the historic Silk Road. Caravan traders connected markets along 6,500 kilometres of winding paths traversing a diverse range of dynastic empires, kingdoms, princely states, and ungoverned spaces. Economic life in the region depended upon this trade, which became a lifeline for agriculturalists, pastoralists, miners, and manufacturers to sell their goods in profitable markets from China into Persia and beyond.

Islam has historically played a significant role in this informal economy. Islamic identity provided a means of establishing trust-based relationships between prospective business partners across tribal divisions, while Islamic laws and institutions offered a set of religious rules and guidelines that could reduce uncertainty, facilitate contracts, and reduce transaction costs. Islamic norms worked seamlessly with local cultural institutions, such as the *jirga*, which businesspeople used to settle disagreements and disputes.[151] In the absence of strong state institutions, Islamic norms provided social capital that helped dramatically expand business along this lucrative trading route.[152]

The introduction of modern statehood in Afghanistan and Pakistan transformed the social, political and economic life of the tribal region. First, Anglo-Russian military competition caused Afghanistan to emerge as a weak but relatively stable state that was dependent on external aid. Because the Afghan government relied on British and Russian resources for its survival, it did not establish a taxation-protection relationship with its citizens. The informal economy therefore remained autonomous of the state and continued to rely on Islamic norms, values and institutions to facilitate economic life.

Second, the end of British imperialism in India created a weak state in Pakistan, which was both unable and unwilling to monitor its border with Afghanistan. This state weakness in Pakistan subsequently created new

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[151] A jirga is a meeting of elders that includes representatives of parties to a dispute, which resolves the conflict through negotiated settlement. The jirga itself receives its legitimacy from its adherence to and primary purpose of upholding religious laws, norms and institutions.
[152] For a discussion of the interaction between Buddhist and Islamic civilizations, particularly on their expanded trade relations throughout several Islamic Caliphates from the 8th to 19th Centuries, see Johan Elverskof, Buddhism and Islam on the Silk Road (University of Pennsylvania Press, 2010).

opportunities for illicit business activities, which strengthened the informal economy at the expense of both the Afghan and Pakistani states. The construction of these weak states transformed the economy, and subsequently state failure, particularly in Afghanistan, helped to criminalize it.

Afghan State Formation:

Although the Afghan state has been politically centralized since the mid-19th C under Amir Abdul Rahman Khan, the power of the central government in Afghanistan has traditionally been weak. Afghanistan's ruling elite granted the countryside a remarkable degree of political, economic, and social autonomy, thus creating a political culture favouring local governance over centralized rule. Villages tacitly accepted the authority of the central state, just as long as the government did not interfere in their regional social or economic affairs. The state therefore maintained peace and avoided rebellion by opting not to directly tax or rule over its population.[153] As Barfield explains, "the degree of revenue sought by any Afghan government from its countryside was inversely related to the availability of other sources of income elsewhere… this encouraged Afghan rulers to seek foreign revenue sources as a way to avoid political conflict with their own people."[154] A weak centralized state thus presided over a fragmented and decentralized system of power.

The autonomy of the countryside forced the Afghan state to become dependent on external financial support to fill its state coffers. As early as the 18th Century, Afghan rulers looked abroad for state revenues, at first by conquest in

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[153] Thomas Barfield, <u>Afghanistan: A Cultural and Political History</u> (Princeton: Princeton University Press, 2010).
[154] Ibid, 114.

India and then later by foreign aid from the British and the Russians. This dependence on foreign resources therefore allowed the Afghan state to develop without establishing the authority of its government over all of its citizens.[155] As Rubin aptly states, "Aid enabled the state to expand its organization and influence without attempting an economic or social transformation of the countryside".[156]

Afghanistan entered the international system as a by-product the 19th Century "Great Game" between the Russian and British Empires. Commencing with the First Anglo-Afghan War in 1838, the supply of these foreign resources came from the very states that sought to politically dominate Afghanistan. During this period, the British used Afghanistan as a buffer state against a potential Russian threat to British-held India, resulting in three Anglo-Afghan wars.[157] Upon signing the 1879 Treaty of Gandamak, the British provided heavy financial support to the central Afghan state in an effort to buffer Russia and win support for its domination. After three wars against British domination, Afghanistan finally gained its sovereign independence from British suzerainty in 1919, but its dependence on foreign resources endured.

Not only did the Great Game perpetuate this state weakness in Afghanistan, but it also constructed the borders of modern statehood in both Pakistan and Afghanistan. Anglo-Russian competition in the 19th Century created

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[155] Throughout the 20th Century, there were numerous failed attempts to modernize the Afghan state and bring the countryside under central government control. King Amanullah Khan (1919-29) attempted a western-type of reform of the Afghan state and society, which resulted in widespread mobilization and rebellion. King Mohammed Zahir Shah (1933-1973) also attempted some modest reforms before being ousted by his socialist cousin and brother-in-law Muhammad Daoud Khan in 1973.

[156] Barnett Rubin, The Fragmentation of Afghanistan: State Formation and Collapse in the International System, Second Edition (2002), 20.

[157] In 1839-1842, 1878-1880, and 1919

a buffer zone against Russian influence. The 1879 Treaty of Gandamak demarcated a line through the Pashtun tribal areas, using the rough mountainous belt as a safeguard for Russian and British spheres of influence. The subsequent "Durand line", named after British Foreign Secretary of British India, Henry Mortimer Durand, legally divided Pashtun tribes and families across an unmarked divide.[158] However, the line had little impact on the everyday lives of the tribal population; goods and people continued to flow across this unmarked border without impediment or concern. Though the Durand line served the political purposes of the British, it did not immediately impact the historic trade that passed through the mountainous terrain. Only after Pakistan became a sovereign state in 1947 did the Pakistan-Afghanistan border begin to significantly affect the economic interests of cross-border traders.

Pakistani State Formation:

The end of British colonialism in the Indian subcontinent was marked by extraordinary sectarian violence and secession. Pakistan acquired sovereign independence on August 14, 1947. In 1956, it became the first modern state to declare itself an Islamic Republic and construct a constitution on the basis of Islamic laws and principles.[159] However, independence from Britain and partition from India did not lead to state consolidation in Pakistan. Ethnic factionalism hampered Pakistani nationalism and threatened the territorial integrity of the

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[158] Thomas Barfield, "The Durand Line: History, Consequences, and Future" Conference Report presented at the American Institute of Afghanistan Studies and the Hollings Center Conference in Istanbul, Turkey: July 2007, pg. 4.
[159] For a discussion of the role of Islam in the identity of the state, see Cohen, Stephen, The Idea of Pakistan (2004).

state.[160] Under the banner of a nationalist Islamic identity, Pakistani statesmen tried to integrate a multitude of different ethnic and tribal nationalities into the Pakistani state, including the tribal populations that were divided along the porous Durand line border. Due to the government's desperate need to create a common national identity, Pakistan adopted and espoused a common Islamic identity as the basis of the Pakistani nation-state.[161]

From the very start, the Pakistani state remained largely incapable of exerting direct control over large parts of its territory.[162] The Pakistan-Afghanistan border region remained politically autonomous, and its local economy stayed informal and off-the-books. The Pashtun tribal people of this region had never paid much heed to the Durand line, and had only accepted the authority of the new Pakistani state in exchange for economic assistance programs and a significant degree of political autonomy.[163] Despite their tacit acknowledgment of the Pakistani state, these tribal people continued to cross the unregulated border for both personal and business reasons.

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[160] The notion that a common Islamic identity could override ethnic bonds was severely undercut by the 1971 separation of East Pakistan, which gave the majority Bengali ethnic population of Pakistan their own independent state. The creation of Bangladesh revealed the stark weakness of the Pakistani state to the threat of ethnic secessionism from Pashtun, Balochi and Sindhi groups, and drove the government to increase its propagation of the idea that Islam is the primary political identity of Pakistan. For a detailed account of the secession of East Pakistan, see: Richard Sisson and Leo E. Rose, War and Secession: Pakistan, India and the Creation of Bangladesh (Berkeley: University of California Press, 1990).

[161] Stephen P. Cohen, The Idea of Pakistan (2004); Husain Haqqani, Pakistan: Between Mosque and Military (Washington: Carnegie Endowment for International Peace, 2005).

[162] Under the leadership of President Zia ul-Haq, Pakistan embarked on a countrywide initiative to promote the Islamic identity of the state and its citizens. See Husain Haqqani, Pakistan: Between Mosque and Military (2005).

[163] In a 1947 pre-partition referendum, the majority Pashtun populations in the North West Frontier Province (NWFP) voted overwhelmingly for inclusion in Pakistan.[163] Tribal leaders held a *Loya Jirga* to discuss the Indian partition, and unanimously declared their preference for Pakistan. With a 50% voter participation, there were 2,89,244 votes for Pakistan and only 2,874 for India

In order to avoid a direct confrontation along its western frontier, the Pakistani government gave tribal people of the border region a wide berth and did not attempt to directly govern the border area with Afghanistan. In fact, in a 1948 visit to Waziristan, Jinnah ordered the withdrawal of all Pakistani armed forces from the tribal areas, declaring that there was no need for Pakistani troops because the tribal people were capable of defending the region themselves.[164] This delegation of authority to tribal armies kept the relationship between the Pakistani government and its tribal population amiable for decades.

Not only did Pakistan appease the tribal region because of the internal threat of secession, but it also needed the support of the Pashtun population to rebuff an irredentist challenge from Kabul. Afghanistan refused to recognize the validity of the Durand line and was the only country in the world to vote against Pakistan's admission into the United Nations. In response, the state tried to purchase the loyalty of the tribes through the provision of economic incentives and a mutual understanding of the semi-autonomous nature of the tribal belt. Throughout the 1950s and 60s, Pakistan offered an increasing number of incentives to appease its tribal populations, including economic, political and employment opportunities. Pakistani Pashtuns were promoted to higher positions within the government and military.[165] Moreover, Pakistani authorities also tried

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[164] This sixty years long status quo ended in the post 9/11 period when the redeployment of Pakistan Army in the tribal belt provoked a strong insurgent response among the restive tribes. As Hasnat concluded, the consequences of the redeployment have been largely negative and the presence of 120,000 troops has not effectively asserted the control of the central government over the region. See Syed Farooq Hasnat, "Pakistan & Afghanistan: Domestic Pressures and Regional Threats: Pakistan's Strategic Interests, Afghanistan and the Fluctuating U.S. Strategy." Journal of International Affairs. Vol. 63, No. 1 (2009), 141-155.

[165] Rizwan Hussain, Pakistan and the emergence of Islamic militancy in Afghanistan (Burlington: Ashgate Publishing Ltd., 2005), 74

to pacify the Pashtun population in the border region by offering an unofficial green light to illicit smuggling activities. High-ranking officials held meetings with business leaders of the smuggling industry and the government even provided the construction materials to help build smugglers' bazaars. These incentives kept ethnic secessionism at bay, but they also perpetuated state weakness and increased the power of the informal economy.

The Pakistani government also lacked the ability or willingness to tax its domestic population, most especially its tribal peoples. In fact, Pakistan has consistently had difficulty levying direct taxes on its population. Instead, it has relied on indirect taxes such as customs duties and sales taxes to generate revenue. According to Fair et al. "The government relies on indirect taxes, primarily sales and excise taxes, for 70 percent of the revenues of the Central Bureau of Revenue. However, these taxes do not apply to the agricultural sector […]. Since agriculture accounts for a fifth to a quarter of GDP, depending upon the harvest, this is a large share of the economy to leave untapped. In addition, special exemptions are rife."[166]

"Why has Pakistan found it so difficult to set its fiscal house in order?" asked former Pakistani Finance Minister Shahid Javed Burki. "The country's political leaders have not been able to develop a consensus around which a viable system of tax administration could be built. It is often suggested that that the tax administration system requires greater coercive powers."[167] Burki[168] and Malik[169]

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[166] Christine Fair, Keith Crane, Chistopher S. Chivvis, Samir Puri and Michael Spirtas, Pakistan: Can the United States Secure an Insecure State? (Santa Monica: Rand Corporation, 2010),124.
[167] Shahid Javed Burki, Changing Perceptions and Altered Reality: Emerging Economies in the 1990s (New York: World Bank, 2000), 157.

both argue that the threat of popular mobilization have prevented the Pakistani government from developing a more robust taxation system. However, other scholars have argued that Pakistan has the coercive power to tax its citizens, but lacks the willingness to do so. They argue that government's unwillingness to levy taxes on property and agriculture is large due to the power and interests of the land-owning class, which has used its political influence to resist taxation on their assets. In fact, the Pakistani armed forces receive "a variety of benefits provided to retired personnel in the form of urban and rural land," thus created a new class of land-owners from within the military establishment.[170] Fair et al. allege that, "Pakistan's landed classes, both the traditional feudal families and retired military officers, who have become a new land-owning class, fiercely resist property taxes" [171] Malik affirms this point, saying, "As is repeatedly stated, no Pakistani government has ever imposed an agricultural tax."[172]

Therefore, instead of imposing taxes on the landed elite, Pakistan turned to customs duties to fill state coffers. These duties affected domestic markets prices, and inadvertently created profitable opportunities for traders to engage in illicit smuggling activities. However, the threat of irredentism from the Pashtun tribes and the inability to monitor the border with Afghanistan made it in Pakistan's interest to simply allow these illicit tax evasion activities to occur. Together, the porous Pakistan-Afghanistan border, the autonomy of the Pashtun tribes in the

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[168] Ibid, 157.

[169] Anas Malik, Political Survival in Pakistan: Beyond Ideology (New York: Routledge Press, 2011), 169

[170] Ayesha Agha Siddiqa, Military Inc.: Inside Pakistan's military economy (London: Pluto Books, 2007), 19

[171] Christine Fair, Keith Crane, Chistopher S. Chivvis, Samir Puri and Michael Spirtas, Pakistan: Can the United States Secure an Insecure State? (2010),124.

[172] Anas Malik, Political Survival in Pakistan: Beyond Ideology (2011), 162.

border region, and Pakistan's regressive tax policies helped create a powerful and well-organized smuggling industry that would eventually play an important war in the Soviet-Afghan War.

State Failure and the Informal Economy:

State weakness in Pakistan and Afghanistan created three specific shocks that transformed the informal economy. First, the Pakistani state constructed trade and tax laws that it was unable, and at times unwilling, to enforce. This gap between law and enforcement capability created profitable smuggling opportunities for cross-border traders. Second, the economic dependence of the Afghan state on foreign resources made it increasingly susceptible to political interference. Soviet interference in Afghanistan culminated in a violent coup in 1979, followed by a large-scale Soviet invasion of the country that destroyed traditional markets. Lastly, the Soviet occupation of Afghanistan allowed Pakistan to utilize its state weakness for its strategic advantage. The smuggling networks that had emerged in response to Pakistan's inability to exert the rule of law over the border region became a key ally in the war against the Soviets. The Pakistani military engaged these smuggling networks, as a partner and sub-contractor in the supply of weapons to anti-Soviet guerrillas.

Origin and Evolution of the Smuggling Business: 1950-1989

The formation of the Pakistani state directly affected business on both sides of the border. After partition, Pakistan lost most of the subcontinent's tax base to its rival India. The government was therefore in desperate need of revenues to consolidate state power from both internal and external threats. The

Pakistani government attempted to increase state revenues by imposing customs duties on imports. However, these duties also inadvertently taxed goods that were being imported into landlocked Afghanistan. Because most goods came into Afghanistan through Pakistani trade routes, Afghan importers were forced to pay both Pakistani and Afghan duties. To remedy this problem, in 1950 Pakistan and Afghanistan signed the Afghanistan Transit Trade Agreement (ATTA), allowing goods entering Afghanistan to bypass the Pakistani customs fee, while still allowing Afghan traders to use the lucrative seaport at Karachi to import goods under seal for re-export to Afghanistan.[173]

The ATTA system immediately affected how traders conducted business in the region, which up until that point had remained unimpeded by government regulations. The informal economy immediately reacted to the changes imposed by the ATTA, as traders who wished to import into Afghanistan now had to work with much more sophisticated bureaucracies in Kabul and Karachi. Goods earmarked for consumption in Pakistan were now subject to government taxation at the point of entry in Karachi, whereas goods earmarked for Afghanistan had to go through a laborious system of paperwork and verification to ensure safe delivery to the border.

First, traders would need to acquire paperwork through the Ministry of Trade and Commerce in Kabul, paying a bank guarantee of 1.5% of the value of the trade shipment. With this permit, they would then ship the goods in a sealed

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[173] Providing a safe and free transit route connecting landlocked countries to an ocean port is a courtesy that was traditionally extended by neighbouring states. Such agreements were designed to facilitate mutually beneficial regional and international trade. This practice became mandatory in international law through the 1965 Convention on Transit Trade of Landlocked States, which made this provision a legal obligation.

container to the port at Karachi, where the trader's consignment would be verified by Pakistani customs agents and then approved to bypass the Pakistani customs duty. The container would then travel to the Peshawar Dry Port, where it would be presented with an official document called *ilme khabar*, which is a formal import license issued by the Afghan Trade Commissioner in Peshawar.[174] The Pakistan's custom officers at Peshawar Dry Port would match the shipment's packing list with the *ilme kabar* and stamp its approval onward to Afghanistan. The Peshawar-to-Jalalabad transit trucks would then be cleared to bring the goods up to the Afghan border, where they would then pay the much lower Afghan customs duty and sell the goods in Afghan markets.

However, the ATTA also provided cross-border traders in Afghanistan and Pakistan with an illicit opportunity to sell to the much larger Pakistani market while circumventing Pakistani duties. Under the ATTA, transit traders could use a letter of credit acquired in Kabul to ship goods directly via the Karachi seaport into Afghanistan without needing to pay the Pakistani duty. The Afghan traders would then only need to pay the much lower Afghan customs fee at the Pakistan-Afghanistan border crossing. Seeing the opportunity, transit traders devised a scheme to smuggle goods earmarked for Afghanistan back into Pakistan, to be sold in *Bara* bazaars, or smugglers' markets. Using this loophole in ATTA, traders started to import a surplus of goods beyond the demands of the Afghan market, and then smuggled the surplus back through the porous border.[175]

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[174] *Ilme khabar* literally translates to "news of information".
[175] The Afghan market was an important source of income for Pakistani-based transit traders. Transit traders profited from both the smuggling activities and the normal trade to satisfy the Afghan markets. Especially because certain goods are time sensitive (Eid clothes, seasonal goods,

There were six main stages involved in smuggling goods through the Afghanistan-Pakistan border. First, the letter of credit would be acquired from Kabul. Second, the goods would be shipped from their point of origin to the Karachi port. Traders would pay clearing charges, inspection fees, and demurrage payments, as well as bribes to expedite their shipments. Shipping containers whose contents did not match that of the original permit would be held up until a larger bribe was paid, the amount of which was determined by the value of the contents inside.

Third, once cleared at Karachi, the goods would be sent in a sealed container to the Peshawar dry port. At Peshawar, the containers were unsealed, unloaded, and reloaded into trucks heading for Afghanistan under the direct inspection of the Peshawar customs officers. There were standard baseline bribes paid per truck, which increased in the event that the contents were particularly valuable.

Fourth, the Afghanistan trade office in Peshawar approved the original permit from Kabul, confirming that the goods were indeed destined to Afghanistan. This involved a heavier bribe. The local police were paid a modest bribe per truck to ensure that the shipment would not be impeded on the road to Torkham.

And fifth, at the Afghanistan-Pakistan border post at Torkham, the customs clearing agent would charge a nominal inspection fee plus a bribe, in order to allow the truck to continue on. Once the goods cleared inspection

fresh produce), these traders made their profit on the basis of facilitating the timely and secure arrival of these goods to the Afghan market.

Torkham, the trader would receive the truck at the Jalalabad-Gomrak trading post inside Afghanistan, unload the goods.

Sixth, at this point the trader could either ship the goods onward to Afghan markets or smuggle them back to Pakistan through the unmarked territory in the tribal areas. In some cases, very wealthy or powerful traders skipped this entire process; they could pay a larger bribe to unload their goods in Pakistani territory and falsify all of their paperwork.

Because there was already a traditional exchange of goods coming from Afghanistan into Pakistan (and vice versa), the smuggled goods were seamlessly integrated into the already existing flow of cross-border trade. Afghans, Pakistanis and tribal peoples all took advantages of this opportunity. Afghan traders serviced interior Afghan market, and also formally set up shops in Pakistan's lucrative smuggler's bazaars. The tribal people also did well in the smuggling business. They charged the trade community for *rahdari,* or "safe passage" through their territory and also earned money for doing the labour of moving the smuggled goods through their territory back into Pakistan. The lack of demarcation and state presence along the disputed Durand line and the absence of state administration in FATA, combined with the structural weakness of the Pakistani state and the corruption of officials in the border region enabled traders to turn the ATTA into the source of a new multi-billion dollar illicit smuggling business, which became the most powerful industry in the unruly border region. The volume of smuggling activity gradually increased from the 1970s, and became increasingly more profitable over the course of the Soviet-Afghan War. By the 1990s, the smuggling

industry consistently net well over a billion dollars in revenue annually. According to a 1999 World Bank Report, "unofficial re-exports of goods from Afghanistan into Pakistan [were] estimated at $1.96 billion (84% of the total trade) in 1997".[176]

The Pakistani state not only lacked the ability to control this smuggling activity, but some members of the government actually saw this lawlessness as a strategic asset. During the 1950s, Pakistan used the smuggling industry to buy the loyalty of tribes in the FATA by creating markets for smuggled goods in the tribal areas, particularly Landi Kotal in Khyber Agency and Angor Adda in South Waziristan Agency.[177] Smugglers' markets created jobs and moneymaking opportunities for the economically marginalized tribal people in Khyber and other areas in the FATA. Accordingly, those participating in customs duty evasion were often adamant that the business was not illegal, nor did they accept the idea that this was smuggling. Most viewed the business as a natural extension of the historic cross-border trade between Afghanistan and Pakistan, which had occurred for many centuries. Traders were quick to point to the Pakistani government's apparent acquiescence to the practice of customs duty evasion and their material support for constructing smugglers bazaars as evidence of the legitimacy of this industry.

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[176] Zareen Naqvi, "Afghanistan-Pakistan Trade Relations." World Bank Report (Islamabad: Pakistan, 1999), 3.
[177] Both Khyber Agency and South Waziristan Agency are Pasthun tribal districts within the Federally Administered Tribal Areas of Pakistan, along the border of Afghanistan. Khyber Agency is closest to Peshawar and Jalalabad. South Waziristan is a rugged and remote mountainous region, south of Peshawar and North of Quetta, closest to Paktia province in Afghanistan.

"The Pakistani government came up with an ingenious economic plan to sway the sympathies of the Pashtun people," explains Jamal Khan. "It created what was later known as the culture of *Bara market*. So enormous was the impact of this plan that even today almost all dominant players in the Afghan economy can trace their origins back to these markets."[178] By sponsoring the construction of these markets, Pakistan used its state weakness and as a strategy to reduce the risk of insurrection and internal conflict in its least governable spaces.

During the Soviet-Afghan War, the Pakistani state once again utilized the smuggling business for military and political objectives. Smugglers networks provided the Pakistani government with an important channel to extend its influence into Afghanistan.[179] The smugglers' markets in Peshawar steadily expanded in the 1970s and 80s, and the transit trade quickly became one of the most lucrative industries in the region, with annual revenues estimated at US$5 billion.[180]

The Soviet-Afghan War: 1979-1989

The Soviet occupation (1979-1989) was one of the most aggressive attempts to centralize and modernize political power in the history of Afghanistan. On April 28 1978, a communist coup overthrew and killed President Muhammad

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[178] Jamal Khan, "Analytic Speech." Pashtun Research Advocacy and Policy Centre – Canada. December 16, 2006. <http://www.prapcanada.com/>

[179] During the 1980s and 90s, the smugglers bazaars were among the largest in Peshawar and the participants in this trade were publicly known. Rather than extending legal action against this community, the leaders of the smuggling industry were known to have strong ties to the political establishment. Only in 2011, faced with evidence that it was losing billions of dollars in state revenue, did Pakistan sign a new anti-smuggling trade agreement with Afghanistan, the Afghanistan-Pakistan Transit Trade Agreement (APTTA), which corrected for the loopholes present in the old ATTA.

[180] The Federal Tax Ombudsman (FTO) claims that 75% of goods earmarked for Afghanistan are actually sold in Pakistani markets. Idrees Bakhtiar and Mohammad Ali Khan. "The Billion Dollar Scam." Dawn News. April 22, 2011. <http://www.dawn.com/2011/04/22/herald-exclusive-the-billion-dollar-scam.html>

Daoud Khan and installed the staunchly communist Peoples Democratic Party of Afghanistan (PDPA) in Kabul. After a series of staged coups in Kabul, on December 29, 1979, tens of thousands of Soviet troops crossed the border into Afghanistan and two days later Moscow assassinated PDPA-President Hafizullah Amin and installed the staunchly pro-Soviet Babrak Karmal as the new Afghan President.[181]

The PDPA relied overwhelmingly on Soviet resources for its political survival. Over the course of the war, the Afghan state acquired significant bilateral aid and loans from their Soviet allies to maintain the war effort. Notably, the Soviet-backed PDPA government accrued 10 billion dollars of state debt, in order to purchase Soviet weapons, to fight on behalf of the Soviet Union against the population of Afghanistan.[182] Other than accruing Soviet debt, "the main source of government revenue came from export taxes levied on gas shipped to the Soviet Union. These taxes climbed from 17 percent of revenues in FY 1979 to an estimated 45 percent in FY 1983".[183] Throughout the occupation, the Afghan government was dependent on Moscow to fill its state coffers.

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[181] In 1978, the heavily pro-Soviet communist Khalq faction of the PDPA overthrew and killed the pro-communist President Daoud Khan in a violent coup, under the leadership of Nur Muhammad Taraki. In a subsequent coup, Taraki was killed in 1979 at his palace, and was seceded by Hafizullah Amin. Amin was then summarily executed by Soviet commandos in 1979. The Soviet Union was concerned about Amin's loyalty to the Soviet Union, so they executed Amin and replaced him with Babrak Karmal, who was hand selected by the Soviet Union to rule Afghanistan throughout the occupation. For a history of the Saur rebellion and communist era in Afghanistan, see Thomas Barfield, Afghanistan: A Cultural and Political History (2010), 225-42; David B. Edwards, Before Taliban: Genealogies of the Afghan Jihad (Berkeley: University of California Press, 2002), 25-94.

[182] In 2007, Russia agreed to cancel 90% of the Afghan government's Soviet-era debt, the majority of which was accrued for purchase of weapons, most of which were forcibly purchased by the PDPA from the Soviet Union itself. "Russia cancels most Afghan debt." BBC News. 6 August, 2007. <http://news.bbc.co.uk/2/hi/south_asia/6933754.stm>

[183] J. Bruce Amstutz Afghanistan: The First Five Years of the Soviet Occupation (Washington DC, National Defense University 1994), 247

Backed by the colossal material and financial resources of the Soviet Union, the PDPA immediately implemented an aggressive set of economic and social reforms targeting the countryside. First, in January 1979, the regime attempted a highly disruptive and doomed-to-fail land reform policy that sought to transform the feudal-capitalist Afghan agrarian economy directly into a communist system.[184] The objective of the land reform was to develop a new class of small landholders; however, the implementation of the land reform strategy was so ill-conceived and poorly executed that it actually further impoverished the peasant population that it sought to empower. Peasants had traditionally relied on their landlords for access to water, seeds, small loans, supplies, and connections to markets. Therefore, by eliminating the wealthy land-owning class, these new peasants-turned-small-landowners were unable to acquire the resources that they needed to till their new plots, nor reach markets that would purchase their produce. The result was economic ruin for the rural poor.

Second, the PDPA introduced a deeply unpopular modernization platform that challenged traditional religious norms on marriage and social life. These reforms were designed to centralize state power and extend Kabul's influence into the periphery, and they were met with fierce resistance from the local population in both rural and urban areas. Faced with a burgeoning countrywide rebellion, the communist regime engaged in brutal violence, including Soviet aerial bombardment of entire villages and the execution of tens of thousands of political

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[184] Olivier Roy, <u>Islam and Resistance in Afghanistan</u> (Cambridge: Cambridge University Press, 1990), 84-94.

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prisoners and dissidents.[185] "The biggest execution operation was the one carried out on 23 December 1983, when from 350 to 400 inmates were picked up for execution from half past five in the evening until one o'clock the next morning, mainly from cellblock number 1, where I had been held," explained Mohammad Hassan Kakar, prominent Afghan historian and a former inmate of the infamous Pul-i-Charki prison during the Soviet occupation. "In a little over four years (until May 1984), between 16,500 and 17,000 inmates were taken out for execution to places in Dasht-e-Chamtala beyond Khair Khana to the north of the city".[186]

The atrocities of the PDPA multiplied support for the anti-Soviet resistance, which used guerrilla tactics to bleed both the PDPA and Soviet armies.[187] The Soviets responded to this resistance with increasingly violent military campaigns to suppress the countryside. "At first we managed to keep them out of our village, but when they started to shoot at us from tanks we were forced to retreat," said a *Harakat-ul-Islam* commander from Baraki-Rajan village. "When we ran out of ammunition, we were forced to escape and hide wherever we could. By then the defense of our village had already cost many deaths. Many people were unarmed and were killed in the field where they were working when

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[185] Because of the Islamic tradition of burying the body within 24 hours of death, there is no accurate and agreed upon number of civilian deaths from the decade-long Soviet-Afghan War, but estimates put the number of dead close to 1 million, including civilians, insurgents, and political prisoners. The communist era was known for its mass executions of political prisoners and dissidents, thus making the number of dead and disappeared even more difficult to determine. The numbers of internally displaced people and refugees is also undetermined, but in the several million. In the 1980s, half of the refugees on the planet were Afghans. At the height of the Soviet invasion, the refugee camps at Peshawar were the largest in the world, and 3 million refugees were displaced in the Khyber Pakhtunkhwa province of Pakistan. For an account of the immediate impact of the invasion, see Louis Dupree, "Afghanistan in 1982: Still no solution." Asian Survey. Vol. 23, No. 2 (Feb. 1983), 133-142.
[186] M. Hassan Kakar, Afghanistan: The Soviet Invasion and the Afghan Response, 1979-1982 (Berkeley: University of California Press, 1995), 166.
[187] Ali Ahmad Jalali and Lester W. Grau, Afghan Guerrilla Warfare: In the Words of the Mujahideen Fighters (St. Paul: MBI Publishing Company, 2001).

the first attack came".[188] Growing increasingly frustrated with the futility of the conventional ground war, the Soviets then turned to indiscriminate air raids against entire villages. The Soviet occupation legitimated the global call for *jihad* to save Afghanistan from the communist invasion.

The mujahideen fought in a common effort against the Soviets, but they were not a unified political entity. The term "mujahideen" literally means "one who fights jihad". It was therefore an umbrella terms that included multiple insurgent groups that were united in the anti-Soviet mission but did not operate as a singular political entity. Rather, the jihad effort adopted a very local character, as each ethnic and tribal region organized its own faction in support of the collective effort. Multiple mujahideen groups emerged under different command structures, sometimes coordinating their activities, but often working independently to disrupt and drain the Soviet and PDPA armies. The fragmentation of the mujahideen was an asset for guerrilla warfare, but proved deleterious in the long-run.

Although the mujahideen's operations against the Soviets eventually proved successful, the violence and forced displacement of the Soviet-Afghan War drastically transformed the social organization that had governed village life and mitigated relations between the state and the countryside for hundreds of years. As the traditional village authority of the *khan* was dismantled and millions of people moved from villages to Pakistani refugee camps, Islamic laws and

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[188] Almqvist Bjore, "Eyewitnesses to the Afghan War." <u>World Affairs</u>. Vol. 145, No. 3 (1982-83), 312.

institutions took on a more prominent role in local governance.[189] With the onset of civil war, the khan structure was replaced by warlord power.

The war itself resulted in the physical destruction of the countryside. Many of Afghanistan's orchards and agricultural lands were destroyed as the Soviets dispensed napalm, butterfly mines and other unconventional weapons across the countryside.[190] My interviews in Kandahar and Peshawar indicated that people who had temporarily fled would return to find their farmlands occupied by other people who also claimed historical ownership over the property. Confusion emerged over competing legal claims that have each had validity at various points in the history of the conflict. In addition to the crushing physical toll, the social destruction of the local economy was equally grave. The communist land reform policy, the physical destruction of deeds and records through firefights and air raids, the increase in arbitrary confiscation by both the state and local strongmen, and the millions of people who were displaced over the past 30 years have made it incredibly difficult to untangle the legal issues surrounding property rights.[191]

The Soviet occupation also fundamentally transformed the trade business. The lucrative Pakistan-Afghanistan transit trade community was situated in the exact tribal region where the mujahideen held territory. The tribal region between

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[189] Ahmed Rashid, Taliban (2001). The local khan is akin to the mayor of the village or community, and has authority over secular political affairs. The mullah holds religious and spiritual authority in the community. Mullahs and khans traditionally worked side by side, offering complementary forms of leadership over their communities.
[190] Some witnesses claim that they and their agricultural lands suffered from chemical warfare, similar to Agent Orange. It is worth noting that 80% of Afghan economy was traditionally agricultural.
[191] See Liz Alden Wily, Land Rights in Crisis: Restoring Tenure Security in Afghanistan (Kabul: Afghanistan Research and Evaluation Unit, 2003) for a comprehensive discussion.

Pakistan and Afghanistan, a historically ungoverned space, became the primary conduit through which the US and Pakistan supplied weapons and ammunition to the anti-communist resistance. Members of the Pakistan-Afghanistan business community who had intimate knowledge of the truck and trade routes in the mountainous terrain became key players in the distribution of resources to the mujahideen. As a result, in addition to their ongoing daily business activities of selling food, clothes and household items, cross-border traders also developed strong ties to the powerful commanders leading the Afghan resistance and to the intelligence agencies overseeing the operation, especially Pakistan's Directorate of Inter-Services Intelligence (ISI).

Furthermore, the Pakistani covert arms smuggling operation increased the number of trucks crossing the border into Afghanistan. These trucks were loaded full of weapons heading into Afghanistan, but were empty coming back. Traders that were involved in customs duty evasion took advantage of this surplus transportation capacity and filled these empty trucks with both licit and illicit goods destined for the Bara bazaars.

The historic trade across the Pakistan-Afghanistan border was transformed into a sophisticated illicit enterprise, comprised of smugglers, weapons traffickers, and drug dealers. While traditional trade continued, most traders became increasingly involved in a blend of legal and illegal activities. Illicit business community became a lifeline for Afghan commanders, for whom large supplies of small arms and light weapons were regularly being trucked in from Pakistan across the unmarked Durand line.

Strategy and Smuggling during the Soviet War:

The Soviet invasion of Afghanistan added a new dimension to the already serpentine cross border trade. Concerned that the PDPA would ally with pro-Soviet India to flank its western border, Pakistan began to unilaterally finance the mujahideen in 1980, giving the insurgency the resources to survive the early onslaught of Soviet repression.[192] In 1983, the Americans also increased their covert support for the insurgency, using Pakistan as their sole arms conduit.[193] Together, the Pakistanis and Americans utilized the porous Pakistan-Afghanistan border to supply the mujahideen groups with weapons, ammunition and other material resources. According to then-US National Security Advisor Zbigniew Brzezinski, "The purpose of coordinating with the Pakistanis will be to make the Soviets bleed, for as much and as long as is possible."[194] The Americans gave arms to the Pakistani Directorate for the Inter-Services Intelligence (ISI), and Pakistani field operatives then covertly transported the weapons to the Afghan mujahideen.

The ISI established a covert paper trail for co-opting the transit route. As the verification of Afghan permits and bank guarantees occurred in Karachi, not in Afghanistan, this was a very easy loophole for the ISI to bypass. Pakistani

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[192] Pakistan not only supplied the mujahideen, but it also maintained the refugee camps at Peshawar and in other areas of Khyber Pakhtunkhwa at a hefty rate of USD$1-1.5 million per day. See Dupree Louis, "Afghanistan in 1982." <u>Asian Survey</u>. (1983), 133-142. However, the Pakistani intelligence also utilized the refugee camps to further the military effort. The refugee camps also provided a useful cover to shuffle mujahideen forces across the border for rearmament and coordination purposes.

[193] According to Bergen, financial support began in 1980 with an estimated $20-30 million. The US gradually increased its sponsorship of the mujahideen between 1983 and 1987. Peter Bergen, <u>Holy War Inc.: Inside the Secret World of Osama bin Laden</u> (New York: The Free Press, 2001), 68.

[194] Soldiers of God – 1975-88": CNN "Cold War Series", Season 1, Episode 20, 1998.

forces set up parallel operations alongside import-exporters at Karachi, and directly managed the shipment of US weapons from the port to an arms storage facility in Rawalpindi to the arms markets of Peshawar.[195] In Peshawar, the ISI used the existing transit trade and smuggling networks as an effective cover for the shipment of foreign arms into Afghanistan.[196] The smuggling infrastructure provided an accessible route for the intelligence community to reach mujahideen groups that used the border region as a base of operations, from which attacks could be launched against Soviet targets. Brigadier General Mohammad Yousaf directly oversaw the ISI's shipment of weapons from the Karachi port, to his weapon's storage facility in Rawalpindi, to the mujahideen drop off point in Peshawar.[197]

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[195] For a detailed description, see Mohammad Yousaf and Mark Adkin. The Bear Trap: Defeat of a Superpower (London: Casemate, 1992).

[196] A similar system currently exists for the shipment of NATO weapons and supplies to Afghanistan, through Karachi. The difference is that NATO shipments are properly documented and are openly declared at Pakistan and Afghanistan borders, whereas weapons shipments during the Soviet war were entirely covert using fictitious paper work.

[197] Mohammad Yousaf and Mark Adkin. The Bear Trap: Defeat of a Superpower (1992), 98-103.

THE ARMS PIPELINE
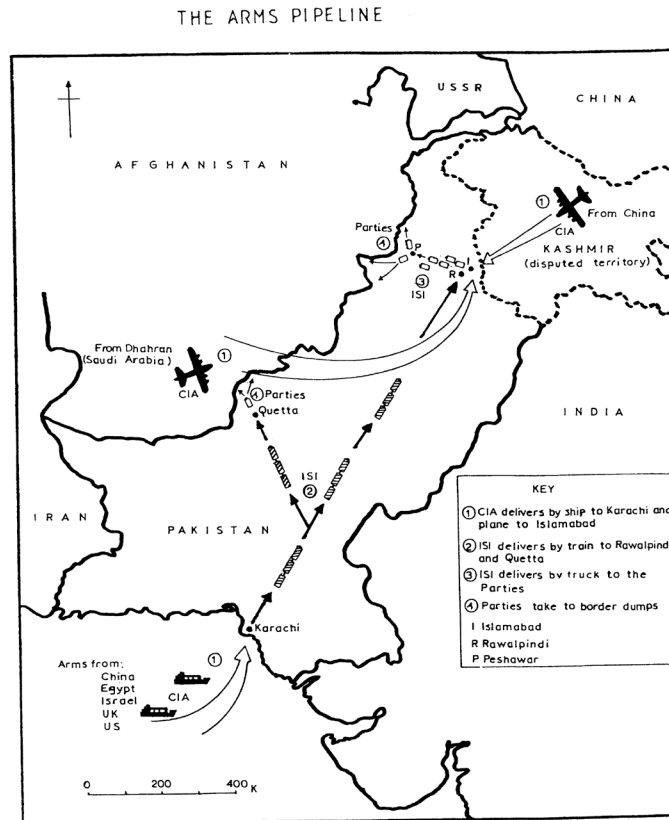
Image 1: Covert Arms Smuggling Route for Mujahideen.[198]

As weapons were handed over to Afghan commanders in Peshawar, the mujahideen would then employ Peshawar-based traders to make the final leg of the delivery across the border, often selling a percentage of the weapons on the Peshawar market to help pay for the shipping.[199] So high were these final transportation costs that Yousaf states, "there is probably no Commander in Afghanistan who has not, at some point, sold or bartered weapons" to pay for transportation or other costs.[200]

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[198] Image Source: Mohammad Yousaf and Mark Adkin. The Bear Trap: Defeat of a Superpower (1992), 99.

[199] See Rubin, The Fragmenation of Afghanistan (2002), Pg. 198 and Mohammad Yousaf and Mark Adkin. The Bear Trap (1992) for a more detailed discussion. This explains the flood of weapons in the Peshawar markets in the 1980s, which were far less expensive than in the Afghan markets.

[200] Mohammad Yousaf and Mark Adkin, The Bear Trap (1992), 105.

One of the consequences of this system was the creation of a relationship between mujahideen groups and the local transit trade community, which persisted long after the Soviet withdrawal. Over the course of the Soviet-Afghan War, insurgent groups found a second home in Peshawar. First, the arms bazaars in Peshawar were very well supplied with a wide selection of foreign manufactured small arms, light weapons, and ammunition, which provided the mujahideen with a safe space to regroup and resupply.[201] Second, the ISI set up offices for the leaders of the disparate mujahideen groups in Peshawar, in an effort to coordinate their military and political activities.[202] And third, the trade community became an indispensable ally to the commanders, who relied on the Peshawar-based traders to acquire essential supplies for the jihad effort.

Smuggling became a lifeline for the mujahideen. Because the formal transit trade relied on the acquisition of permits from Kabul, commanders were unable to directly import either weapons or emergency supplies for the jihad without inadvertently drawing the attention of the Soviet's watchful eye. For example, as the war continued to take its toll, emergency medical supplies for the mujahideen were in high demand. However, the PDPA knew which shipments of medical supplies were being imported for their own troops and government-run medical facilities. Therefore, a large shipment of sutures or bandages to an unknown recipient would surely tip off the Soviets to confiscate the supplies and

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[201] I personally witnessed both Hizb-i-Islami and Jamiat-i-Islami militias openly roaming the streets of Peshawar in technicals in both the late 1980s and early 1990s, and the commanders of these groups regularly visited the leading members of the business community.

[202] So direct was this coordination effort that the largest and most successful of the *mujahideen* groups were given the nickname "the Peshawar seven". The Peshawar seven included: Hizb-i-Islami – Gulbuddin, Hizb-i-Islami – Khalis, Jamiat-i-Islami, Ittehad al-Islam, Mahaz-i-Milli-yi-Islami, Jabha-i-Milli-yi-Nijat-i-Afghanistan, and Harakat-i-Inqilab-i-Islami. See Barnett Rubin, The Fragmentation of Afghanistan (2002), Ch. 9 for a discussion.

possibly ascertain the location of mujahideen. The formal trade routes were therefore much too dangerous for anti-government groups. According to Brigadier Yousaf, "The Soviet high command was acutely sensitive to the activities of the Mujahideen in the eastern border provinces of Kunar, Nangarhar and Paktia. Just across the frontier in Pakistan were the Mujahideen's forward supply bases, training facilities and scores of refugee camps. From this area the great bulk of arms and ammunition poured into Afghanistan in an endless stream of caravans, or pack trains of animals, moving along the tracks and trails through the mountains."[203]
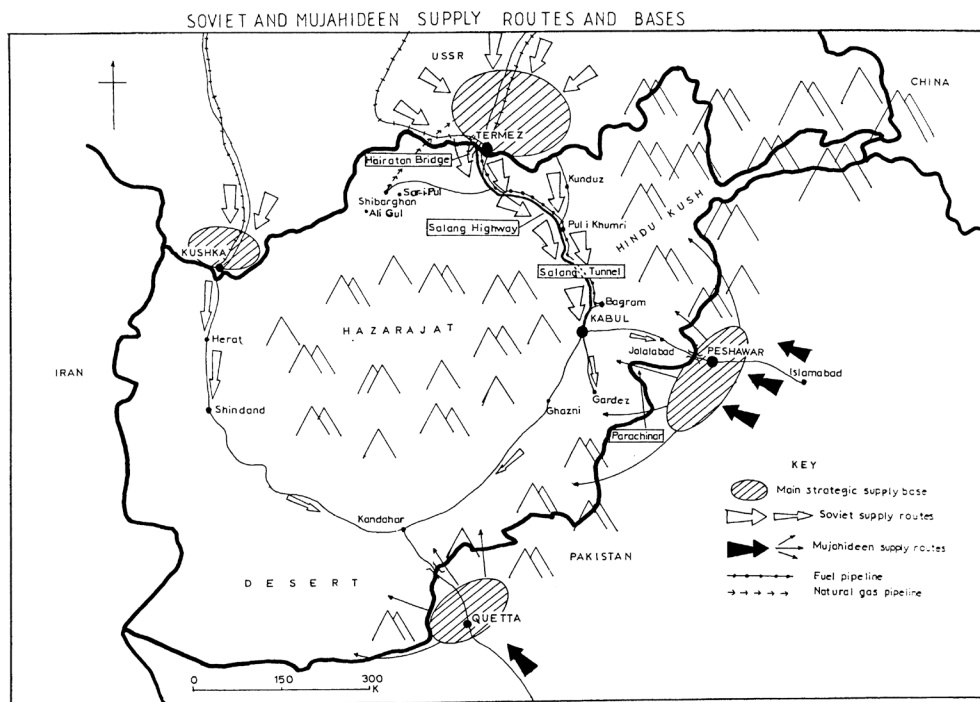
Image 2: Soviet versus Mujahideen Supply Routes.[204]

Because they were unable to import goods directly, commanders went directly to Peshawar-based traders and asked them to import (or locally acquire)

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[203] Mohammad Yousaf and Mark Adkin, The Bear Trap (1992), 158.
[204] Image source: Mohammad Yousaf and Mark Adkin, The Bear Trap (1992), 66.

materials needed for the jihad directly to Peshawar, which could then be trafficked to the mujahideen through clandestine smuggling routes across the tribal areas. The price of these goods was often higher than transit trade prices because either the Pakistani customs duty had to be paid or the goods were locally manufactured or acquired. However, despite this price differential, the smuggling routes provided a safe and practical option for commanders in need of supplies. The transit traders, who were experienced in using the off-road routes to supply the Pakistani smugglers bazaars, were very well positioned to provide this service to the mujahideen. "Soviet border strategy was based on maintaining a multitude of posts, large and small, close to Pakistan. They were intended to seal the border and interdict our supply routes," explained Brigadier Mohammad Yousaf. "It was rather like a person trying to shut off a large tap by putting his hand over it."[205]

Along with arms and other supplies for the war effort, the narcotics industry also expanded during the Soviet era. The destruction of agricultural lands increased farmers' reliance on opium production, as traditional crops could no longer be produced or marketed. Through the increased prominence of the heroin trade, the clandestine smuggling networks became increasingly criminalized. Traditional smugglers developed relationships with international criminal networks that had access to the drug trade. Heroin manufacturing labs cropped up in the tribal areas, so that local producers could sell more value-added goods on the global market. As Peshawar-based traders established business ties with international buyers, heroin provided the Afghan mujahideen with a more valuable product to barter with for guns and supplies.

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[205] Mohammad Yousaf and Mark Adkin, The Bear Trap (1992), 159.

The burgeoning heroin trade was a windfall for cross-border traders, who served as middlemen between commanders and international drug dealers. With their new wealth, transit traders established valuable political allies in Pakistan. Established traders could not only ensure that illicit goods evaded scrutiny by the Pakistani police, but they could even acquire police assistance in ensuring safe delivery through Pakistani territory. The police officers that were responsible for investigating the contents of trucks were on the payroll of the largest transit traders. Clients could request that they "please not be bothered" about a particular container, meaning that they wished the truck not to be inspected.[206] The trader would then call the police and request that they look the other way for that truck, and ensure that no one else examines its contents. Other special requests were also accommodated, such as expedited shipment and security guarantees with complex deliveries.

While the formal transit trade lulled under the Soviets, Peshawar-based traders benefitted from the boon in informal business opportunities to covertly supply the war effort and use the same trucks to transport opiates from Afghanistan to Pakistan. Supplied with cash from Pakistan and the US, Afghan commanders became loyal customers of the wealthy Peshawar-based traders, who in turn supplied them a steady supply of resources to continue their resistance. Over the course of the ruinous decade-long war, the traditional trading community was transformed into a powerful illicit enterprise that both served the purpose of war and profited from its destructive powers. The Soviet-Afghan War

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[206] This was a common refrain among traders shipping security sensitive goods. The Pashtu was "fikar ba na kay".

fundamentally changed the business environment of the border region, collapsing traditional business activities and creating profitable new opportunities associated with the jihad effort.

The war also amplified the political Islamist identity of the business community, which defined its relationship with the mujahideen in religious and political terms. The business community utilized the religious symbolic content of the war to legitimate their illicit activities and invested heavily in Islamic humanitarian causes to bolster their religious credentials. The charitable activities of the business community were thus inextricably linked to the ongoing war effort.

Islam and the Informal Economy:

Islam has an ancient history in both Pakistan and Afghanistan.[207] Over the past three centuries, Afghan rulers have utilized Islamic laws, norms, and institutions to govern and defend the state, particularly in the mitigation of tribal or ethnic opposition to the central authorities.[208] Throughout history, Afghan kings have used a common Islamic identity to legitimate their political authority, reduce the risk of ethnic uprisings, and quell political opposition to the central state by the periphery. Both 18th Century founder of the Afghan state Ahmad

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[207] Islam was first introduced to the Afghanistan-Pakistan region in the 7th Century through the Umayyad Caliphate, and by the end of the 9th Century Islam had become the dominant religion in the area. Over the course of the next thousand years, the region fell under at least seven different Islamic empires. However, while these imperial rulers primarily exerted control over large cities and urban industries, the majority of the countryside continued to rely predominantly on informal, local forms of governance and observed informal, devotional, and often non-scriptural, forms of Islam.

[208] Thomas J. Barfield, Afghanistan: A Cultural and Political History (Princeton: Princeton University Press, 2010), 5, 73-74.

Shah Durrani and 19th Century ruler Amir Abdul Rahman Khan appealed to Islam to legitimate their rule over ethnic and tribal rivals.[209]

Islamic identity also helped ameliorate ethnic fragmentation in business relations. Given the social divisions between the Pashtuns and non-Pashtun peoples along the trade routes, as well as rivalry among different Pashtun tribes, Islamic identity served as a social lubricant for establishing business agreements. Within the Pashtun belt, Islam also helped to smooth trade deals between members of rival tribes. For over a thousand years, Islamic laws and institutions has served as a common medium for facilitating economic and social relations across tribes, ethnicities, and empires in the Pakistan-Afghanistan border region.

Long before the creation of either the Pakistani or Afghan state, Islamic social capital built trust, reduced uncertainty, and increased economic opportunities for traders and entrepreneurs. However, the creation of weak states in Afghanistan and Pakistan transformed the local economy by generating profitable new opportunities in illicit business activities, which both states were incapable of preventing. In the absence of strong state institutions, business life in the Pakistan-Afghanistan border region became an eclectic mix of licit and illicit business activities. Businessmen could trade clothes and fruit on one day, and then drugs and guns on another.

Because illegal industries proved to be the most profitable, members of the local business community often turned to Islam to legitimate their activities,

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[209] Barnett Rubin, The Fragmentation of Afghanistan: State Formation and Collapse in the International System, Second Edition (2002), 46, 50. The Durrani Empire was an Islamic dynasty in its own right, and was the second largest Islamic empire in the world at that time, second only to the Ottoman Empire. Unlike the Ottomans, however, it did not establish institutions that could endure.

improve their reputations, and reduce the costs of doing business in the absence (or even defiance) of a state. Because drug consumption is strictly forbidden in Islam, businessmen in the narcotics industry worked extra hard to compensate for their opprobrium; some sought Islamic rulings (*fatwas*) justifying their activities by claiming, for instance, that the drugs were destined for consumption exclusively by non-Muslims. The more illicit the activity, the more a businessman depended on Islamic identity and institutions to provide social and moral legitimacy for his business dealings. In the absence of strong governing institutions, Islamic identity and institutions provided businessmen with the necessary social capital, networks, and rule of law to reduce transaction costs. The cost of acquiring this valuable social capital was adherence to Islamic norms and investment in Islamic institutions.

The Soviet invasion increased the significance of Islamic identity in the border region. Opposition to the Soviets was also couched in fundamentally Islamic language, symbols, and images. The atheistic character of the Soviet system fuelled this rhetoric, and the aggressive social reforms imposed by the PDPA justified the resistance in religious and cultural terms. Stories surfaced from Afghanistan about girls being forced by gunpoint to attend Soviet schools dressed in uniforms with short skirts. The violent excesses of the Soviets and their use of indiscriminate weapons, such as the notorious butterfly mine that attracted children, added to the emotional rhetoric. A multitude of popular myths emerged about divine intervention assisting the mujahideen fighters on the battlefield, thus signifying the spiritual nature of their cause. It was not uncommon to hear tales

of angels with green turbans arriving suddenly on the battlefield to aid a group of outmanned and outgunned mujahideen. In mosques across the world, sermons concluded with prayers of support for Afghan fighters and collections were taken up in support of Peshawar-based Islamic charities.

The anti-Soviet jihad therefore created two contrary forces. First, the war effort generated an extraordinary demand for cash. In the border region, the greatest source of this revenue came from illegal business activities, including the heroin trade. Second, the jihad generated a powerful political Islamic narrative, which further shaped the religious social identity of people in the border region. The cross-border trading community found itself caught at the very nexus of these two forces.

Islamic Trust and Illicit Activities

For traders involved in illicit activities, demonstrating a conservative Islamic identity was a particularly important mechanism of establishing trust-based business relations. Because of the high premium on economic integrity in *Sharia* law, Islamic practice was widely used in the Pashtun border region as a measure to evaluate the reliability of a prospective business partner. A lack of religious adherence indicated a weak character and questionable morality. A businessman who fails to meet his religious obligations may also be flippant about economic integrity and trustworthiness.[210] On the other hand, a highly devout Muslim is more likely to be honest and upright in his business dealings. In this

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[210] I use the masculine in the Afghan case because, unlike their Somali counterparts, Afghan and Pakistani women are largely excluded from this business activity. While Pashtun women do have a hidden economic power within the home and are important players in farming households, there simply isn't a class of Afghan women traders that I am aware of. Indeed, I have never met a single Pashtun woman who owned her own business in the transit trade.

way, Islamic symbols produced powerful cognitive shortcuts, which provide businessmen in the Pakistan-Afghanistan border region with valuable social capital to mitigate the trust deficit.

To some extent, outward displays of Islamic identity help to provide this reputational advantage. Virtually all businessmen in the region conform to a traditional style of dress, which includes wearing a traditional cap called a *topee,* growing a beard, and carrying prayer beads. Many businessmen will actually carry their prayer beads into meetings with their associates, and will flip the beads through their fingers throughout the meeting. This action is called *dhikr*, or remembrance of God, and it signifies that every time the person flips one of the beads, they have repeated or recited a particular supplication or verse from the Quran. This practice is commonplace among religiously devoted persons, who use dhikr throughout their day to establish a constant remembrance of God in all of their activities. Therefore, when a businessman brings his prayer beads into a business meeting, he is indicating that throughout his worldly endeavours he is engaged in a constant reflection upon the divine.

Furthermore, all prominent businesspersons in the region carry the title of *Haji*, meaning "one who has performed the pilgrimage", and are addressed by this title in their professional affairs. Because of their greater material resources, members of the business community are expected to perform the pilgrimage to Mecca by the time they reach middle age.[211] The Pakistan-Afghanistan trading community has traditionally been dominated by elderly patriarchs who hold this

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[211] The Hajj is the Islamic pilgrimage to Mecca, which Muslims are obligated to perform at least once in a lifetime. Those who are financially and physically able to perform the Hajj more than once are expected to do so.

religious distinction.[212] So important is this title that a businessman who has not performed the Hajj by middle age would incur disapprobation and social exclusion.

In addition to these outward Islamic symbols, businessmen in the region increase their religious credentials by sponsoring Islamic causes. These causes are largely apolitical and humanitarian. It is common for a wealthy philanthropist to donate money for the upkeep of mosques and *madrassas*, sometimes aiding in the construction of these projects through the establishment of a charitable trust, or *waqf*.[213] Wealthy patrons from the business community improve their public profiles by sponsoring such projects. As such, over time this financial support has increased the power of Islamic institutions in local governance, thus leading to a larger social and political role for Islamic law and religious leaders in the region. In return, these Islamic institutions afford members of the business community with the reputational advantage of having Islamic integrity.

Not only did the business community invest in the construction of mosques and madrassas, but they also participated in Islamic organizations and social activities. A popular Islamic organization that the business community has a long-standing relationship with is the Islamic missionary group *Tablighi-Jamaat*, which has a large following in the Pakistan-Afghanistan border region. It is very common for business elites to be present at Tablighi activities, including regular attendance at the Thursday overnight *Shabi Jummah* gatherings at the

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[212] Businesses are typically passed down to the patriarch's eldest son, after he has acquired the requisite social status.
[213] The *waqf* is essentially a private endowment, which is earmarked for the creation and maintenance of an Islamic institution.

Markaz, the centre in Peshawar.[214] A visit to the Markaz will find it full of businessmen from the trade community, often using the venue to network and build relationships. Some businessmen will spend several nights of prayers in the Markaz, which indicates an even greater spiritual commitment. Businessmen will also participate in the annual three-day long gathering of Tablighi-Jamaat at Raiwand, near Lahore. The final day of this annual event is the culmination of the three-day affair, and attendance is a social necessity for many transit traders.

Because Tablighi-Jamaat boasts an apolitical, non-violent, and purely spiritual mandate, participation in its ceremonies provides a profitable opportunity for businessmen to bolster their religious credentials. On one occasion at a Peshawar-based Markaz two businessmen had undertaken a 40-night commitment, called a *Chilla*. These businessmen were waiting on their consignment of illicit narcotics to be delivered, and were praying for the safety of its transport. One of their colleagues explained that, "After the 40 days, the drugs will have arrived at the expected destination, and then they will leave the Markaz and collect the profits of the consignment".[215]

Businessmen who work in the narcotics industry are acutely aware of the social costs of getting into the drug trade and the potential risk to their reputations and future business partnerships. When criticized by other traders, one mid-sized drug dealer from the tribal belt provided a religious defence of the narcotics industry. "These are natural botanical products. They are plants, which are created

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[214] The Shabi Jummah is a night of prayer held in the religious space of the Markaz from Thursday night until the Friday prayers. A Markaz is a Tablighi-Jamaat centre or office that runs the missionary program. The Markaz is designed to accommodate overnight guests that are committed to prayers.
[215] Personal observation with P1 Peshawar, Pakistan; Quote confirmed in interview, January 2012.

by God."[216] He went on to say that he could not be held responsible for the behaviours of the end-user drug addicts and that the consumers of the products were also non-Muslims, and therefore not his moral responsibility.

Despite these justifications, members of the business community engaged in illicit activities must work extra hard to increase their religious credentials. For example, those businessmen who engage in drug trafficking are known to give even more generously to Islamic charities, in order to buffer against potential criticism about their illicit business dealings. "Once you get a reputation for doing powder, you have to counteract it", explained a member of the Peshawar business community who opposed the drug trade.[217] Islamic charity therefore became a practical mechanism for businessmen to improve their social position and access wider business networks.

A clear example is the case of another mid-level trader from the Pakistani tribal region. As a pioneer drug dealer in his region, he made his fortune in the emerging global heroin trade from Afghanistan. Not only did this businessman hold the title of Haji, but he was also a well-known philanthropist in the tribal belt. He regularly approached the local hospital in his district and paid the medical expenses of every single patient in need, often for several months at a time. He insisted to the hospital administrator that if any patients were refused care, he would stop this financial arrangement. He was also widely known to distribute

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[216] Personal observations with P2 Peshawar, Pakistan; Quote confirmed in interview with P3, January 2012
[217] Personal observations with P3, Peshawar, Pakistan; Quote confirmed in interview, December 2011

large sums of *zakat* and *sadaqa* directly to the neediest families in his area.[218] These high impact types of charity won him the favour of his local constituency and improved his reputation within the wider business community in both Pakistan and Afghanistan.[219] Importantly, he also conducted these activities without public displays of vanity or pomp. This apparent humility prevented him from being labelled disingenuous.

Rather, the drug trader relied on the powerful gossip networks to spread the news of his charitable activities. In a closed-door meeting of the most powerful businessmen in the region, the drug dealer's colleagues fiercely defended his professional and personal reputation against criticism. One of the most prominent traders (who did not trade in drugs himself) explained the extensive details his charitable activities and religious commitment, rebutting any allegations that the drug dealer was a *badmash,* or gangster.[220] Islamic charity had successfully 'cleansed' his professional reputation, and bought him friends in high places. In the conservative tribal region, maintaining a religious reputation is a necessity for business success.

Although the relationship between Islam and the informal economy originated over a thousand years prior, state weakness and criminal business activities made Islam a necessity for both Pakistani and Afghan businesspeople. Islamic identity and institutions made it possible for businessmen to operate in an

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[218] Zakat is the mandatory 2.5% wealth tax on cash surplus, unoccupied property, and other evaluated assets that all Muslims are obligated to give to a needy person outside their family or a charity of their choice. Sadaqa is an optional additional charitable donation, the amount of which is discretionary.

[219] Personal observations with P2, Peshawar, Pakistan.

[220] Personal observations with P4, Peshawar, Pakistan; Confirmed in interviews with P2, December 2011

environment of low-trust, tribal fragmentation, and high uncertainty. Islam also legitimated the business community's circumvention of the law, evasion of taxes and regulations, and undermining of state capacity. In this way, Islam allowed the informal economy the opportunity to grow strong, while the central governments remained perpetually weak. Over the course of the Soviet-Afghan War, these business activities became increasingly militarized through the sponsorship of the mujahideen.

Islamic Charity during the Soviet War:

The business community also played an important role in Islamic charitable activities in the border region. While the Peshawar-based business community profited from the jihad effort in Afghanistan, transit traders also used their economic resources to reduce the humanitarian cost of the Soviet-Afghan war. Specifically, the business community took a lead role in supporting the millions of Afghan refugees that fled to Peshawar, Quetta, and other Pakistani border towns to escape the fighting. Although there is no exact registry, the number of Afghan refugees in Pakistan during the Soviet era is widely accepted as staggering and record-high 3.3 million persons. Directly stemming from the Soviet occupation, Afghans became the single largest refugee population in the world and made up over half of the world's refugees. Neighbouring Iran and Pakistan absorbed most of these refugees, supporting approximately 6.2 million refugees divided roughly equally between them.[221] In Pakistan, the majority of the

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[221] The roughly 6 million plus refugees were divided almost equally between Pakistan and Iran. Most Pashtun refugees went to Pakistan, although Tajik and other ethnic groups also took up refuge in Pakistan. The Hazara population and other western Afghans opted for the closer Iranian border camps. The Iranian refugee camps were particularly attractive for Afghanistan's Shiite

Afghans came from the Pashtun-dominant southern and eastern provinces, who took up residence with their ethnic kin in various locations in the border region, most especially in the city of Peshawar.

From the very outset of the Afghan conflict Peshawar served as a major centre for Afghans crossing the border. In the early 1980s, hundreds of thousands of Afghans settled in the Jalozai refugee camp where they received financial support from UN Agencies, Western NGOs, the Pakistani government, and Islamic charities. Because Jalozai was not a registered UNHCR camp, its residents relied overwhelmingly on this local sponsorship to survive. The sheer number of refugees in Pakistan presented an extraordinary logistical and economic challenge to the state. Although approximately 100,000 Afghan refugees were formally registered in Peshawar, hundreds of thousands more had taken up residence in Pakistan without legal papers. Despite significant effort by the Pakistani government to assist both legal and illegal migrants, the standards of housing and care at Jalozai were noticeably lower than those of UN-sponsored camps.

In many ways, Pakistan showed considerable hospitality towards Afghan refugees. The refugees were permitted to work in Pakistan, and the government provided both education and health resources for Afghans living in camps.[222]

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minorities. "Millions of Afghan refugees in exile after Soviet pullout." <u>CNN News</u>. February 14, 1999. <http://articles.cnn.com/1999-02-14/world/9902_14_afghan.refugees.reut.01_1_unhcr-soviet-pullout-united-nations-high-commission?_s=PM:WORLD>

[222] Much of this education was provided for through the construction of new madressas, financed by the Pakistani government with Saudi assistance, which provided a rudimentary Islamic education. These madressas have been the subject of much debate in the past decade, particularly about the role of madressa education in promoting ideological extremism and violence. See Christine Fair, <u>The Madrassah Challenge: Militancy and Religious Education in Pakistan</u> (Washington: USIP Press, 2008).

Given the size of the refugee population and the limited resources of the Pakistani state, this generosity was notable. However, the refugee camps at Peshawar also served a strategic function for Pakistan. Top-ranking officials in the Pakistani government confirmed that they used the flow of refugees to covertly supply arms to the mujahideen.[223] The refugee flows provided a cover for fighters to move back and forth across the border, from the Soviet's battlefields to Peshawar's arms bazaars. Under the guise of seeking asylum, the mujahideen would cross into Pakistan and then be welcomed by ISI field commanders, from whom new weapons and ammunition were acquired. From its very outset, the humanitarian effort was inextricably linked with the military mission.

This militarization of humanitarian activities was not exclusive to the Pakistani government. Many local and international Islamic charitable organizations simultaneously raised funds for both refugees and fighters. The humanitarian catastrophe created by the Soviet occupation attracted the attention of Islamic organizations, charities, and private philanthropists around the world. Thousands of organizations and individuals contributed private resources to the Afghan cause, from a wide spectrum of Muslim world.[224] Most of these charities publicly claimed to support the humanitarian activities of mosque, madrassas and Islamic charitable organizations working at the Peshawar refugee camps. While some of these individuals and organizations may have played a purely

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[223] Interviews with General Hamid Gul, Colonel Amir Sultan Tarar, Lt. General Ali Jan Aurakzai, Lt. General Asad Durrani, and Rostam Shah Momand in Peshawar and Islamabad, Pakistan, (June 2009).

[224] Aid to the mujahideen came from a wide variety of sources, including reputable international charitable organizations, and a number of wealthy Arab donors from Gulf states, the most notorious of whom was Osama bin Laden.

humanitarian role, others used Peshawar-based charities and Islamic institutions to channel material support to anti-Soviet guerrillas.[225] Once on the ground in Peshawar, these distinctions became much less meaningful. Arms purchases were made openly with donated money. "Buying arms for fighters was not done very secretly", said a prominent Peshawar-based trader. "Actually, donation of arms was considered legitimate."[226]

Situated on the frontlines of the Afghan conflict, the Pakistan-Afghanistan transit trade community played a pivotal role in these charitable endeavours. On one hand, businessmen themselves became financiers of these charities, and directly supported the Afghan cause through their own philanthropic endeavours. Much of the aid effort was channelled through the mosque and madrassa system, and there were several ways that this aid was collected. First, local Imams would announce a general collection at the conclusions Friday *Jummah* prayers. Because the Pakistan-Afghanistan trade community had a long history of sponsoring these Islamic institutions, businesspeople assumed a lead role in responding to this call. Second, local Islamic charities and organizations directly approached members of the business community to solicit donations. These charities would go door-to-door to collect donations from wealthy and well-known shops and offices.[227] And third, Islamic charities and institutions held fundraising events for the Afghan cause, which were attended by wealthy patrons from the business community.

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[225] These goals were not in conflict, nor was providing material support for fighters considered controversial or criminal. In fact, because the US itself was covertly supplying weapons to the mujahideen, charities based in the US or US-allied states felt the need to provide only a minimal humanitarian cover for their pro-mujahideen activities.

[226] Telephone interview with P3, January 2012

[227] In villages in Khyber Pakhtunkhwa, the Imam or another respected community leader would approach land-owners at harvest time and request *ushur*, which a charitable donation from the harvested crops. This collection was made during the Afghan jihad in support of the mujahideen.

This financial sponsorship not only supported the Afghan mujahideen, but it also bolstered the strength of existing Islamic institutions. "New local madrassas were built, sometimes with Arab or Islamic funds, and the existing madrassas like Haqqania became more prominent", explained the Peshawar-based trader. "The buildings at Haqqania are now more elaborate and functional than they used to be."[228]

On the other hand, the business community also played an important role by linking charitable donations to the jihad effort. Because they had developed strong relations with both local Peshawar-based charities and the Afghan commanders, cross-border traders could transform the cash donations from both local and international Islamic charities into the material supplies required by mujahideen commanders in the field. Aid money was needed to pay for medicine, food, equipment, arms, and transportation costs. By linking the Peshawar charities to the Afghan commanders, the business community played an important role of middleman to turn cash resources into smuggled goods to support the jihad effort.

The business community could also supply materials for purely humanitarian activities in the camps by taking the cash donations and purchasing food and materials for shelter from local markets. That is, local businesses profited from the influx of dollars to local charitable organizations, because those charities needed to spend those cash resources to buy humanitarian supplies. Because traders dominated the local markets, they served as the middleman to supply both the military and humanitarian activities. In this way, over the course of the Soviet-Afghan War transit traders, Afghan commanders, Islamic charities,

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[228] Telephone interview with P3, January 2012

and the Pakistani intelligence community developed a complex but mutually beneficial relationship with one another.

Conclusions:

After a decade of brutal war, in February 1989 the last of the Soviet troops withdrew from Afghanistan. The humiliating defeat of the Soviets in Afghanistan was followed by the dramatic dissolution of the Soviet Union in 1991. For a brief moment, there was elation. An impoverished people had routed a superpower, a feat that testified to their tenacity, resilience and faith. Then, a second wave of backbreaking violence befell the stricken nation. As communist era ended, Afghanistan fell into a brutal ethnic civil war at the hands of the very mujahideen that had expelled the Soviet invasion.

By this point Afghanistan had already been economically ravaged by the Soviet war. Millions were injured, maimed and disabled by the fighting, decimating the working population. The intelligentsia had been killed and technocrats had fled. The destruction of agricultural infrastructure and massive displacement of farming communities razed the traditional agricultural economy, and replaced it with the booming narcotics trafficking business. Smuggling of both licit and illicit goods became a multi-billion dollar industry, which made some traders incredibly wealthy and politically powerful. The leading businessmen in the region established connections with Afghan commanders. Smugglers sold weapons and supplies to the mujahideen in exchange for cash from foreign governments and charitable donations or bartered weapons for

opium and heroin. The Cold War left a legacy of criminality in the Afghan economy, which would have a lasting impact on its political landscape.

For the trade community, the Soviet war was not only been good for business, but it had also granted smugglers a remarkable degree of political influence. The biggest smugglers had grown accustomed to having a special relationship with the Afghan commanders, who depended on the illicit trade for their survival on the battlefield. These tax-averse traders also enjoyed legal impunity and political perks offered by the Pakistani government in exchange for cooperation with the war effort. As an agent of the anti-Soviet jihad, the business community grew increasingly militarized, politicized and Islamist in character.

The end of the Soviet era transformed the political and military context under which such business was done. As the security environment of the war shifted from anti-Soviet resistance to an intra-state ethnic civil war, the material interests of the mujahideen changed. This change in the security situation directly affected the relationship between the commanders and the business community. As civil war drove the costs of business up for the traders, the honeymoon between the smuggling community and the Afghan commanders began to sour. As international interest in Afghanistan came to an abrupt end in the post-Cold War era, the delivery of covert foreign resources also dried up. As cash-strapped mujahideen turned against each other in a bitter ethnic contest, commanders became more desperate to refill their war chests. And in order to do that, there was nowhere else to turn but the business community.

While the Soviet war may have been a boon for business, state failure in Afghanistan was something else all together, for the interaction between former-mujahideen warlords and the business community that supported them would soon shift from a reciprocal relationship to a predatory one.

Chapter 4: Traders and Taliban:

A Market Explanation of Islamic State Formation in Afghanistan

The Taliban movement in Afghanistan emerged as a self-declared response to the high costs of state failure. After the withdrawal of Soviet troops in 1989, the Afghan countryside was divided into turfs controlled by various mujahideen and other militia groups, who engaged in ethnic cleansing campaigns against the civilian population, assassinations and sabotage of their political rivals, and extortion of local businesses. Afghanistan became an archetypal case of state failure, wrought with episodes of ethnic cleansing. Individuals paid for protection from their respective commanders to defend themselves against neighbouring rivals, but these protection rackets provided no guarantee against abuse at the hands of their own ethnic militias.

It was in this climate of feat that in 1994 the Taliban movement surfaced as a new political contender in the Pashtun-dominated southern region. Under the leadership of a little known village cleric named Mullah Mohammed Omar, the group announced a mandate to purge all ethnic and tribal factions and impose Islamic law over the countryside as a strategy of political unification. By the end of the year they gained control over the entire Pashtun south and east, and by 1996 they had successfully captured Kabul and more than two-thirds of the state. After ousting their rivals, the Taliban proceeded to govern Afghanistan with an unprecedented degree of penetration and interference in the countryside, including imposing a countrywide taxation system for the annual collection of *zakat*, a 2.5% tax on accumulated assets after subsistence, and ʻ*ushr,* a 10% tax on agricultural

produce from solvent farmers. Although these taxes were collected at the local level, the Taliban's decisive victory over the mujahideen and other militias created a new central government that exercised a relative monopoly on the use of force over its population.

Why was the Taliban able to achieve a decisive political victory, while other Islamic groups failed to gain and consolidate power? Why was the Taliban able to centralize political authority at a time of deep social fragmentation? What caused the emergence of an Islamic leviathan in Afghanistan?

The existing literature points to three main causal variables driving the Taliban's success: Pashtun ethnic politics, fundamentalist Islamic ideology, and material support from neighbouring states. While each of these explanations have provided important insights into the internal processes of the rise of the Taliban, none of these argument effectively explains why other foreign-backed Pashtun, Islamist parties failed to achieve a comparable level of success during the Afghan civil war. At the time of the Taliban's ascent to power, there were at least six other predominantly Pashtun parties in Afghanistan, each espousing an Islamic political identity, and some that were receiving external support from a foreign state. None of these groups succeeded in capturing the state.

What made the Taliban different?

This chapter demonstrates that the Pakistan-Afghanistan business community played an instrumental role in the success of the Taliban during the Afghan civil war. It relies on original field research, including interviews with the Pakistan-Afghanistan transit trade community, high-ranking Pakistani intelligence

and political officers who were directly involved in Afghanistan, members of the Northern Alliance and Gulbuddin Hekmatyar's Hizb-i-Islami (HIG), and members of the original Taliban movement.[229] By examining the preferences of the Pakistan-Afghanistan transit trade community at the initial period of Taliban formation in 1994, it explains how the rational, material interests of the local business community aligned with the aspirations of the Taliban leadership at a critical moment in history to create a powerful and dynamic business-Islamist alliance.

Specifically, the chapter illustrates how the rate of extortion under warlord protection rackets versus Taliban protection rackets affected the political preferences of the cross-border transit trade community, leading to a shift in material support.[230] The material sponsorship by the Pak-Afghan transit trade for the Taliban empowered the movement enough to emerge as a serious political contender. After establishing their domestic power through this local sponsorship, the Taliban then courted Pakistani support away from other Afghan groups such as HIG.

The chapter is organized in four parts. The first illustrates how state collapse affected business life during the Afghan civil war from 1992-1994. The

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[229] Interviews were conducted over the course of multiple field trips between 2005 and 2009.
[230] Some existing references to this process can be found in: Neamatollah Nojumi, "The rise and fall of the Taliban" The Taliban and the Crisis of Afghanistan Ed. Robert Crew and Amin Tarzi (Cambridge: Harvard University Press, 2008); Ahmed Rashid, "Pakistan and the Taliban." Fundamentalism Reborn? Afghanistan and the Taliban Ed. William Maley (New York: New York University Press, 1998).
Kamal Matinuddin, The Taliban Phenomenon: Afghanistan 1994-97 (1999); and Neamatollah Nojumi, The Rise of the Taliban in Afghanistan (New York: Palgrave, 2002).
While these works make some important preliminary strides into this process, none of these researches systematically examines the role of the transit trade in sponsoring the Taliban movement.

second briefly describes the rise of the Taliban from 1994-96, and evaluates the existing explanations for the success of the movement. It shows that Pakistani support, Islamic ideology, and Pashtun ethnicity all fail to explain the Taliban's political success. The third part presents the microeconomic explanation, and argues that the Taliban's political momentum emanated from domestic economic motivators, driven in large part by the material needs of the local business community. This section relies on both the existing literature and original field research from Pakistan and Afghanistan. The chapter concludes with discussion of the impact the Taliban takeover on the informal economy.

Transit Trade in the Civil War Era:

The dissolution of the Soviet Union and the demise of the PDPA government precipitated the collapse of the Afghan state. After a decade of fighting, the Soviet Union began to withdraw its occupying forces from Afghanistan in 1988. Despite a last-minute flood of Soviet economic aid to PDPA President Mohammad Najibullah between 1989 and 1991, the communist government in Kabul lacked the economic resources to maintain political power. As the Soviet Union collapsed in 1991, the new Russian regime no longer saw its interests being reflected by the PDPA government. The US also immediately lost interest in Afghanistan, and terminated its material support for the mujahideen. Najibullah's lack of resources and his inability to either reconcile or repress opposition groups led to his resignation and the collapse of the government in 1992.

As the mujahideen took over the capital city of Kabul, they quickly turned against one another in a violent bid for power. Even when fighting against the Soviets, the mujahideen had been comprised of a multitude of armed groups organized along ethnic lines that lacked a central command structure or leadership. In the absence of a common Soviet enemy, the ethnic divisions within the mujahideen became the fault lines of a civil war. One of the major internal fissures between mujahideen groups was the tension between the Tajik supporters of *Jamiat-i-Islami* and Pashtun supporters of *Hizb-i-Islami*. As Jamiat-i-Islami and Hizb-i-Islami clashed violently over Kabul, other factions entered into the fray. General Dostum's secular Uzbek party *Junbesh-i-Milli* captured several provinces in the north and staked out control over parts of Kabul, while Tajik commander Ismail Khan established himself as ruler over the western province of Herat. After a decade of anti-communist resistance, the mujahideen and formerly pro-communist militias like General Rashid Dostum started a new chapter of violence with a brutal and countrywide civil war along ethnic and tribal divisions.

The 1990s civil war had a profound impact on the informal economy of the Pakistan-Afghanistan border region. The state collapse constituted one of the most staggering transformations of business life in the history of the cross-border trade. Unlike the pre-colonial era, post-Soviet state collapse created a violent and unpredictable form of political anarchy. The Soviets killed over one million Afghans and created six million refugees in neighbouring Pakistan and Iran. The brutality of the Soviet military machine destroyed much of the traditional village-level social and religious institutions that historically organized social and

economic life. Traditional institutions such as the *khan,* or village leader, were eradicated by the massive displacement of refugees. The only force in existence to replace the khans was that of the mujahideen commanders that the war had forged. In the 1990s civil war period, local strongmen ruled the villages as kings or fought over them as rivals.

The shock of the sudden social disintegration of the civil war period had a dramatic effect on the smuggling community. On the one hand, with the new mujahideen government in Kabul, every faction could now acquire transit trade permits by paying a nominal bribe, and thus import materials directly through the Karachi port at a more competitive rate. On the other hand, however, the empowerment of local commanders created increased insecurity on the roads and greater obstacles to cross-border trade. The mujahideen who had made transit traders wealthy during the anti-Soviet jihad now stood as the greatest obstacle to business in the history of the cross-border trade.

The civil war created two distinct economic changes from the Soviet period, which had a direct impact on the local economy. First, with the mujahideen takeover of Kabul, Afghan commanders began to compete over powerful government posts, including positions where they would have leverage over the lucrative transit trade business.[231] One of the most economically advantageous posts was the position of Afghan Trade Commissioner. The Afghan Trade Commissioner was a Peshawar-based position responsible for licensing traders to transport goods imported duty-free into Pakistan onward to Afghanistan

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[231] The mujahideen divvied up the spoils of the fallen government, including political positions. For example, Ahmed Shah Massoud's was appointed Minister of Defense, much to the discontent of his political rival Hekmatyar.

and approving each shipment arriving in Peshawar headed for Afghanistan. The Commissioner could revoke a trader's license or veto any shipment headed for Afghanistan, simply by denying his stamp of approval. With this immense discretionary power, the Commissioner could demand that traders pay a percentage on every single shipment crossing the border; these bribes were euphemized as *kharcha*, expenses for getting something done, or *shirini,* a "sweet" for doing special favours.

In 1992, the position of Afghan Trade Commissioner was awarded to a known commander Haji Masto Khan, who was directly appointed by Harakat-i-Inqilab leader Muhammad Nabi Muhammadi. So valuable was this position that Masto Khan quickly became an important feature of the social and business life in Peshawar and amassed a large personal fortune. In December 1994, Mohammadi tried to recall Masto Khan and appoint another Harakat-i-Inqilab commander as commissioner, named Haji Ahmed Khan Ahmedzai. Unwilling to resign from his plush position, Masto Khan mobilized his personal militia from Paktia province to ward off any attempt by Ahmadzai to occupy the Trade Commission office in Peshawar.[232] Masto Khan also approached the president of the Pakistan-Afghanistan Transit Traders Association and demanded his loyalty in the dispute. "I am being hung by my feet, and you have to help me to send this usurper back," said Masto Khan to the president of the Transit Trade.[233] The dispute grew so fierce that the Pakistani Army stepped in to prevent a full-scale war between Afghan commanders in the Pakistani city of Peshawar. After withdrawing his

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[232] This story is an eyewitness account.
[233] Personal Observation with P1, Peshawar, Pakistan; Interview with P3 confirming quote, (January 2012)

troops from the Peshawar Trade Commission office, Masto Khan personally visited Muhammadi in Kabul and pressured him to extend his tenure as commissioner before letting his successor Ahmedzai assume the post. So profitable were the pay-offs that an extension of his tenure was well worth the mobilization of Khan's entire ground force.

As Muhammadi's political and military power waned on the battlefields of Afghanistan, Mr. Ahmedzai was also pushed out of the plush position in Peshawar. In February 1996, Jamiat-i-Islami President Burhanuddin Rabbani appointed Aman Khan of the Mahaz-i-Milli-Afghanistan faction as the new trade commissioner. Aman was the brother of powerful Nangarhar commander Haji Zaman, whom Rabbani needed as an ally in his fight against Gulbuddin Hekmatyar.[234] During the civil war, the Peshawar-based Trade Commission therefore served as an exploitable resource, which commanders used to finance the war effort and buy allies. The impact of this corruption on the business community was dramatic. The bribes demanded by the commissioner came directly out of the profit margins of the transit traders themselves, causing frustration among some of the biggest players and muscling out smaller businessmen entirely from the trade.

Not only was trade hampered by corruption at the Afghan Trade Commission in Peshawar, but the civil war also frustrated business on the roads. After the Soviets withdrew, there was a sharp reduction in the volume of foreign resources available to commanders. This caused mujahideen groups to pursue alternative means of paying their foot soldiers. Commanders set up checkpoints to

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[234] "Aman new Afghan Trade Commissioner." The Nation. 8 Feb. 1996.

tax truckers, traders, and civilian passengers. Rather than paying militia salaries, commanders provided their soldiers with a spot along a potentially lucrative trade route, thus outsourcing the costs of maintaining their own forces. Militiamen publicly held territory for their respective factions, while earning their commissions through aggressive extortion activities on the roads.[235] For the beleaguered business community, this meant that Afghan traders "now had to pay duty to regional authorities in Herat and Qandahar as well as booties to these checkpoints."[236]

The introduction of checkpoints in the early 1990s dramatically affected business life for traders on the roads. Although smugglers retained the ability to sell goods on the Pakistani black market, the emergence of checkpoints created significant disruptions for doing business in Afghan markets. The presence of checkpoints dramatically increased prices. Not only did truck drivers add the checkpoint taxes to their delivery estimates, but they also increased their profit margins in response to the risk premium. Drivers complained that without the added cost, the goods would be held up and looted, or that they could be killed. Traders complained that truckers were using insecurity on the roads as an excuse to overcharge for their services.[237] The additional costs of the checkpoints and shipping were added to the price of the goods at the point of sale, thus leading to an overall increase in prices. The further into Afghanistan the good was to be

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[235] If a checkpoint was particularly profitable, the commander could then ask for a higher percentage of the revenues for having provided such a lucrative business opportunity to the militiamen.

[236] Neamatollah Nojumi, The Rise of the Taliban in Afghanistan (2002), 117

[237] Traders allege that truckers would share information with each other in order to corroborate their exaggerated stories of the rate of extortion on the roads, so that they could collectively overcharge the traders.

sold, the more checkpoints it had to clear. Several interior markets became completely unprofitable because the cost of transportation increased the price to the point that it collapsed demand for the goods. The civil war kept these costs unstable and unpredictable. A well known trader from Jalalabad, frustrated with the difficulty in moving his imports from Peshawar to Kabul, spoke in his colourful Kuchi dialect before leaving his merchandise at Peshawar dry port:

"Who could have told me that the road to Kabul will be ablaze like this? Wandering like a bewildered head I could not find a single driver willing to move my goods across Torkham no matter how many kaldars (rupees) I put in front of them. Those topaki (armed) thieves are popping up everywhere, becoming greedier all the time. At least I have bought a machine (a light or medium machine gun), which I am going to mount in my village for these descendants of donkeys. They should not come closer."[238]

An electronics importer further explained the impact of the checkpoints on his business in the early 1990s: "I was told that new checkpoints were emerging on the transit route in an unpredictable way. They said that a gunman with few accomplices may appear at a point – sometimes a new point – saying 'bring out the tax'. When I asked how much a truck was supposed to pay, they said one or two hundred rupees (per checkpoint) are invariably demanded."[239] While these rates may have been manageable for larger businesses, small scale traders were pushed out of the industry.

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[238] Personal observation with P5, Peshawar, Pakistan; Interview confirming quote (January 2012)
[239] Personal observation with P6, Peshawar, Pakistan; Interview confirming quote (January 2012)

However, those traders who could navigate the security environment without being over-extorted were able to sell at a hefty profit margin. In some cases, a relationship with local strongmen could assure safe passage along key transit routes. Commanders retained leverage over the volume of tax their militias could extort from the business community, so a special relationship with a commander could give a trader an economic advantage over his competition. For example, at the height of the civil war, Gulbuddin Hekmatyar's HIG forces were in need of intravenous drips to treat wounded fighters. At that time, many of the IV supplies in Peshawar markets were either counterfeit or contaminated with a bacterial infection that would cause fatal toxic shocks to patients. The impact of these contaminated IVs on wounded HIG troops was significant. To resolve the problem, Hekmatyar made a deal with a prominent transit trader to become the sole supplier of HIG IV supplies. Hekmatyar issued the trader a letter of authorization indicating this special relationship, allowing his trucks to bypass all HIG checkpoints along the Peshawar-Jalalabad road. Not only did this trader save on the checkpoint prices, but he could also monopolize that local market and guarantee the sale.[240]

However, for the most part, rates of extortion remained high. Although some businesspeople, like Hekmatyar's IV supplier, benefited from special arrangements, most traders found the civil war period to be inhibitory to trade. Traditional markets became inaccessible and uncertainty on the roads dramatically increased the cost of goods. More than ever, trade into Afghan markets became a game of chance.

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[240] Eye-witness account with P7 in Peshawar, Pakistan; Confirming interview (January 2012)

These calculations took place along two key routes. Peshawar-based transit traders brought imported goods into Afghanistan through the Khyber Pass and the northern Peshawar-Jalalabad road, and unloaded them at the Jalalabad-Gomrak customs post, a customs post at the Afghan border. Quetta-based traders would drive through the southern Quetta-Chaman road, unloading their goods in the Afghan border town of Spin Boldak. Afghan buyers in Gomrak and Spin Boldak would then have to decide whether to smuggle goods back to Pakistan for a 10% margin, or take the risk to bring those goods further into Afghanistan to sell at a much higher margin.

The safety of the Pakistani market clearly appealed to many Afghan traders. "[Pakistan's] Central Board of Revenue estimated that Pakistan lost $US87.5 million in customs revenue in the financial year 1992-93, $275 million during 1993-94, and $500 million during 1994-95 – a staggering increase".[241] These increases suggest that insecurity on Afghan roads caused transit traders to opt for the safer smuggling option. Rashid argues that these figures are grossly understated, and that the smuggling and narcotics trades together were likely valued at over $1billion per annum.[242] Faced with insecurity on Afghan roads, Peshawar's smugglers markets remained a safe choice for traders that wanted a guaranteed return on their goods.

However, dumping goods in Pakistani smugglers' bazaars meant foregoing the lucrative Afghan market. As transit traders opted to smuggle their goods back to Pakistan, the supply shortage kept prices high in Afghanistan

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[241] Ahmed Rashid, "Pakistan and the Taliban." <u>Fundamentalism Reborn? Afghanistan and the Taliban</u> Ed. William Maley (Washington: New York University Press, 1998), 77.
[242] Ibid, 78.

whereas the flood of smuggled goods to the Pakistani market reduced the prices of goods. These market fluctuations were described flamboyantly by a transit trader in Peshawar, whose quick fortune from smuggling *sopari* (betel nut with a high excise duty in Pakistan) for *paan* (a popular chewable spice medley) prompted his fellow traders to jump on the bandwagon: "I spotted a severe shortage of sopari in Karachi and decided to bring five containers full of sopari from Singapore and sold it quickly for almost a 300% profit in the Bara market. We Afridis are a greedy lot, so my envious colleagues rushed to get [sopari] and lost a lot of money, as the market got flooded with it with no buyer to be found for a long time. Most of the demand for sopari comes from Karachi, and no one else in Pakistan or Afghanistan wants it."[243]

While Pakistani markets were flooded with surplus smuggled goods, in Afghan markets demand far outweighed supply. Therefore, if a trader could dodge or navigate checkpoints up to Mazar-e-Sharif or Herat, he could potentially sell the same goods in Afghanistan for a 50% margin or higher. The roads north and west also led to lucrative Central Asian markets that traditionally relied on the Afghan trade route for imported goods. Central Asia was also an important channel for the booming narcotics trade. But in order to navigate these roads, the Afghan trader would have to forge multiple agreements with each faction that held the territory through which the goods were traveling. Small traders could not afford to take such risks, and were often pushed out of the business altogether. Large traders could budget for the regional duties and the costly checkpoints, but

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[243] Personal observation with P6, Peshawar, Pakistan; Interview confirming quote (January 2012)

even these well-established businesspeople gambled with hefty unforeseen losses on the roads.

In an attempt to circumvent these checkpoint costs, some businessmen tried to create trade cartels within Afghanistan. Smuggling cartels brought together powerful traders with links to the local commanders from each turf along the trade route. Members of the cartel could collectively negotiate safe passage for their goods all the way from Peshawar to Kabul, thus creating a monopoly on the Kabul markets. The goal of these cartels was to distribute risk across the transit corridor and maximize profits for the shareholders; however, these efforts to capture key markets were not only costly, but they were also met with violent resistance by political opponents and business rivals.

For example, in 1995 a team of three wealthy traders (one from Pakistan and two from Afghanistan) developed a cartel to distribute medicine in Kabul markets.[244] They were successful in negotiating passage through the Peshawar-Kabul transit route, and had opened a new office in Kabul to begin distribution of their merchandise. However, before they could capitalize on the advantage of their much lower prices, the cartel office was attacked by gunmen sent by a rival wholesaler, destroying the infrastructure and undermining the initiative.

Therefore, because of these costly types of insecurity, far more often Afghan traders would simply operate inside their local tribal region, bidding on goods arriving at the Jalalabad-Gomrak and Spin Boldak customs posts at the Pakistan-Afghanistan border, transporting them shorter distances, and then selling

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[244] Eye-witness account with P7 in Peshawar, Pakistan; Details confirmed in telephone interviews (January 2012)

them to traders in the adjacent region. Every time the goods exchanged hands, the buyers would add another premium to the price, both for profit and to pay the next round of checkpoints or protection racket charges. By the time the goods reached more remote markets, the prices had skyrocketed and the demand had plummeted. This led the entire supply chain to stall all the way back to Karachi. Social fragmentation in Afghanistan had proven enormously costly to the most lucrative industry in the region, and had created ire among traders who could no longer do business under warlord rule.

Therefore, when the new Taliban movement offered to remove checkpoints from rival commanders, without installing any new taxes of their own beyond the traditional 6% import duty paid at the Afghan border, the transit trade community immediately began to finance their new Islamist allies against their old tribal protection rackets. Drawing upon these material resources, the Taliban launched an effective local military campaign that generated even broader support.

The Rise of the Taliban:

Given the lengthy history of Afghanistan's political fragmentation, the emergence of the Taliban in Afghanistan in 1994-96 is a remarkable rare event. According to the autobiography of former Taliban leader Mullah Abdul Saleem Zaeef, the Taliban movement emerged through a series of meetings between 1993 and 1994 involving former mujahideen fighters and religious students (*taliban*) who were determined to challenge the violent excesses of local strongmen in Kandahar province. As the idea of the Taliban movement began to form, Zaeef

recalled telling his colleagues: "We need enough men to stand up to other groups of bandits and robbers, a group that cannot just defend itself, but also other people's rights."[245]

This dedication to public defence helped to generate the popular narrative surrounding the Taliban. According to the oft-repeated legend, the Taliban originated in Singesar village in Kandahar province in the spring of 1994, at the height of the Afghan civil war.[246] A local commander had kidnapped a girl, who was being held and gang raped by his militia at his base.[247] Powerless and distressed, villagers from the girl's community approached a poor and little known local cleric named Mullah Muhammad Omar, and asked him to take action. In response, Mullah Omar mobilized a small group of his religious students armed with only 16 rifles between them, and attacked the base.[248] They freed the girl, killed the commander, and hung his body from the barrel of a captured tank.

As news of this heroic episode spread, Mullah Omar attracted supporters and recruits, including disaffected young Afghans who were living in Pakistani refugee camps.[249] By the time the Taliban captured Kandahar city, the Taliban had grown "from 40 students to 500 foot soldiers, fully armed and fully

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[245] Abdul Saleem Zaeef, My Life with the Taliban. eds. Alex Strick van Linschoten and Felix Kuehn (New York: Columbia University Press, 2010), 62.

[246] There are several variations to this story, with minor differences in the details. Some say it was one girl, others 2 or 3 girls. Some versions say it was a young boy that was being sodomized, and others claim an entire family. I relay here the version of the story told to me a colleague of Mullah Omar who was involved with the original Taliban movement in 1994. A similar account appears in Ahmed Rashid, Taliban (2001), which corroborates this version.

[247] Matinnudin suggests that this could have been Commander Mansour. He also identifies Nadir Jan, Saleh Mohammad, and Doro Khan as prominent commanders in the region near Mullah Omar's village. Kamal Matinnudin, The Taliban Phenomenon (1999), 23.

[248] Ahmed Rashid claims that there were 30 taliban during the initial uprising. My colleague claimed that there were approximately 40. They agree upon the number of rifles.

[249] Ahmed Rashid, Taliban (2001), 31-33, 59.

transported."[250] Zaeef states that in late autumn 1994, 40-50 of the leading Taliban commanders pledged their allegiance to Mullah Omar and declared their adherence to the Sharia as the guiding principle and law of the movement.[251] Unlike the mujahideen commanders and their unruly militias, the Taliban emerged as an organized and disciplined military power.

By December 1994 approximately 12,000 Afghan and Pakistani madrassa students had arrived in Kandahar to support the movement.[252] By September 1996, the Taliban had captured Kabul and well over two-thirds of the Afghan countryside.

The Taliban as Islamic State-Builders:

The success of the Taliban movement in Afghanistan is significant for two key reasons. First, the Taliban movement created a relative monopoly on the use of force and a centralized government out of complete state collapse. The Taliban government effectively suppressed, contained or co-opted all of its political opponents, and implemented its rule of law over the vast majority of the countryside, including peripheral areas that have historically fallen outside the direct control of the state. Despite being unable to control a small percentage of Afghan territory, the Taliban managed to achieve decisive military victory over all competing rivals at a time of chronic military stalemate, with the exception of Tajik commander Ahmed Shah Massoud. Massoud was able to maintain his base in the Panjsher Valley, and became a leader of the Northern Alliance, a group

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[250] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)
[251] Abdul Saleem Zaeef, My Life with the Taliban (2010), 64
[252] The 40 to 500 figure comes from my interviews with the late Colonel Amir Sultan, affectionately known among the mujahideen as Colonel "Imam". The 12,000 figure is drawn from Ahmed Rashid, Taliban (2001), 29.

comprised of the mujahideen factions that had fought one another during the civil war but which then allied against the Taliban. The remainder of the Northern Alliance was pushed to the northernmost part of Afghanistan, adjacent to Uzbekistan and Tajikistan, where they were politically marginalized.

Despite facing fierce opposition in the far north, Taliban did achieve political dominance over the majority of non-Pashtun territories, including Tajik and Uzbek regions. Not only did the regime penetrate these areas, but it also managed to successfully impose bizarre social and economic policies that typically would have provoked uprisings, such as banning kite flying, music, and eventually opium production. The Taliban's ability to implement unpopular laws without instigating rebellion suggests that their political power was derived from their monopoly on the use of force, rather than the tacit approval of local power-holders. In fact, the Taliban's penetration into the social and economic fabric of the periphery, without the occurrence of widespread popular uprisings constituted an unprecedented exercise in Afghan state formation and a significant period of political centralization in the history of Afghanistan.

Second, despite its Pashtun origins, the Taliban proposed a unified Islamic national identity for Afghanistan. At the time, mujahideen groups were largely defined by ethnic or tribal affiliations at the sub-national level, thus perpetuating social and political fragmentation.[253] Despite the predatory behaviour of these commanders, the threat from rival ethnic or tribal groups was so severe that civilians were forced to rely upon their own ethnic faction for protection. For

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[253] For example, Jamiat-i-Islami was Tajik, Junbesh-i-Milli was Uzbek, and Hizb-i-Wahdat was Shia and Hazara. Several groups competed for influence in the Pashtun south and east, most prominently HIG, HIK, Harakat-i-Inqilab, and Ittehad al-Islam.

example, several Uzbek women in Balkh province explained that the reason they politically supported the General Rashid Dostum, a commander well known for perpetuating violent campaigns against women, was because they felt that he was the only commander strong enough to protect them from total genocide at the hands of other ethnic factions.[254]

In stark contrast, the Taliban constructed its political platform on the basis of religious identity, rather than exclusive ethnic criteria. Because Islam is the dominant religion of the region, this political identity appealed to a wider base than tribal or ethnic membership. The Taliban refused to represent any particular ethnic or tribal group and even took action against Pashtun leaders who opposed their strict interpretation of Islam. Although the Taliban had a more difficult time convincing non-Pashtuns of their Islamic identity, they did manage to create a winning coalition among the Pashtun population. Furthermore, this political identity was inherently exclusive of Shi'ite Muslims, who were an oppressed minority under the Taliban. Nonetheless, this fundamentalist religious identity served as a new Sunni Islamic nationalism, which the Taliban's used to legitimate their political agenda. After 14 years of continuous war, the Taliban's monopolization of Islamic symbols and rhetoric coupled with their decisive

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[254] Interviews: Mazar-i-Sharif, Afghanistan, (March 2005). This sentiment was broadly shared by members of all ethnic groups across the country. In the centre and south, ethnically and tribally-motivated rape campaigns by militia were so systemic that entire villages were targeted by mujahideen factions. See Aisha Ahmad, "Afghan Women: The State of Legal Rights and Security." Policy Perspectives. Vol. 3, No 1 (January 2006): 25-41. The Afghan civil war thus constituted an ethnic security dilemma in the classic sense See also Barry Posen, "The Security Dilemma and Ethnic Conflict." Survival. Vol. 35, No. 1, (Spring 1993), 27-47; James D. Fearon, "Ethnic War as a Commitment Problem." Conference paper presented at the 1994 Annual Meetings of the American Political Science Association, New York, August 30-September 2, 1994.

military victory on the battlefield worked together to create a fragile and volatile Islamic state out of political collapse.

Existing Explanations:

Why were the Taliban able to achieve this remarkable level of political and ideological hegemony? The existing literature points to three main causal variables: Pashtun ethnic politics, fundamentalist Islamic ideology, and material support from neighbouring states.[255]

First, Abdulkader Sinno correctly points to the Taliban's ability to utilize Pashtun ethnic politics to gain political momentum in the south.[256] The fact that the Taliban's *shura* was comprised of mainly Pashtuns from the Ghilzai grouping of tribes adds credence to this argument.[257] Moreover, anti-Taliban resistance was particularly fierce in the Hazara dominated central region and the Tajik and Uzbek dominated western and northern regions, suggesting that the Taliban had limited support outside of the Pashtun belt.[258]

Second, explanations that favour Islamic ideology also seem plausible. The Taliban were fundamentally a political Islamic group, not an ethnic solidarity movement. Many authors point out that the majority of the original members of

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[255] For ethnic nationalist explanations, see: Rasul Bakhsh Rais, Recovering the Frontier State: War, Ethnicity, and the State in Afghanistan (2008); for religious explanations, see Olivier Roy, Islam and Resistance in Afghanistan (1994) and David B. Edwards, Before Taliban: Genealogies of the Afghan Jihad (2002); for Pakistani support explanations, see Ahmed Rashid, Taliban (2001), Larry Goodson, Afghanistan's Endless Wars: State Failure, Regional Politics, and the Rise of the Taliban. (Seattle: University of Washington Press, 2001) and Davis Anthony "How the Taliban Became a Military Force." Fundamentalism Reborn? Afghanistan and the Taliban Ed. William Maley (New York: New York University Press, 1998). Several chapters in Maley's edited volume address the role of foreign actors in the rise of the Taliban.

[256] Abdulkader Sinno, "Explaining the Taliban's Ability to Mobilize the Pashtuns." The Taliban and the Crisis of Afghanistan. Eds. Robert S. Crews and Amin Tarzi (2008).

[257] A shura is a council of male elders, which makes decisions on the basis of discussion and consensus.

[258] See Neamatollah Nojumi, The Rise of the Taliban in Afghanistan, Chapter 15 for a discussion.

the Taliban were religious students who were educated in ultra-conservative Saudi-funded Pakistani madrassas.[259] These arguments highlight the role of poorly equipped Pakistani madrassas in producing masses of undereducated young Afghans refugees who espoused conservative and militaristic beliefs about Islamic justice.[260]

And third, there is a clear empirical record of Pakistan's financial and military support for the Taliban, which is openly acknowledged by some of the highest ranking members of the intelligence establishment. Contributors to Maley's 1998 edited volume were among the first to investigate Pakistan's role in the conflict in Afghanistan, and charge that Islamabad used the Taliban as its proxy war with India and other regional actors.[261] Since the release of Rashid's 2001 volume, there has been much more attention in policy circles to the Pakistani ISI's role in supplying weapons and cash to the Taliban.

However, while these studies provide important insights into the Taliban's political process, they fail to provide a theoretically compelling causal explanation for the rise of the movement itself. Each of these arguments fails to effectively distinguish the Taliban movement from other comparable groups that also shared these characteristics. Pashtun identity, Islamic ideology, and foreign sponsorship

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[259] The influx of Afghan refugees from the Soviet war, many of whom were children, led the Pakistani government and Saudi Arabia to invest heavily in the construction of madressas along the border region and throughout what is now called Khyber Pakhtunkhwa, leading to an increase in conservative religious education among the refugee population Thomas H. Johnson and Mason, M. Chris "Understanding the Taliban and Insurgency in Afghansitan" Orbis Vol. 51, No. 1 (2007) argue that Pakistani madrassas were responsible for spurring extremism. Peter Bergen and Swati Pandey, "The Madrassa Scapegoat." The Washington Quarterly. Vol. 29, No. 2 (2006), 117-125 offers a more critical discussion of this argument. See Christine Fair, The Madrassah Challenge: Militancy and Religious Education in Pakistan (2008) for a comprehensive study.

[260] Rashid described these young students as surprisingly ignorant of their own culture and history. Ahmed Rashid, Taliban (2001), 31-33.

[261] William Maley (ed.), Fundamentalism Reborn? Afghanistan and the Taliban (New York: New York University Press, 1998).

were not unique to the Taliban movement. In fact, as Table 1 shows, these variables were present among several other groups in the civil war competition, none of which achieved the level of political success as the Taliban movement.

First, at the time that the Taliban emerged, there were at least six other Pashtun mujahideen groups in southern and eastern Afghanistan: *Hizb-i-Islami - Gulbuddin (HIG), Hizb-i-Islami – Khalis (HIK), Ittehad al-Islami, Harakat-i-Inqilab, Mahaz-i-Milli,* and *Jebhe-i-Nejat-i-Milli*. Each of these Pashtun groups appealed to its ethnic and tribal base to consolidate its power.[262] Gulbuddin Hekmatyar was a prominent Ghilzai Pashtun commander and HIG had demonstrated its ethnic credentials by launching a direct attack on the Tajik-dominant Jamiat-i-Islami party in Kabul.[263] Harakat-i-Inqilab leader Mohammed Nabi Mohammadi also drew support from the Pashtun south and east, and was popular among local populations for refusing to participate in the violent excesses of the civil war. Sayyaf's Ittehad party held a strong base in the province of Ghazni, and was the most ultra-conservative of all the Pashtun parties before the Taliban. Ittehad received its main source of support through its pro-Saudi affiliation, which enabled it to raise huge amounts of private donations from Saudi Arabia and elsewhere in the Gulf. Each of these parties shared similar ethnic and tribal political support bases as the Taliban movement. As such, ethnic politics explanations fail to explain why these other Pashtun groups were not more successful during the civil war.

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[262] For a discussion of Pashtun ethnic politics within the Taliban, see Abdulkader Sinno "The Taliban's Ability to Mobilize the Pashtuns" (2008) and Rasul Bakhsh Rais, Recovering the Frontier State: War, Ethnicity, and the State in Afghanistan (2008).

[263] Hekmatyar himself was born in the northern province of Kunduz, and is among a more educated, urban class of Ghilzai Pashtuns.

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Table 1: Mujahideen Groups Active in Afghanistan in 1994

Faction	Ethnicity	Islamist	Foreign Aid
Taliban	**Pashtun**	**Deobandi**	**Pakistan**
Hizb-i-Islami (G)	Pashtun	Deobandi	Pakistan
Hizb-i-Islami (K)	Pashtun	Deobandi	Pakistan
Ittehad al-Islam	Pashtun	Salafi	Saudi Arabia; Gulf states
Jamiat-i-Islami	Tajik	Sunni	USA, India, Central Asia – weak support
Harakat-i-Inqilab	Pashtun	Deobandi	Pakistan – weak support
Hizb-i-Wahdat	Hazara	Shiite	Iran
Junbesh-i-Milli	Uzbek	Not Islamist	Uzbekistan
Mahaz-i-Milli	Pashtun	Sufi	Pakistan – Weak support
Jebhe-Nejat-i-Milli	Pashtun	Sufi; Nationalist	Pakistan – Weak support

Second, during the civil war, virtually every Afghan faction claimed to be rooted in a political Islamic identity. Pashtun and non-Pashtun factions alike touted a political Islamic identity. Even Dostum's pro-communist ethnic Uzbek party rebranded itself as *Junbesh-i-Milli-Islami* (National Islamic Movement) after the Soviet withdrawal. The largest political party in Afghanistan, Jamiat-i-Islami, which had a largely Tajik but more cosmopolitan ethnic membership, was also founded on an Islamist political platform.[264]

Political Islamism was even more the norm among the Pashtun parties. In the Pashtun south and east, every single Pashtun faction espoused some variety of

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[264] The Jamiat-i-Islami party had a predominantly Tajik membership, but was relatively more cosmopolitan than more fascist ethnic parties, such as Uzbek commander Gen. Rashid Dostum's Junbesh-i-Milli party. Jamiat had no single foreign supporters, but at various times received sponsorship from Pakistan, Saudi Arabia, Iran, Russia, India and the United States.

political Islamic identity. The Mahaz and Jebhe factions, the weakest of the Pashtun groups, had Sufi orientations. Some of the more conservative Pashtun Islamist parties held staunchly fundamentalist Islamist views. HIG was ideologically closest to the Muslim Brotherhood, whereas Ittehad espoused a radical Salafi doctrine of Arab origins. Both engaged in shocking acts of extremism: Sayyaf engaged in brutal cleansing campaigns against Shiite minorities, while Hekmatyar built a reputation for throwing acid on the faces of women who didn't wear a veil. Tajik strongman Ismail Khan governed his fiefdom in Herat based on a rigid and fundamentalist understanding of Islamic law that was strikingly similar to the Taliban interpretation.

Hizb-i-Islami – Khalis and Harakat-i-Inqilab were both made up of Deobandi conservatives, many of whom were educated in Pakistani madrassas. HIK and Harakat supporters also had a degree of ideologically affinity to the early Taliban, and most of these fighters consisted of Pakistani madrassa-educated students. According to Mullah Abdul Saleem Zaeef, the majority of the core leaders in the original Taliban movement in the spring of 1994 had once been members of these two parties.[265] Both Khalis and Mohammadi ceded their turfs to Mullah Omar without resistance or objection, and a great many former HIK and Harakat supporters joined the rising Taliban movement.[266] The Taliban was ethnically, tribally and religiously similar to HIK and Harakat, and many of the Taliban's original members had a history of involvement in these two groups. In fact, during its initial formation, the core Taliban base was largely comprised of

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[265] Abdul Saleem Zaeef, My Life with the Taliban (2010), 63.
[266] The Haqqani family from North Waziristan in Pakistan is an example. Jalaluddin Haqqani was originally a member of HIK before joining the Taliban in 1995.

foot soldiers that had defected from HIK and Harakat. Given the Islamist leanings of these other groups, the Islamic identity of the Taliban therefore appears to be more a norm than an exception. However, despite their similar political Islamic identities, none of these other factions were able to achieve a level of success that is comparable to the Taliban movement.

Finally, while the Taliban did receive a significant amount of external support from the Pakistani ISI, so did other Afghan factions. Regional powers and Gulf States had a long history of involvement the Afghan conflict, particularly in the financing of irregular armed groups. For example, Saudi Arabia and a slew of wealthy Gulf sponsors supported Pashtun commander radical Salafi commander Abdul Rasool Sayyaf's Ittehad. Although currently a member of the Afghan government, Sayyaf developed a close relationship with Al Qaeda leader Osama bin Laden during the Afghan jihad. Additionally, Pakistan provided financial and military aid to a number of groups in Afghanistan and gave significant aid to its favourite, Hekmatyar. From the very outset of the conflict, key decision-makers in the Pakistani government decided that Hekmatyar was their favourite in the political competition.[267]

However, Pakistan also gave economic support to a multitude of other mujahideen factions. Colonel Imam, who was responsible for coordinating Pakistan's material support to the mujahideen, explained: "The good mujahideen used to get maximum aid; [first] the best mujahideen, then good, then lesser good, then average, then low average, and then the worst. Even the worst we used to

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[267] See Cornell E. Svante, "Taliban Afghanistan: A True Islamic State?" The Limits of Culture: Islam and Foreign Policy. Ed. Brenda Shaffer. (Cambridge: MIT Press, 2006), 269

give them; even Esmatullah Muslim from Chaman – who was against jihad – he was a chronic communist. He was a [PDPA] pilot, he deserted, he joined the jihad, he fought, and then he again joined the communists. Still I used to send to his wives living in Quetta a ration now and then, just to maintain [Pakistan's relations with him]."[268]

Former Director General of the ISI Hamid Gul was responsible for Pakistani covert assistance to the mujahideen during the final stages of the Soviet-Afghan War, from 1987-89. Gul explained: "We were not only supporting Gulbuddin Hekmatyar. We were supporting seven parties. But of course, Rabbani and Hekmatyar were the leading parties. So we supported all parties. And these two parties received the maximum share because they had the ability. You see, we had a job. We had a task to defeat the Russians out of Afghanistan. And that was a professional requirement. And in that professional requirement, we had professional criteria [for determining who would receive Pakistani support]: [first] that the party should be large enough and it should have representation in the whole of Afghanistan so that it can assimilate the materials that we give them; second was the performance, how well they are performing on the battlefield. Were they really attacking the Russians and gaining some ground? And third was discipline, that they would not sell the weapons on the open market, whatever we gave them. And these two parties figured to be at the top. So they received almost equal share." [269]

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[268] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)
[269] Interview with General Hamid Gul, Islamabad, Pakistan (June 2009)

Because Pakistan controlled the physical delivery of resources to the mujahideen commanders, the ISI was able to channel the billions of dollars of covert US and Saudi money to those specific Afghan commanders that it favoured most. HIG received the greatest share of these resources.[270] Over the course of the Soviet-Afghan War and Afghan civil war, Pakistan invested hundreds of millions of dollars in HIG, more than it gave to any other Afghan group at any point in history, including its support for the Taliban.[271] Explanations that focus on foreign sponsorship are thus unable to explain why the other groups like HIG, which actually received *more* external resources, were unable to achieve a comparable level of military success as the Taliban movement.

Therefore, while each of these explanations provides useful and important insights on the development of the Taliban period, these variables fail to distinguish the Taliban from other comparable groups. Ethnicity, ideology and external support may be necessary conditions, but they are not alone sufficient to bring about political success.

Transit Trade and Taliban:

Several scholars make reference to the role of the business community in supporting the Taliban between 1994 and 1996, but none of the literature systematically investigates this phenomenon.[272] However, these scholars make

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[270] Thomas H. Johnson, "Financing Afghan Terrorism: Thugs, Drugs and Creative Movements of Money." Terrorism Financing and State Responses: A Comparative Perspective Eds. Jeanne K Geraldo and Harold A. Trinkunas. (Stanford: Stanford University Press, 2007), 108

[271] Interviews with General Hamid Gul, Colonel Amir Sultan Tarar, Lt. General Asad Durrani, Lt. General Ali Jan Aurakzai, and P8 Peshawar and Islamabad, Pakistan (June 2009)

[272] The most rigorous field research on the relationship between the transit trade and the Taliban has been done by Pakistani journalist Ahmed Rashid, to whom virtually all other scholars refer when addressing the cross-border trade. See Ahmed Rashid, "Nothing to Declare" Far Eastern

only a passing reference to grievances of transit traders over high levels of extortion under the reign of the mujahideen warlord groups, often as an addendum to a foreign support explanation. This section consolidates the existing empirical work in the literature and presents original field data about the transit trade community to create a comprehensive explanation of the business community's economic and political interests in the early Taliban period.

Revenue Generation during the Early Taliban Period:

There were two sources of revenue that the Taliban benefitted from before it received any material support from the Pakistani government. The first was philanthropic donations from Islamic charitable organizations, mosques, madrassas, and individuals. According to a high-ranking member of the original Taliban movement, non-governmental organizations and individuals played an important role in financing the Taliban during its early formation.[273] Shortly after the Taliban's legendary first appearance in Singesar in spring 1994, Pakistani and Afghan communities and madrassas began to provide charitable donations to support the waves of new students that had come to Kandahar to join Mullah Omar's group. On May 21st 1994, the religious holiday of *Eid-ul-Adha* provided the Taliban with an additional opportunity to appeal for charitable donations to help feed and support their students-turned-soldiers.[274] Importantly, this appeal

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Economic Review. (May 11, 1995); Ahmed Rashid, "Drug the Infidels." Far Eastern Economic Review. Vol. 159, No. 20, (May 1997); and Ahmed Rashid, "Pakistan and the Taliban" (1998). For an excellent analysis of the Afghan war economy, including a discussion of the transit trade, see: Rubin, Barnett "The Political Economy of War and Peace in Afghanistan" World Development (2000), pp. 1789-1803.
[273] Interview with P9, Peshawar, Pakistan (June 2009)
[274] The tradition on Eid-ul-Adha is to sacrifice a lamb, sheep, goat or sometimes cow, and share the food with family, neighbours and the poor. This tradition is practiced by virtually every household in the community that can afford meat, and is shared with all of those that cannot.

was convincingly presented as a request to sponsor students, rather than a call to finance a new Islamist insurgency.

In response to this call for aid, Pakistani mosques and madrassas not only provided food and cash donations, but they also collected the cow and lamb hides that were leftover from the Eid feasts and donated them to the Taliban. The Taliban member explained that this collection of hides was sold to tanneries for manufacturing high quality leather for local and international markets, which served as a key source of revenue for the movement during its early stages. "On Eid-ul-Adha we advertised the number of our mujahideen and asked for money and meat donations. Most of the Pakistani masjids and madrassas donated to us. This was a major source of income for us. The Taliban were pious people and the leadership was pious. So these donations we collected were from individual philanthropy."[275] Throughout their reign, the Taliban later came to rely on Karachi-based Islamic charities, which channelled donations domestically and internationally to the movement.[276]

The second source of revenue came from the business community itself. The Taliban's zero tolerance policy on extortion and corruption caught the attention of members of the beleaguered transit trade community, particularly those operating along the heavily obstructed Quetta-Chaman-Kandahar trade route. Local traders took note of the fact that the small pockets of territory under

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[275] Interview with P9, Peshawar, Pakistan (June 2009)
[276] After September 11, 2001, certain Karachi-based Islamic charitable organizations, such as Al-Rashid Trust and Al-Akhtar, were blacklisted by the US State Department for financing terrorist organizations. These trusts, like many others in Pakistan, were set up during the Taliban period to channel charitable donations to the Taliban government. The sponsorship of the Taliban by charitable donations allowed extremist actors from Gulf States, such as bin Laden, the opportunity to exert significant political influence over the cash-strapped Taliban leadership.

Taliban control were free of checkpoints and provided a degree of order and predictability. Frustrated with debilitating checkpoint prices imposed by other commanders, many local traders began to consider the Taliban as a possible political alternative. "In the beginning it was the traders of Afghanistan who wanted the trade routes to Central Asia to be open," explained Lieutenant General Hamid Gul, who was a close witness to the origins of the Taliban movement. "The warlords before Taliban appeared on the scene, in the fall of 1994, they had set up no less than 72 posts between Chaman and Torghundi [at the Turkmenistan border]. And at each post these traders had to pay the price, and sometimes with their life. So really, people were fed up and they started funding Taliban when they appeared."[277]

In addition to their dramatic origins story, the Taliban quickly generated a slew of other tales about their religious piety. One popular anecdote tells of how several Taliban foot soldiers were desperately in need of food, and broke into a store to eat some melons. However, when the shopkeeper looked under the scraps, he found that the fighters had not only paid him for the food, but also left him a surplus of cash. Countless fables of this variety emerged through the powerful gossip networks, broadcasted via audiocassettes and videos and embellished further in gatherings at mosques, madrassas, *hujrahs* (common sitting rooms in villages), and *chai khanas* (tea houses).

Impressed with the seemingly non-materialistic objectives of the Taliban, some of the most prominent members of the Pakistan-Afghanistan business community began to sponsor these students with food and cash donations. "Many

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[277] Interview with General Hamid Gul, Islamabad, Pakistan (June 2009)

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businessmen and traders began to donate money to support the movement," explained Mullah Zaeef. "One man came to the checkpoint lugging a sack of money behind him. I remember when we counted the notes that the total came to over ninety million Afghanis. This was an unimaginable sum of money at the time; I had never even dreamed of an amount that large. We were stunned by the man's generosity and told him that we would give him a receipt that recognized his donation and charity, but he said, 'I have donated this money for the sake of God alone. I don't need anyone to know about it. There is no need for a receipt or for my name to be known'. Many others came to donate whatever they could afford."[278]

This extraordinary financial support from members of the business community stemmed from the Taliban's non-materialistic political mandate. "The Taliban didn't go after our money or materials," explained a member of the transit trade.[279] These spiritually-motivated Islamists requested modest amounts of voluntary material support, often only their most basic subsistence, which further distinguished them from their more economically-driven rivals. The business community was thrilled with their seemingly ascetic nature.

Importantly, in the first three months of the Taliban's formation, support from the business community was predominantly an individual charitable exercise, and transit traders often channelled their donations through the mosque and madrassa system. Transit traders were the most economically powerful actors in the region, and traditional Pashtun and Islamic culture it is considered a

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[278] Abdul Saleem Zaeef, My Life with the Taliban (2010), 67,
[279] Interview with P3, Peshawar Pakistan (January 2009)

mandatory social responsibility for well-to-do businesspeople to sponsor Islamic charities and causes. Providing food and shelter to poor madrassa students has long been a conventional and apolitical charitable activity. Supporting the Taliban, who were indeed madrassa students, was therefore a seemingly routine and inconspicuous form of philanthropy.

Most significantly, these donations of food and cash resources from the business community provided the Taliban with the ability to support its foot soldiers. This livelihood expense was exactly what other commanders had failed to provide their own militias. While the Taliban financed its foot soldiers through the voluntary donations of the business community, other commanders fed their militias by telling them to directly tax the traders along the road. This system had a profound impact on the level of discipline and fidelity of mujahideen foot soldiers. In contrast, while the mujahideen were forced to engage in extortion to pay themselves, the Taliban were free to provide security along the roads because they could pay their forces through the voluntary donations of their business sponsors. As a result, the Taliban gained reputations for being abstemious, while mujahideen commanders seemed notoriously rapacious to the beleaguered transit trade community.

Given the extortionist tendencies of other factions, members of the transit trade community were delighted with the material asceticism of the Taliban movement. By early summer, Quetta-based traders had realized the economic benefits that the Taliban offered and began to work collectively to provide direct financial support to the movement. Importantly, the business community framed

their support as charitable donations while continuing to conduct business as usual. Because they did not stop paying checkpoints, the business community's support for the Taliban was far less risky than an outright challenge to powerful commanders. Transit traders explained that their support for the Taliban during this period was overtly considered Islamic charity, but which was also driven by a clear material interest in seeing the Taliban succeed in creating checkpoint-free zones.[280]

This clandestine charitable approach kept the business community safe, while covertly developing the Taliban's material capabilities. Unlike the Somali case, because the mujahideen warlords did not bother to play the administrative role of directly paying their own forces, they did not bother to extort the business community themselves. In Somalia, warlords would extort a lump sum from the business community and use that money to pay its ground forces.[281] In Afghanistan, high-level commanders delegated this responsibility to their militias, who then earned their own salaries through extortion and road taxes.[282] By privatizing the cost of maintaining their own forces, the mujahideen actually created the opportunity for the business community to quietly mobilize their resources in support of the Taliban against the heavily entrenched warlords, without alerting the commanders to their shift in support. The danger to the traders in this arrangement was therefore relatively low: if the Taliban failed to

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[280] Multiple interviews with traders, Peshawar, Pakistan (June 2009)
[281] Interview with S2, S3 S12, in Nairobi, Kenya (October 2009)
[282] In the Somali case, warlords directly made agreements with members of the business community to secure business deals within their protection rackets. By foregoing the administration of their own turfs, Afghan commanders left the protection-for-payment arrangement up to each checkpoint, thereby undermining their social relationship with their business base.

rout the mujahideen, there would be no immediate backlash against the business community because the traders did not take any obvious actions against the commanders. If the Taliban succeeded, the traders would be free of costly checkpoints and could benefit from a more direct economic relationship with the Taliban leadership.

It was not only the wealthiest businesspeople that offered charitable donations to the Taliban. In fact, smaller businessmen were even more desperate to have these roads cleared, as the checkpoints completely stifled opportunities for players that could not afford the high risk of extortion. Their decidedly Islamic identity also made the Taliban a viable political choice for members of ethnic and tribal minorities who may otherwise have felt uncomfortable supporting a largely Pashtun group. Their Islamic identity allowed the Taliban to recruit support from a wider political base than their ethnic and tribal rivals. The Taliban therefore offered smaller and mid-sized businesspeople with an increased opportunity to compete in Afghan markets, which they were excluded from under the reign of the mujahideen. Moreover, because these smaller traders were losing so much opportunity to do business, they were actually willing to pay higher start up costs to finance the Taliban to remove the checkpoints. The business community's motivations were thus decidedly economic. Discussions with a number of businessmen active in cross-border trade in 1994 revealed the same refrain; "With the removal of checkpoints the transportation expenses are lower".[283]

Armed with the resources of the business community, the Taliban built their forces and gradually expanded their area of influence within Kandahar

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[283] Interview with P3, Peshawar, Pakistan (June 2009)

province. During the early summer of 1994 the Taliban remained dependant on philanthropic donations from business and individuals.[284] "We used the *hundi* system to receive money from our donors,"[285] explained a high-ranking member of the Taliban who was chiefly responsible for the fundraising effort. "Rahim Afridi was the biggest money transfer person and he would transfer money from Pakistani donors to the Taliban. He had a currency exchange office in Peshawar, but it was an undercover money transfer system."[286] These resources allowed the Taliban to recruit and retain personnel as they expanded their reach into the countryside. The more successful the Taliban were at inching out local commanders and clearing the roads of checkpoints, the more resources they received from the transit trade. "Under the Taliban checkpoints are not seen," was the mantra among the transit traders in the mid-1990s.[287]

Money and Military Strategy in the Early Taliban Movement:

In the summer of 1994, the Taliban shura made the strategic decision to target Hekmatyar's forces, as HIG-allied commanders were the main challenge to the security and safety in the southern region. Colonel Imam, who was the Pakistani Consul General to Herat, met with senior Taliban commanders just days before their first offensive against Hekmatyar: "I went to Mazar-e-Jammi – they [the Taliban commanders] also came because many people go – I saw them. I was surprised. My favourite students are here, very good stinger firers. Abdurrazak

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[284] Interview with P9, Peshawar, Pakistan (June 2009)
[285] The hundi system is synonymous with the hawala system in Somalia. A hawala is a private money transfer company, which takes the place of banks.
[286] Rahim Afridi passed away some time ago, which is why his name is disclosed here.
[287] Personal observations, Peshawar, Pakistan; This refrain was oft repeated by members of the transit trade community (June 2009).

was there. There were about 6 of them, all very senior people. They said, 'We are coming to you." I said, "I have nothing to give you. I am now a servant." They said, "We are not going to demand [money from] you, but we are going to tell you what is our plan". They came at night. They said, 'We are going to Kabul. We didn't have resource. We came to Ismail Khan and he said he is giving us aircraft. We are going to Kabul, tell Rabbani we are going to get on to his road and finish all of these checkpoints'."[288]

The Taliban's opposition to Hekmatyar earned them early support from Kabul. In September 1994 Taliban representative Mullah Mohammad Rabbani was welcomed in Kabul by Jamiat-i-Islami President Burhanuddin Rabbani, who saw the new Taliban movement as flanking HIG forces in the east.[289] At this time, rival commanders regarded the Taliban as a local Pashtun movement that might split the Pashtun forces against the heavily Pakistani-backed Hizb-i-Islami group. Imam's story continues: "Rabbani was very happy. He told his commanders to help the Taliban. He gave him 3 lakhs and a lot of ammunition.[290] Only Hekmatyar decided to fight with them. Rabbani thought, 'good enough, let them fight among each other. My job will be facilitated'. Taliban came back [to me] and said we have told Rabbani and he agreed. I said, 'OK I can only pray for you'. I thought, 'Look, these guys, they are suicidal. They are going to fight. And they'll be killed. Good luck'."[291]

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[288] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)
[289] Ahmed Rashid, <u>Taliban</u> (2001), 26.
[290] One lakh is equal to 100,000 rupees.
[291] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)

At the same time that the Taliban emissary was meeting Rabbani in Kabul, Pakistani Interior Minister Naseerullah Babar was engaged in direct negotiations with local commanders in Kandahar and Herat to secure the coveted transit route to Central Asia, which could open up the area for the lucrative UNOCAL-Delta oil pipeline and connect Central Asia to international market through Pakistan, rather than Iran.[292] The Taliban were not even considered in these negotiations. In 1994, Hekmatyar was still the political favourite of the ISI. The Taliban had yet to prove their mettle to those controlling the purse strings in Islamabad, and the Islamic movement therefore continued to rely on the voluntary donations of local business patrons that were frustrated by the political status quo. All this would change when the Taliban captured the strategic border town of Spin Boldak.

The Battle of Spin Boldak:

On 12 October 1994, the Taliban conducted their first serious military operation against HIG commanders in the Afghan border town of Spin Boldak along the Quetta-Chaman road. Spin Boldak was an incredibly strategic location for the trade community, which served as one of the key transit points for Pakistani traders to offload goods headed to Afghanistan or to be smuggled back to Pakistan. Hekmatyar's control over this border point had resulted in heavy delays and debilitating extortion. Trucks could be held until the traders agreed to pay whatever fee the local HIG gunmen demanded. As militia roamed freely through the unruly border town, traders also feared being looted or abducted. The transit trade community was desperate to release Hekmatyar's bottleneck at Spin

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[292] Barnett Rubin, "U.S. Policy in Afghanistan." Muslim Politics Report, Vol. 11 (January/February 1997), 6.

Boldak. According to Rashid's 1995 interviews with traders in Quetta, in the summer months of 1994, traders "had already donated several hundred thousand Pakistani Rupees to Mullah Omar and promised a monthly stipend to the Taliban, if they would clear the roads of chain and bandits and guarantee the security for truck traffic" through this vital trading hub.[293]

The Taliban selected Spin Boldak as a direct move against Hekmatyar. The shura's decision was based on three factors. First, HIG militia were the main cause of resentment for the transit trade community on the Chaman-Kandahar rout, and capturing Spin Boldak would earn the Taliban even more support from their business backers. Second, Spin Boldak was home to a major arms and ammunition depot, which could provide the desperately underequipped Taliban forces with necessary supplies. And third, capturing Spin Boldak could help develop relations with Pakistan, which had until that point largely ignored the Taliban and had continued to favour Hekmatyar.

According to Gutman, in early October, Mullah Omar sent notice to Hekmatyar's forces to hand over Spin Boldak.[294] Colonel Imam explained that Mullah Omar sent two separate warnings to HIG forces to leave the Spin Boldak in the early part of October: "He told [Hekmatyar's commanders], 'I will give you 7 days to vacate. Talk to your party leaders and vacate.' After 7 days, they were still there. The Taliban asked, 'Why?' [The commander said], 'Our party leader [Hekmatyar] says we do not vacate'. The Taliban said, 'I will give you another 5

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[293] Ahmed Rashid, Taliban (2001), 27.

[294] Roy Gutman, How we missed the story: Osama bin Laden, the Taliban, and the Hijacking of Afghanistan (Washington: United States Institute of Peace, 2008), 65.

days. I don't want to fight.' After 5 days again he went back and they were still there."[295]

Hekmatyar refused, arguing that he was legitimately manning a transnational port under international law. In response, Mullah Omar mobilized his ground forces against HIG militia at the border post. Financed primarily by the beleaguered Quetta-Chaman transit traders, the Taliban mobilized 200 fighters to attack Hekmatyar's forces at Spin Boldak.[296] After a brief firefight that left seven HIG fighters and one Taliban fighter dead, Hekmatyar's foot soldiers fled. The Taliban claimed the border town.

The Taliban's capture of this strategic position was their first serious military success. The routing of Hekmatyar's forces from Spin Boldak solidified the relationship between the Taliban and the transit trade community, which rewarded the Taliban's success with further commitments of material resources. Imam described the aftermath of the battle for Spin Boldak: "No check post anywhere! The area was clear. The transport mafia – the transporters of goods– the businessmen, they were very jubilant! They used to be paying a lot of money on the check post to everybody. Then they [the business community] gave a big package to Mullah Omar, thank you very much."[297]

The capture of Spin Boldak also provided the Taliban with a massive supply of weapons from their defeated rivals, which were stockpiled in a nearby arms depot, estimated at 7000 tonnes, enough to equip tens of thousands of

[295] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)
[296] Neamatollah Nojumi, The Rise of the Taliban in Afghanistan (2002), 118 and Ahmed Rashid, Taliban (2001), 27 agree that it was approximately 200 foot soldiers.
[297] Interview with Colonel Imam, Islamabad, Pakistan (June 2009)

soldiers.[298] The battle of Spin Boldak thus gave the Taliban the material resources to successfully secure the most lucrative and strategic transport routes in the southern belt. "And incidentally, I was there," added Colonel Imam with a wink. "I was taking that transport convoy."

The Taliban's capture of Spin Boldak caught the attention of key decision-makers in Islamabad. Pakistan had ambitions to develop a modern transit corridor through Afghanistan to Central Asia, which had been obstructed by insecurity on the roads. From 1993, Prime Minister Benazir Bhutto was actively seeking to negotiate safe passage of goods from Quetta through southern Afghanistan and to Central Asian markets, which would increase Pakistan's dominance in regional trade.[299] However, Hekmatyar's commanders saw the possibility of expanded trade as a potential boon for their faction and had thus increased their levels of extortion. Frustrated with their inability to access lucrative Central Asian markets, the Pakistani intelligence community began to explore the possibility of allying with the Taliban.

In spite of their decade of support for Hekmatyar's Hizb-i-Islami group, by late 1994 the Pakistan intelligence community was impressed with the Taliban's dramatic rising power in the south. However, Pakistani support did not

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[298] Gutman, Roy How we missed the story: Osama bin Laden, the Taliban, and the Hijacking of Afghanistan (2008), 65; Ahmed Rashid, Taliban (2001), 27; Neamatollah Nojumi, The Rise of the Taliban in Afghanistan (2008), 104.

[299] The Peshawar-Kabul route would have been preferable. However, the magnitude of insecurity on the northern Peshawar-Jalalabad-Kabul road forced Pakistan to pursue the less profitable but more secure southern Quetta-Chaman-Kandahar route. See Ahmed Rashid, Taliban (2001), 26-28 for a description of these events. See also Neamatollah Nojumi, "The rise and fall of the Taliban" in The Taliban and the Crisis of Afghanistan Ed. Robert Crew and Amin Tarzi. (Cambridge: Harvard University Press, 2008). Neamatollah Nojumi differs with Rashid on the dates, arguing that these events began in August 1994. However, the general story is agreed upon by the authors, and corroborated by my field interviews with Pakistani officials and members of the transit trade community.

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emerge until after the Taliban had already developed the substantial material capability to challenge well-entrenched commanders, and Pakistani support for Hekmatyar continued well into 1995, overlapping their support for the Taliban. The ousted Hekmatyar later complained the Taliban had Pakistani military support even at Spin Boldak; however, most notably, Hekmatyar continued to receive significant material support from and work closely with his Pakistani intelligence allies well into 1995.[300] In fact, the purported evidence that Pakistan militarily supported for the Taliban to rout Hekmatyar at Spin Boldak is oft-repeated, but actually quite unsubstantial.

For example, Ambassador Peter Tomsen, Former US Special Envoy to Afghanistan from 1989 to 1992, argued that "a secret April 22, 1994 telegram cable by the American Embassy in Islamabad to Washington, citing that 'an extremely well informed and reliable source' reported that the Taliban's Spin Boldak attack 'was preceded by artillery shelling of the base from Pakistani Frontier Corps positions' inside Pakistan".[301] However, the cable pre-dates the October 12 assault on Spin Boldak by several months, long before the Taliban shura even considered moving against HIG forces.[302] In fact, a 1995 declassified cable from the American Embassy in Islamabad conveys a communication with a Taliban source, who "denied the report that the Taliban were supported in seizing

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[300] Steve Coll, Ghost Wars: The Secret History of the CIA, Afghanistan, and bin Laden from the Soviet Invasion to September 10, 2001 (New York: Penguin Books, 2005), 282-297.
[301] Peter Tomsen, The Wars of Afghanistan: Messianic Terrorism, Tribal Conflicts, and the Failure of Great Powers (New York: PublicAffairs Press, 2011), 535.
[302] The Tomsen's analysis goes further to state: The message noted "co-ordination provided by Pakistani officers on the scene." It concluded, "The Taliban's military competence…and the use of tanks and helicopters strongly suggested Pakistani tutelage or direct control." (p. 535) This account of Pakistan's alleged air and ground cover for the Taliban's assault goes even further than the Hekmatyar's original protest of artillery shelling.

the armory [at Spin Boldak] by Pakistani Interior Minister's Babar's Frontier Corps. He noted that Babar had not even consulted with the fledgling Taliban movement when planning the GOP [Government of Pakistan] Central Asian convoy, preferring to deal with more established Kandahari commanders."[303] The fact that there were no foreign observers in Spin Boldak at the time of the Taliban takeover has allowed many such allegations to become mainstream interpretations of the Taliban's rise to power.

However, those who were directly involved in the Taliban's fundraising efforts during the initial stages of development were clear about the source of the Taliban's income. "The donations from the business community were completely voluntary," said a member of the original Taliban leadership. "This was *sadaqa* (charity). The businesspeople were grateful to have the checkpoints removed. The Taliban did not ask for any taxes whatsoever. They only collected *zakat* and *ushr*."[304] It was with the resources of the business community that the Taliban staged the effective capture of Spin Boldak and its strategic arms depot.

The declassified cable also made reference to the support of the business community, stating that the initial financial support for the Taliban came from "family resources and local business and political connections (including the bazaaris and Jamiat commander Naqibullah), [which] raised six million Pakistan

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[303] US Embassy (Islamabad) cable. "1995ISLAMA01792 Finally, a Talkative Talib: Origins and Membership of the Religious Students Movement." National Security Archive. February 20, 1995, 6. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB97/tal8.pdf>

[304] Interview with P9, Peshawar, Pakistan (June 2009). Ushr is a 10% tax on agricultural produce, half of which is given to the poor and the other half of which goes to the political leadership. The Taliban asked for zakat from their constituents right away, and began to charge ushr after consolidating their political power.

rupees (USD 250 000) for the cause and contributed six trucks. Arms and ammunition came initially from stocks left over from the jehad."[305]

The official relationship between the Taliban and the ISI occurred after the Spin Boldak episode. On 29 October 1994, the Pakistani government had sent a military convoy through Quetta to Herat, on a mission to explore development of a trade corridor to Central Asia. On board this convoy was Colonel Imam, who had participated in training and arming the mujahideen from the very start of the Soviet-Afghan War.[306] Along the road, local commanders Amir Lalai, Mansur Achakzai, and Ustad Halim held up the convoy for ransom.[307] Imam attempted to use his elite position with the mujahideen to negotiate the release of the convoy, but the commanders were aggressive. In response, the Taliban engaged in a military offensive to release the convoy and kill the commander. According to Rashid's interview with an unnamed Pakistani official, Pakistan requested the Taliban's aid: "So we considered all the military options to rescue the convoy such as a raid by the Special Services Group (Pakistan army commandos) or a parachute drop. These options were considered too dangerous so we asked the Taliban to free the convoy."[308]

Buoyed by their success in releasing the Pakistani convoy, that very evening Taliban forces immediately proceeded to capture Kandahar city. They

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[305] US Embassy (Islamabad) cable. "1995ISLAMA01792 Finally, a Talkative Talib: Origins and Membership of the Religious Students Movement." National Security Archive. February 20, 1995, 6. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB97/tal8.pdf>

[306] The story presented here draws from my lengthy discussions with Colonel Imam between 2006 and 2009, before his death in 2011. Where cited, I also draw upon Ahmed Rashid, Taliban (2001) and Neamatollah Nojumi (2002). Rashid states that the specific date of the convoy incident was October 29th, 1994, and the Taliban attack to free the convoy was November 3rd, 1994.

[307] Ahmed Rashid, Taliban (2001), 28; Neamatollah Nojumi, The Rise of the Taliban in Afghanistan (2002), 118.

[308] Ahmed Rashid, Taliban (2001), 28.

claimed the city without heavy military resistance, forcing the surrender of the local commanders and collecting their heavy weapons, aircraft, and military supplies.[309] The Taliban's release of the convoy and their successful offensives in Spin Boldak and Kandahar city earned them a reputation for being a serious contender in the battle for Afghanistan, and won the favour of major players in the Pakistani ISI, including Colonel Imam.

The timely donations of the business community were pivotal in financing the nascent Taliban movement into a competitive force at a critical historical juncture. The Taliban's dramatic and decisive capture of Kandahar city caught the attention of key decision-makers in Islamabad, who began to discuss dropping their old ally Hekmatyar in support of this promising new Islamist movement. Backed by the business community and thereafter by Pakistan, the Taliban consolidated their material and military resources and began a countrywide campaign against Afghanistan's most heavily entrenched warlords. By 1996, they held 90% of the entire countryside and successfully constructed the most invasive and domineering government in the history of Afghanistan.

Conclusions:

The business community's decision to support the Taliban was born out of rational, material motivations. As the cost of doing business under the reign of the mujahideen had grown prohibitive, the business community sought out a political alternative to the extreme social fragmentation of the civil war. The Taliban defined itself as a religiously inspired anti-corruption movement, forged in

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[309] Ibid, 28-29; Interview with Colonel Imam, Islamabad, Pakistan (2009)

opposition to the abuses and extortion of mujahideen commanders. Their ascetic religious character was a stark contrast against their more rapacious mujahideen counterparts. Furthermore, the predominantly Islamic identity of the Taliban allowed the movement to recruit business supporters from tribal minorities, thus widening the pool from which resources could be drawn. As a result, during their initial rise to power, the Taliban drew significant material resources from the business community that sought to covertly change the balance of power on the battlefield. With these start-up funds, the Taliban were able to mobilize a dedicated group of fighters to capture Spin Boldak and Kandahar, and subsequently earn the attention and support of Islamabad.

As the Taliban demobilized other small Pashtun factions and pushed out Hekmatyar, they began to establish a monopoly on the use of force. As regional commanders in the southern and eastern provinces surrendered or fell back, the Taliban absorbed their weapons depots and foot soldiers, thus expanding the movement. The Islamic character of the movement allowed foot soldiers from diverse tribal backgrounds to defect to the Taliban. Coupled with the influx of Afghan refugee madrassa students from the Pakistani border region, this increase in manpower transformed the Taliban into a serious political contender in Afghanistan. As the Taliban movement expanded, it began to exercise domination over the Pashtun south and east.

By 1996, having secured material support from Pakistan, the Taliban had established a relative monopoly on the use of force over the majority of the Afghan countryside. The Taliban removed all militia checkpoints and did not set

up any new checkpoints along the trade routes. The business community had succeeded in creating its Islamic leviathan. However, the Taliban government did not produce the exact outcome that the transit traders had hoped for. Despite their elimination of militia checkpoints, the newly entrenched Taliban government produced secondary and tertiary consequences that the business community had not predicted.

First, the Taliban's alarming domestic policies and ties to transnational extremists attracted strong condemnation by the international community. In October 15, 1999, United Nations Security Council Resolution 1267 authorized a sanctions regime against the Taliban and Al Qaeda in Afghanistan. Economic sanctions further depressed the Afghan national economy, which had failed to improve under the Taliban's inept management. Though fierce on the battlefield, the Taliban were utterly ineffectual when it came to modern governance. Of monetary and economic policy, they were thoroughly ignorant. They forwent the development of industry and enterprise in their relentless pursuit of social and cultural domination. The exclusion of educated and qualified women from the workforce further depressed the talent-drained economy. Their radical and violent enforcement of Sharia law was a serious deterrent to international investors. The narcotics trade alone provided poor farmers with a viable source of revenue, until the Taliban banned opium production in 2000. The transit trade community did not have the foresight to anticipate how these anti-business policies could impact Afghan markets.

Second, once checkpoints were cleared, the Taliban turned their anti-corruption agenda toward the business community itself. Bribery and other forms of corruption had long served as a social lubricant for facilitating transactions in the transit trade community. However, once in power, the Taliban took action against bribery within the trade business. After the capture of Kabul in 1996, the Taliban sent a new Trade Commissioner to Peshawar named Haji Mohamad Sadiq Amir Mohammad (AKA Maulvi Amir Mohammad). The new Trade Commissioner took immediate action against corruption within the trading community. He told the President of the Pakistan-Afghanistan Transit Trade Association that, "If I find out that any money was paid to the staff in the trade commission, I will cancel that trader's license completely." Such a strong action by the Commissioner would have eliminated the offending party from participating in the Afghan trade entirely.

This staunch attitude brought immediate ire to transit traders, whose institutionalized system of corruption was an intrinsic component of their regular business interactions. Without paying bribes, truck deliveries passing through Pakistan would be stalled or held up, potentially jeopardizing the delivery of time-sensitive goods into lucrative markets. This dramatic crackdown on bribery therefore inadvertently jammed the trade right back to Karachi. The president of the trade association griped, "With these Taliban, I can't even give 100 rupees! They are making a nuisance for me."[310]

However, despite their ire, the business community had sealed its own fate. By ousting their political rivals, the Taliban established itself as the only

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[310] Personal Observation with P1, Peshawar, Pakistan; Interview confirming quote, (January 2012)

game in town. By sidelining the mujahideen, the business community eliminated the political alternatives that could have checked the Taliban's excesses. The business community no longer exercised power over the movement that it helped to create. They had created an Islamic leviathan.

Chapter 5: Beards for Business:
The Origins and Evolution of the Mogadishu Mafia

Since the collapse of the Siad Barre regime in 1991, Somalia has been without a functioning government, public institutions, and the rule of law. For over two decades, Somalia has served as a paradigmatic case of state failure. Amidst this political turmoil, the Somali economy has dramatically transformed and adapted to these conditions of statelessness. State failure has provided both opportunities and obstacles to Somali businesspeople. On the one hand, the absence of government created new opportunities in licit and illicit tax- and regulation-free trade. On the other hand, the deep social fragmentation denied traders access to profitable in-land markets and frustrated business development. Violent inter-clan conflict plummeted social trust between Somali clans, thereby dramatically increasing the costs of doing business across clan lines. Though state failure created new opportunities, it also presented frustrating barriers to business.

Nonetheless, the Somali economy has proven surprisingly resilient under conditions of state collapse. New elites have risen to power and new patterns of order have emerged. In the absence of the state, the market continues to function. In fact, the Mogadishu business community has taken a lead role in developing countrywide organizations and networks that work across clan divisions. Since the collapse of the state, Islam has played an instrumental role in the business community's success.

Notably, unlike many African states, Somalia is religiously, linguistically, and ethnically homogeneous. Yet, Somali society is divided by a patrilineal tribal system, divided between major clan families: Darod, Hawiye, Isaaq, Dir, and

Digil Mirifle or Rahanweyn. Within each of these clan families, there are many sub-clan and sub-sub-clan divisions, leading to a complex pattern of tribal alliances and conflicts. Over the course of the Somali civil war, these clan divisions became increasingly costly to members of the business community, who sought out alternative sources of social identity.

This chapter explains how the business community used Islamic identity and institutions to facilitate economic activities and mitigate the costs of tribalism. Using original field research, the chapter argues that the high transaction costs associated with state failure caused the Mogadishu business community to undertake a deliberate and strategic process of Islamic identity construction to overcome the barriers presented by clan fragmentation. State failure created serious new obstacles to trade and dramatically increased the transaction costs of doing business in Somalia. In response to these high costs, Islamic identity and institutions became a valuable mechanism for the Somali business community to reduce uncertainty, build trust, develop business partnerships across tribal divisions, and gain access to lucrative markets in Gulf States. State failure therefore drove the business community to increase the salience of Islam in the informal economy.

The chapter unfolds in four main parts. The first section offers a brief history of trade, Islam and modern state formation in Somalia, with particular attention to the economic impact of colonialism and the Cold War in perpetuating state collapse. The second part explores the impact of modern state collapse on the informal economy in Somalia in the early 1990s, and shows how the United

Nations Operation in Somalia (UNOSOM) mission helped to create a new criminal business class. The third section argues that as international resources dwindled in the post-UNOSOM period, members of this new business community turned to Islamic identity to increase their access to both domestic and regional markets. This section explains how the business community used Islamic identity as an instrument to overcome the high barriers to trade; the subsections present original interview and survey data to explain the dramatic shift toward Islam in business partnerships in Gulf States, in business hiring practices, and in philanthropic support for Somali Islamic institutions. It concludes with a discussion of how the long-term development of this business-Islamist alliance affected the Somali political landscape, culminating in the rise of the Islamic Courts Union in 2006.

The chapter relies on interviews with over two dozen of the most powerful and influential members of the Mogadishu business community, as well as high-ranking members of both the Islamic Courts Union (ICU) and Transitional Federal Government (TFG). Interviews for this project were conducted between April 2007 and August 2011, in various locations in Somalia, Kenya, and the United Arab Emirates under challenging security conditions. All personally identifiable information about respondents has been withheld and anonymity was offered to all respondents. Considerable effort was made to include perspectives from multiple clan backgrounds, and both ICU supporters and opponents were represented.

Trade, Islam and State Formation in Somalia:

Trade and Islam have a very long history in the Horn of Africa. For over a thousand years, Somalia's 3,000-kilometre coastline has been a crucial hub of trade connecting East Africa, the Middle East, and the Indian subcontinent. For many centuries, the historic Indian Ocean sea trade connected clan-based sultanates and coastal cities to highly profitable Asian markets. Somali sultanates and rural communities relied on this trade to export local produce and import Indian textiles and spices. The sea trade also served as a medium for the spread of Islam in Africa, as increased interaction with the Arab world led to the complete religious conversion of the Somali population. Increased economic interaction between Arab and African traders also helped to develop vibrant cities along the Somali coastline, such as Mogadishu, Berbera, Merka and Baraawe. These coastal cities became key emporia connecting East African traders to Arab and Persian markets.

With the rare possible exceptions of the Adal and Ajuuraan sultanates, the pre-colonial Somali state was fundamentally decentralized.[311] Lewis explains, "Although the Somali people had, traditionally, a strong sense of cultural and linguistic unity, they did not form a single political unit. They were a nation, not a state, although they possessed all the prerequisites for effective statehood."[312] Herbst's thesis that pre-colonial African states developed with an entirely different relationship between power, territory, and population is particularly

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[311] David D. Laitin and Said S. Samatar, Somalia: Nation in Search of a State (Boulder: Westview Press, 1987), 10-17. For a history of the Ajuuraan, see Lee Cassanelli, The Shaping of Somali Society: Reconstructing the History of Pastoral People, 1600-1900. (Philadelphia: University of Pennsylvania Press, 1982), Chapter 3

[312] I.M. Lewis, Understanding Somalia: Guide to Culture, History, and Social Institutions, Second Ed. (London: HAAN Associates, 1993), 25

useful here.[313] Despite the emergence of kingdoms and sultanates in Somalia, the largely nomadic pastoralist population made it was difficult for city states and even hinterland sultanates to effectively tax and control its population.[314]

Instead, urban and rural communities in the Horn of Africa developed their social links through mutually beneficial trade. According to archaeologist of African civilizations Graham Connah, "the East African coastal settlements were acting as entrepôts: that is to say commercial centres of import, export, collection and distribution, at a more complex level than might be expected in a simple coastal trading town."[315] It was these trade relations, rather than a central government system, which connected Somali communities in the hinterland to the coastal cities and to overseas markets. Long before the existence of the state, the Somali people had was a functioning informal economy and normalized trade relations between disparate communities.

Given this fundamentally decentralized political structure, Islam has played an important role in mediating social relations and facilitating economic interactions among Somali traders for many hundreds of years. Exposure to Arab Islam began as early as the 8th C and religious conversion in Somalia took place between the 11th and 15th C.[316] For both rural agriculturalists and urban coastal communities, Islamic laws, norms and institutions became a source of

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[313] Jeffrey Herbst, States and Power in Africa (2000).

[314] Though the Ajuuraan sultanate extracted taxes from farming communities, taxation of nomadic populations is much more difficult logistically.

[315] Graham Connah, African Civilizations: An Archaeological Perspective, Second Ed (Cambridge: Cambridge University Press, 2001), 219. The hinterland exported ivory, rhinoceros horn, tortoiseshell, ambergris, gold, copper, iron, rock crystal, frankincense, myrrh, mangrove poles, ebony and other timbers, sandalwood and slaves to the coastal cities, which then traded it for imported goods that were needed in both the urban and rural regions. Cloths were imported for the hinterland, whereas luxury goods were imported for the wealthy urban elite in coastal cities.

[316] David D. Laitin and Said S. Samatar, Somalia: Nation in Search of a State (1987), 8, 44

predictability in economic life, which reduced costs and increased social trust between prospective trading partners. The fact that the Indian Ocean trade took place largely within the Muslim world increased the utility of the Islamic identity for Somali traders. "Islam was the faith of urban, mercantile, literate South-West Asia and its adoption brought East Africa into a huge common market," explains Connah. "In particular it ensured commercial and cultural intercourse with the Arab lands to the north."[317] Islam therefore played a significant role in the social, political, and economic life of Somalia, long before the advent of the modern state.

As Islam spread through the Horn of Africa, Islamic law melded with existing cultural institutions, such as the Somali customary legal code known as *Xeer*.[318] In the absence of a formal state judicial system, together Sharia and Xeer served as robust mechanisms for resolving local disputes and enforcing economic agreements. These informal religious and cultural institutions provided a common legal framework for organizing social and economic life in Somalia until the late 19th C.

Colonial State Formation:

The advent of colonialism in the late 1800s radically transformed traditional social, economic, and political life in the Horn of Africa. When the Suez Canal opened in 1839, European powers increased their interest in the Horn

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[317] Connah, African Civilizations, 216-17
[318] Michael van Notten, The Law of the Somalis: A stable foundation for economic development in the Horn of Africa. Spencer Heath McCallum (ed.) (Lawrenceville, NJ: Red Sea Press, 2005). See I.M. Lewis Understanding Somalia (1993) for a survey of Somali clan, religion and culture.

of Africa as an important connection to trade in the Far East.[319] The increased interest of Europe in the Horn also provided an opportunity for Ethiopia to manipulate great power rivalries to acquire a steady supply of arms and expand their influence into the Somali Ogaadeen region.[320] Together, Ethiopian and European colonization in the Horn of Africa divided the Somali population into five different territorial zones. Laitin and Samatar explain, "By 1900 the Somali peninsula, one of the few extremely homogenous regions in Africa, was radically partitioned into minilands - into British Somaliland, French Somaliland, Italian Somaliland, Ethiopian Somaliland (the Ogaadeen), and for good measure, what came to be known as the Northern Frontier District of British Kenya."[321]

These Ethiopian and European incursions provoked a fierce domestic resistance led by Dervish religious leader and anti-colonial fighter Sayyid Mohammed Abdullah Hassan.[322] The Dervish resistance engaged a religiously-inspired *jihad* against Ethiopian and European imperialism from 1900 until Hassan's death in 1920. The eventual failure of the Dervish resistance gave Italy the opportunity to expand both its political and economic domination over southern Somalia. "An Italian version of the British White Highlands of Kenya would spring up in Somalia… A series of large-scale development projects designed to lay the foundations of a prosperous colony were initiated. These included a system of plantation farming in which banana, cotton, sugar, and

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[319] David D. Laitin and Said S. Samatar, <u>Somalia: Nation in Search of a State</u> (1987), 48
[320] Ibid, 52
[321] Ibid, 53
[322] The British ignobly named Muhammad Sayyid the "Mad Mullah" for leading a resistance against colonial domination. This racial epithet is indicative of the prevailing British and European white supremacist attitudes towards African liberation throughout the colonial period.

numerous citrus fruits were raised… the construction of roads to facilitate trade, the digging of scores of wells to improve the pastoral section of the economy, and the introduction of basic health and education services."[323] These economic interventions drastically transformed the Somali economy and integrated it into an imperial economic system of extraction and repression from the late the 1920s until the end of the colonial era.

Independence and Cold War Politics:

Somalia gained sovereign independence in 1960, but the state failed to centralize and consolidate its power. To start, the government inherited a system of indirect taxation from the British and Italians, which minimized the state's extractive capacity and distorted market prices. According to Samatar, "in the case of the Italian colony indirect taxes constituted about 73 percent of the state's locally generated revenues between 1950 and 1958. In the British Protectorate indirect taxes, mainly in the form of customs duties, accounted for more than 80% of the local revenues from 1955 to 1959."[324] Medani argues that this policy of indirect taxation "would continue throughout modern Somali history", as the state lacked the ability to directly tax its population in the post-colonial period.[325] Instead, by imposing these indirect forms of taxation, the government not only created distortions in market prices, but also created incentives to participate in the informal economy and smuggling activities.

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[323] David D. Laitin and Said S. Samatar, Somalia: Nation in Search of a State (1987), 59
[324] Abdi Ismail Samatar, The State and Rural Transformation in Northern Somalia: 1884-1986. (Madison: University of Wisconsin Press, 1989), 86.
[325] Khalid Medani, "Globalization, Informal Markets and Collective Action: The Development Islamic and Ethnic Politics in Egypt, Sudan and Somalia." PhD Dissertation, Department of Political Science, University of California, Berkeley, 2003, pg. 200

Furthermore, soon after independence Somalia fell victim to Cold War politics. In 1969, a military coup ended Somalia's nascent experiment with democracy and installed Major General Mohammed Siad Barre as head of state. Barre's regime was dramatically affected by US-Soviet competition. From the early 1970s, Barre received material support for his authoritarian regime from the Soviet Union.[326] To appease his Soviet allies, Barre adopted a radical policy of scientific socialism, wherein "state control of industries led to underutilization of the manufacturing sector and drastic inefficiencies in the market."[327] However, when the Marxist Derg took power in Ethiopia in 1974, Barre discovered that his Soviet allies were keen to support Somalia's ancient rival. The Soviet Union switched support from Somalia to Ethiopia, and in response, Barre sought new support from the Americans. To that end, in 1980, Barre abandoned the socialist model, imposed liberal economic reforms and structural adjustment programs.

First, the result of these radical changes in economic policy was disastrous.[328] According to Jamil Mubarak, "macroeconomic policy was erratic, inconsistent, and often moved from one set of objectives to another, thereby confusing the market."[329] As the chaotic policies and a drop in global oil prices bankrupted the state, the Barre regime responded by printing money, causing a sharp increase in inflation rates in the 1980s. Peter Leeson explains, "Between

[326] Peter J. Schraeder, "The Horn of Africa: US Foreign Policy in an Altered Cold War Environment." Middle East Journal. Vol. 46, No. 4 (Autumn 1992), 571-593.
[327] Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal (2012); Peter Leeson, "Better Off Stateless: Somalia Before and After Government Collapse." Journal of Comparative Economics. Vol. 35, No. 4 (2007), 689-710.
[328] Benjamin Powell, Ryan Ford and Alex Nowrasteh. "Somalia after state collapse: Chaos or improvement?" Journal of Economic Behavior & Organization. Vol. 67 (2008), 657-670.
[329] Jamil A. Mubarak, "The 'Hidden Hand' Behind the Resilience of the Stateless Economy of Somalia." World Development. Vol. 25, No. 12 (1997), 2027-2040.

1983 and 1990, average annual depreciation of the Somali shilling against the US$ was over 100%".[330] Throughout the Cold War, Somalia's economic policies were constructed to appease Soviet and American military sponsors, not in response to domestic economic and social realities. Economic growth was therefore sacrificed to achieve other regional security interests and objectives.

Second, external sponsorship of the regime during the Cold War also made the central government dependent on foreign aid and independent from its population. The Somali government's dependence on British and Italian resources in the post-colonial period not only hindered the development of the state, but it also encouraged the growth of the informal economy. Medani states, "The colonial legacy thus set a pattern in which foreign aid would continue to be more significant than domestic production".[331]

These external resources also allowed the Barre regime to establish powerful networks of patronage and corruption that inhibited private sector growth. Mogadishu business owners explained that import-export permits were consistently only issued to a handful of elites, excluding new entrants. Faced with exclusion from the licit economy and a worsening economic crisis, Somali businesspeople increasingly relied on the informal economy and the black market. In 1977, Barre attempted to control the expanding informal economy by introducing the *franco valuta* system, "in which local businessmen could convert foreign remittances from Somalia's estimated 250,000 overseas migrant workers

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[330] Peter Leeson, *"Better Off Stateless."* Journal of Comparative Economics. (2007), 694.
[331] Khalid Medani, "Globalization, Informal Markets and Collective Action." PhD Dissertation, Berkeley (2003) 200

earning $1.5 billion annually at open market rates to pay for imported goods."[332] However, Barre manipulated the franco valuta system and maintained control over import permit licensing, in order to benefit his personal networks.[333] As the corruption-rife state crumbled, the informal economy emerged as a more resilient social force in Somali society. The informal trading economy had predated the emergence of the Somali state, and would outlive it as well.

State Collapse and the Informal Economy:

Barre not only grossly mismanaged the national economy, but the regime's provocation of clan conflict was so extreme that by the late 1980s there was a countrywide rebellion from multiple factions against the state. Systematic assaults on the Isaaq, Majeerteen, Ogaadeen, and later Hawiye clans had led to the formation of armed political opposition groups, each representing a particular clan. Although the rebellion against the Barre regime was countrywide, its organization was factionalized along kinship lines. The armed resistance was united by a common cause, but it was fragmented by its very nature. Each clan group raised its own resistance, with fighters loyal to their clans, not the Somali state.

The state attempted to quell the uprising with brute force and collective punishment against civilians from rebellious clans. These efforts failed. Instead, the assault on the clans, particularly against the powerful Hawiye clan, galvanized

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[332] Will Reno, "Somalia And Survival In The Shadow Of The Global Economy." Queen Elizabeth House Working Paper Series, Working Paper 100, February 2003, 20; Will Reno "Somalia: State Failure and Self-Determination in the Shadow of the Global Economy" Globalization, Violent Conflict and Self-Determination. Valpy FitzGerald, Frances Steward and Rajesh Venugopal (eds.). (New York: Palgrave Macmillan, 2006), 161-163.
[333] Ibid, 21

the resistance and increased the pressure on Barre to step down. Disparate Hawiye sub-clans worked together in the United Somali Congress (USC) faction, although they failed to create a meaningful political relationship or settlement with other clan factions.

In 1991, Barre resigned as President and fled the country. As the regime collapsed, the coalition of Hawiye, Majeerteen, Isaaq, and other clan factions that had successfully deposed Barre fractured and turned against each other in a bid for power. Clan rivalries were fierce and violent. As authority disintegrated, armed factions raped and massacred members of rival clans in organized ethnic cleansing campaigns. With the rapid decentralization of power, the Somali countryside was divided into multiple clan turfs, each run by local strongmen. The USC fragmented into warring groups and Mogadishu became the key battleground for political power between two Hawiye factions: interim President Ali Mahdi of the Hawiye-Abgal clan and Somali National Alliance (SNA) leader General Mohamed Farah Aideed of the Hawiye-Habr-Gidir. Attempts to reconcile the clans failed and the state collapsed into a brutal civil war.

In the midst of this extraordinary clan violence, Somalia also suffered a devastating drought in 1991-92. Together, state failure and drought colluded to create one of the worst famines in Somali history, in which an estimated 300,000 lives were lost. Faced with this extraordinary human suffering, the international community intervened in the Somali crisis. On 24 April 1992, the UN Security Council resolved to deploy a force to protect the delivery of humanitarian aid to the victims of the famine. The United Nations Operation in Somalia (UNOSOM)

started as a humanitarian assistance mission, but then expanded its scope to include broad, multi-billion dollar peacebuilding and state-building objectives. As the UNOSOM mandate grew, so did its operating budget. As the civil war raged, the international humanitarian intervention provided an abundance of new resources to the Somali economy, which inadvertently helped to finance the war.[334]

State Failure as a Boon and a Barrier:

State collapse therefore had a profound effect on the informal economy. First, the internecine conflict made it difficult, if not impossible, for members of different clans to maintain normal economic relations. Clan violence eroded social trust between rival groups to the point where normal business activities and partnerships were unviable. As such, during the violence of the early 1990s, Somali business owners predominantly operated within their own clans. It was simply easier and safer to hire staff and build partnerships within one's own sub-clan structure than to work with out-group members.

As a result of this culture of corporate xenophobia, each private sector company was coloured with a clan affiliation. Clan competition in the political arena translated into in clan divisions in the business world. Most significantly, these divisions hindered business expansion into other regional markets dominated by rival clans. Given that the Somali economy has historically relied on the free flow of trade from the hinterland to the coast, these obstructions dramatically undermined the traditional informal economy, upon which many Somalis relied for their livelihoods.

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[334] Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal (2012), 322-326.

However, despite these obstacles, in many ways the Somali business community benefited tremendously from clan conflict in the early civil war period. Rampant looting and criminality actually generated the start-up capital for new business development.[335] Many prominent Mogadishu-based businesspeople got their start during the early civil war period using resources that were usurped through pillage of rival clans. State collapse also meant that criminal elements could operate without the rule of law; the removal of all industry regulation and taxation provided lucrative new opportunities in the trade and transport business for smugglers, arms dealers, drug lords, and racketeers. In particular, the collapse of the state allowed Somali traders to set up smuggling businesses to service markets in the Kenyan and Ethiopian interior. The absence of customs duties and taxes meant that Somali traders could sell smuggled goods at a discounted rate, and therefore monopolize certain regional markets.

The informal economy quickly filled the space traditionally held by government, as security provision, public services, and even monetary authority in Somalia were privatized. When asked how the Somali shilling managed to survive over two decades of war, the head of a leading Mogadishu business school explained: "Illegal money-printing is done by specific businessmen. They limit the supply of the printed because if the value of the shilling is too low, then it becomes worth less than the cost of the paper. The market even controls inflation."[336]

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[335] This information was uncovered through several interviews with members of the Mogadishu business community who gained their fortunes during this tumultuous period, using these aggressive methods.

[336] Interview with S2, Nairobi, Kenya (October 2009)

Furthermore, UNOSOM intervention created enormous income-generating opportunities for the new criminal business class. The intervention involved the import of large amounts of emergency food and medical aid through inter-governmental and non-governmental organizations, which were easily pilfered by local factions.[337] Opportunistic businesspeople won multi-million dollar contracts for transportation and handling of donated food aid, much of which was illicitly siphoned off and sold on the black market.[338] Because the countryside was so dangerous, aid organizations had to rely on these businesspeople for transportation of their goods.[339] In turn, businesspeople manipulated and over-extorted foreign agencies to get lucrative aid contracts, with no enforcement or monitoring of their implementation. Civil war and famine were actually a boon for many Mogadishu entrepreneurs.

International aid money created an extraordinary boon for this new criminal class. A prominent trader from the Yaqshiid district Su'uq Ba'ad market in Mogadishu explained: "UNOSOM brought heavy investment and money. After 1990, the greatest opportunity was UNOSOM. Many businesspeople got contracts. There were contractors for everything. Without UNOSOM, the business community couldn't make any money. Small businesspeople became millionaires. Aid helped the humanitarian and the business side too."[340] After the collapse of

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[337] Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal (2012), 323-324.
[338] Some of the wealthiest businesspeople I interviewed had originally made their fortunes through WFP contracts, and then later expanded into other industries.
[339] See Peter Andreas, Blue Helmets and Black Markets: The Business of Survival in the Seife of Sarajevo (2008) for a detailed explanation of the relationship between international humanitarian intervention and aid and local criminal activity.
[340] Interview with S3, (November 2009).

the state, the biggest businesspeople in Mogadishu made their fortunes by pilfering international aid contracts during the UNOSOM mission.[341]

However, this windfall was short-lived. By 1994, both US and UN forces completed withdrawal of all foreign forces from Somalia and humanitarian aid money began to dwindle. By 1996, the lucrative contracts that had been the backbone of the new Mogadishu business elite were drastically reduced. With the withdrawal of UNISOM forces and the withering of international contracts, the Mogadishu business community grew increasingly sensitive to the negative costs of tribalism to their business concerns. Faced with these high costs, businesspeople who had established their fortunes through clan conflict now sought out a way to overcome the crippling social fragmentation that they had helped perpetuate.

Islam as a Business Solution:

Beginning in the mid- to late-1990s, the business community began to realize the potential of Islamic identity as a mechanism to expand business opportunities into markets outside their clans. Aspiring and established businesspeople alike attempted to bolster their more universal Islamic identity over their more limiting clan identities, sometimes with a level of superficiality that appeared comical. Criminal bosses grew long beards and began wearing traditional clothing. They carried religious paraphernalia, such as prayer beads and took on the label of *Sheikh*,[342] despite having no religious training to warrant the title. The head of a Mogadishu business school explained, "Since there is no

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[341] Aisha Ahmad, "Agenda for Peace or Budget for War? International Journal (2012), 322-326.
[342] A Sheikh is a religious scholar.

regulatory or law enforcement agency and everything is based on trust, this is where Islamists come in. Most companies are led by people who look like Sheikhs".[343] By the mid-1990s, Mogadishu experienced an overnight boom in its sheikh population, as the business community sought to gain from the social capital afforded by Islamic identity and association. While clan divisions didn't at all disappear, Islamic identity became an increasingly important reputational tool and mechanism for navigating clan divisions at home and securing international contracts abroad. Over the course of the civil war, clan identity simply became more costly and less useful to the business community than the Islamic alternative.

Adopting Islamic identity was a way of providing reassurances against risk, and outward indications of religiosity were displayed as symbols of trustworthiness. Growing a beard and dressing in Islamic clothing was a way of telling a member of another clan that you are an honest and morally upright business partner. This information shortcut held depth and weight, as the majority of Somali Muslims understood having a strong religious practice to mean that a person is truthful, spiritual, and not materialistic.[344] Through Islamic symbols, businesspeople could therefore utilize this widely held information shortcut to reduce uncertainty across clan divisions.

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[343] Interview with S7, Nairobi, Kenya (November 2009). This individual's quote was corroborated by several other interviewees, and is considered common knowledge among the Mogadishu business community.

[344] Material asceticism is highly valued in both Salafi and Sufi variants of Islam, as practicing Muslims are expected not to revere worldly possessions. While there is no prohibition against wealth accumulation per se, there are abundant Islamic teachings against greed and materialism.

As explained by the Chief Legal Counsel of the Islamic Courts Union, "With no government, Islamic adherence was a way to get the trust of the people. If you take the title of Sheikh and grow a beard, then you will be more trustworthy than a person smoking a cigarette, with no beard."[345] Multiple interviews with the Mogadishu business community corroborated this explanation, suggesting that Islamic identity provided a reputational edge to Somali businesspeople, even those that had questionable or outright criminal pasts. A Mogadishu-based economist explained, "If you have two stores: one is run by someone who is smoking cigarettes and chewing *qaat*[346] and the other owner is dressed nicely and looks like a practicing Muslim, then the people will buy from the person that is dressed like a good Muslim. They will believe that he is less likely to cheat them." [347]

Importantly, many of members of the Mogadishu business elite acquired their fortunes through dubious methods and were now concerned with the social and reputational consequences of their criminal actions. A history of looting, corruption and theft would undoubtedly act as a serious deterrent to building new business partnerships and limit other future opportunities. Therefore, adopting outwardly visible symbols of Islam was a mechanism used by such businesspeople to disguise their criminal pasts and improve their public images.

For the most part, this approach worked favourably for the business community. While there were a handful of cases where a purported Islamist businessperson would shave his beard and abscond with company money, Islamic

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[345] Interview with Avocat Zakaria, ICU legal counsel, Nairobi, Kenya (November 2009)
[346] Qaat is a popular narcotic drug, which is consumed by chewing its leaves.
[347] Interview with S5, Nairobi, Kenya (November 2009)

trust was largely an effective way to navigate inter-clan dynamics. As seen in Figure 1, 80% of the business community strongly agreed that Islam is a good way to assess trustworthiness in business, whereas only 17% percent felt strongly that clan identity was a good measure of trust. Also, 88% of respondents reported that Islamic identity was more important than clan identity in business affairs.

By 2000, all major telecommunication and remittance companies in Somalia, which are the largest and most powerful industries in the country, had adopted an Islamic framework for hiring and managing business relations. These companies utilize religious identity as a mechanism for working across clan divisions and attracting shareholders from diverse clan backgrounds. Islamic identity also has great utility in establishing business partnerships in Gulf States, as demonstrating high Islamic credentials allowed some businessmen to secure highly lucrative loans and contracts with nothing more than a handshake. In much the same way that Islam provided Somali merchants with better access to Arab and Persian markets in the 13th C, the external adoption of Islamic symbols, norms, and rhetoric also helped Somali traders to gain better access to markets in Gulf States after the collapse of the modern state.

Access to Gulf Markets:

Because of its geographic location, Somalia had a long history of trade with the Arab world. However, when the state collapsed, there was no guarantee that agreements would be honoured and Gulf businesses shied away from their Somali partners. The risk of defection was exorbitantly high. If a Somali partner were to abscond with the company loot, the Gulf business would have absolutely

no legal or practical recourse for lost revenues. Despite this risk, Somali ports were a highly attractive and lucrative entry point into East African markets. The primary obstacle to initiating business partnerships was trust. Adopting an Islamic (and in particular a Salafi) therefore identity provided Somali businesspeople with an opportunity to build trust-based relations with prospective business partners outside Somalia, especially in Saudi Arabia and wealthy Gulf States.[348]

Building relations between Gulf and Somali partners was a long-term process, involving repeated interactions over time. One could not gain access to the elite Salafi business club simply through outward Islamic symbols, although such symbols were a necessary prerequisite. Rather, Somali businesspeople developed personal networks of trust with Gulf colleagues using common Salafi identity as a basis for interaction, and then proving their personal credibility gradually. Several members of the Mogadishu business community explained that in the mid-1990s their contracts with Gulf partners were smaller, reflecting the level of trust and between the parties. A Somali businessman might have an agreement worth no more than a few thousand dollars. Because there was no government to enforce these deals, there were no written contracts and parties relied entirely on verbal agreement. These early investments allowed Somali businesspeople to demonstrate their trustworthiness, with less dollar value risk to their Arab partners. Anyone who defected with the loot was out of the club for life, whereas those that demonstrated that they could be trusted gained incrementally larger contracts. Eventually, trust-based relationships translated into

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[348] Marchal, Roland "Islamic Political Dynamics After the Somali Civil War: Before and After September 11", Islamism and its Enemies in the Horn of Africa ed. Alex De Waal (London: Hurst and Co. Publishers, 2004), 115.

multi-million dollar loans from Gulf partners, with no enforcement mechanisms for repayment. The largest and most well connected Somali businesspeople today have adopted a Salafi approach to Islam and are part of the Gulf business network. Resources from wealthy Gulf business partners have allowed Salafi Somali businesses to outcompete their non-Salafi rivals, thus resulting in a domination of the Salafi elite in the Somali economy. Therefore, through a process of iterative interactions, Gulf businesses have helped select the winners in the Somali business community.

The Mogadishu business elite therefore formed with a heavy Salafi bias, with those demonstrating the greatest Islamic credentials becoming the most wealthy and powerful. The most prominent and countrywide industries in Somalia today have a strong Salafi business culture, which they reinforce through their hiring practices. Whether a particular businessperson was sincere in his or her increased religiosity, or whether religiosity was used for purely strategic objectives is impossible to ascertain. However, when asked if these businesspeople were truly Salafi in identity, the Chief Legal Council for the Islamic Courts Union held up his right hand, bent his index finger and said, "If I tie a string around this finger and leave it like this for 10 years, when I untie it, my finger will stay like this. The business community is the same. After years of pretending to be a Wahhabi, you become a Wahhabi".[349] Thus, while the adoption

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[349] Interview with Avocat Zakaria ICU legal counsel, Nairobi, Kenya, (October 2009). Wahhabi is a term commonly (and sometimes derogatorily) used for Salafi Islam. Wahhabism is a considered a highly conservative version of Salafism, which originated in 18th Century Saudi Arabia. Wahhabism is currently the dominant theological approach in Saudi Arabia, and has spread to other regions through Saudi funding of religious schools. In the Somali context, the term Salafi and Wahhabi can be used interchangeably without serious conceptual problems; however, Salafi is a more accurate term for the belief system, and is therefore used here.

of Salafi identity within the business community was driven by rational self-interest, it also had a transformative effect on identity of the business community as a whole over the long-term.

Islamic Trust in Hiring Practices:

In the early 1990s, Somali businesses largely hired staff based on clan identity for security purposes. If an employee were to steal from the business, the owner could work within the existing clan social structure to hold the rogue employee responsible. Members of other clans could not be held accountable in this way, and pursuing rogue employees from rival clans could provoke violent reprisals and instigate conflict spirals. As such, hiring practices remained conservatively clan based.

Two key problems arose from the utilization of clan politics in the hiring process. First, as discussed, conducting business within the boundaries of clan and sub-clan groups exacerbates social fragmentation and undermines prospects for expanding business into new markets. Second, clan identity proved to be a highly problematic method of recruiting staff. To start with, being a fellow clan member didn't make an employee honest, and business owners often found that navigating clan hierarchies to hold them accountable was inefficient and ineffective. Personal relations between rogue employees and clan leaders complicated human resource management. Firing a lazy or corrupt employee might also upset fellow clan members who have personal ties to the dismissed worker. Also, by selecting only within one's own clan structure, businesspeople found that they were limiting their talent pool and selecting candidates that weren't ideally suited for the job.

Tribalism may have been the most prevalent social institution in civil war Somalia, but it was certainly not the most profitable.

Within a decade of state collapse, clan politics were largely weeded out of economic life. Two female business partners who operate a large qaat trading operation explained, "We are both from different clans, but that doesn't matter. Clan is irrelevant in business. We are concerned with profit."[350] As seen in Figure 2, when asked about their preferences for selecting a business partnership, only 5% of respondents opted to work with a member of their own clan.

This erosion of confidence in clan prompted the business community to embrace alternative strategies. In the mid-1990s, a new trend in hiring emerged in Mogadishu's business community. Large businesses started utilizing individual networks for personal referrals. Who you knew became incredibly important in getting a job. To be hired by a big company, a prospective employee would need the referral of a trusted contact, whether from one of Mogadishu's private education institutions or a fellow business associate. Thus, the failures of tribalism led to a shift towards reliance on networks of trust and reputation.

While closer to a meritocracy, hiring individuals based on referrals alone was also an inefficient way of doing business. The system lent itself to nepotism and favouritism, and those talented individuals that lacked the necessary social contacts were excluded from participation. Businesses that needed skilled personnel therefore sought out a wider and more inclusive recruitment strategy. From 2000 onwards, another attitudinal shift occurred in the Mogadishu business community, particularly among the largest companies with countrywide

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[350] Interview with S6, Nairobi, Kenya (November 2009)

ambitions. These companies began utilizing Islamic trust as a platform for hiring staff.

The largest businesses in Somalia are *hawalas* and telecommunication firms, which specialize in cell phone and Internet service provision.[351] Hawalas are money transfer agencies, which take the place of a formal banking system and operate entirely on the basis of trust; customers send and receive money through the hawala company on the promise that they will deliver the funds to the intended recipient. A successful hawala can have neither errors nor corruption, nor can insecurity be an excuse for failure of delivery; one story of a lost or stolen transfer could bankrupt the company. Importantly, the telecom industry, which has boomed in Somalia in recent years, was born out of the success of hawala companies. In fact, in many cases a hawala and a telecom are part of one larger parent enterprise, with the same owners and shareholders.[352]

Both hawalas and telecom companies are countrywide and have a pan-clan shareholder structure that represents all regions where business is active. These companies strategically expanded into new regional markets by procuring local partners and agents from the dominant clan group in the region, thus developing a multi-clan shareholder structure and business model. Most notably, all of the

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[351] Somali hawalas are the lifeblood of all Somali business. There are no formal banks in Somalia, and hawalas are used for all money transfers. Exacting a small fee, these companies guarantee safe transfer of money between individuals, businesses, diaspora communities, within seconds. Hawalas make money flow possible in the absence of any formal banking institutions, and have become so efficient that they are often more competitive than using international banks. See Khalid Medani, "Financing Terrorism or Survival? Informal Finance, State Collapse and the US War on Terrorism." Middle East Report, Summer 2002.

[352] For example, until its assets were frozen in 2001 on trumped up anti-terrorism charges, Barakat was the largest hawala in Somalia. However, the current Somali telecom giant Hormud is essentially run by the entire Barakat enterprise and is widely seen to be the same company, only operating under a different, less controversial name. Other hawalas are also known to be part of larger enterprises that include telecom companies.

largest hawalas and telecoms in Somalia have adopted an Islamic framework for their business management and hiring practices.

One example is especially illustrative. One of the largest telecom companies in Somalia posted an open job search in a local Mogadishu newspaper. The company announced that it was hiring for 10 new positions that required specialized technical expertise. In response to the posting, the company received around 100 applications and shortlisted 30 candidates. The shortlisted candidates were then asked to sit for an exam to determine who would be hired.

Amongst the shortlisted was the top student at one of Mogadishu's best private business education institutions. Surprisingly, the star student failed to get the job, while other less technically proficient candidates were hired.

What went wrong? "At least 50% of the exam was *Amana* (Islamic trustworthiness and integrity)", the star student explained, "I am not very good at *Islamiyyat* (religious studies)." The student's professor was struck by this response and approached the owner of the large telecom about this policy. When asked why the company would spend half of its exam on technical expertise and the other half on religious knowledge, the owner responded, "Because we can train in the specialization that he has learned in the past two years, but we cannot teach a 22 year old boy 20 years of Islamic education. We cannot control thousands of staff, so we want someone who controls himself".[353]

For companies like this telecom, Islam is a form of risk management. These businesses have determined that it is more cost effective to hire a trustworthy person that needs some additional training than someone who might

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[353] Interview with S7, Nairobi, Kenya (November 2009)

put the company at risk. In this Islamic meritocracy, merit is equal to skill plus trustworthiness, and trust is measured by religious adherence. Figure 2 shows that 75% of respondents would prefer to work with someone that has a reputation as a good Muslim, whereas only 20% said they would prefer someone who was a successful businessperson. Though still imperfect, Islamic trust allowed the business community to recruit from a wider pool of applicants than those provided by clan-based or referral-based networks, and still implement a mechanism to control for potential corruption.

Islamic trust is therefore extraordinarily valuable to Somali businesspeople under conditions of state failure. However, most businesspeople interviewed considered reliance on Islam a temporary or second-best substitute for formal governing institutions. The head of a large business association in Mogadishu explained, "With the rule of law, this reliance on Islamic merit and trustworthiness would be greatly reduced".[354] Nonetheless, without state institutions to guarantee transactions, Islamic trust has become the most robust mechanism for conducting business across clans in Somalia.

Islam and Informal Institutions:

An important part of building Islamic credentials was the financing and sponsorship of local Islamic institutions. The collapse of the state had left a profound humanitarian catastrophe and an enormous need for public services. With millions of Somalis internally displaced by the war, the magnitude of the humanitarian crisis was profound. The incidence of infant mortality, maternal death, malnutrition, and disease in Somalia were among the highest in the world.

[354] Interview with S8, Nairobi, Kenya (November 2009)

Most significantly, after the withdrawal of the failed UN mission, international aid organizations cited inaccessibility and insecurity as reasons to not engage the failed state. Without the state to provide services and the inability of international non-governmental organizations to operate in-country, the Somali population was largely displaced, disrupted, and underserviced. Islamic institutions played a significant role in responding to this dire humanitarian situation.

Without a government to provide health care, education, and water, public goods provision in Somalia fell to either the private sector or charitable organizations. Somali businesses have been keen to provide services such as drinking water supply and power generation, for a profit[355]. However, those services that are not easily profitable, particularly education and emergency health care, are often left to local Islamic charities to provide.[356] The business community plays an important role in funding these charitable activities. Local charities in Somalia were funded largely by the Somali diaspora and the local business community. A large businessperson could improve their standing in the community by financing a hospital or a local school. Such charitable activities are expected by one's clan group.

Saudi Arabia and Gulf states also supported these charitable endeavours, adding to the largely Islamic character of humanitarian aid in Somalia.[357] The relationship between businesses and these charities was mutually beneficial. For

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[355] Roland Marchal, A Survey of Mogadishu's Economy (2002).

[356] Kenneth Menkhaus, "Somalia and Somaliland: Terrorism, Political Islam, and State Collapse." Battling Terrorism in the Horn of Africa. Ed. Robert Rotberg (Washington: The Brookings Institution, 2005).

[357] Andre Le Sage, "Somalia: Sovereign Disguise for a Mogadishu Mafia." Review of African Political Economy. Vol. 29, No.1, (2002), 132-138; Kenneth Menkhaus Somalia: State Collapse and the Threat of Terrorism. (Adelphi Paper, The International Institute for Strategic Studies, 2004).

businesses, financing a school or hospital worked to improve their reputational advantage with Muslim business partners both at home and in the Gulf.

Backed by these powerful financiers, Islamic charitable enterprises proved competent in public goods provision, thus legitimating and propagating the concept of Islamic governance as a solution to state failure. In the absence of the state, religious charities and institutions therefore played an important role in providing public services that were traditionally supplied by the state. By sponsoring these informal institutions, the business community not only bolstered their reputational advantage, but they also set in motion a path dependent process of Islamic state formation.

Among the most important of these public services was the provision of pockets of law and order, which were provided for by local clan-based Islamic courts. As explained earlier, Somali communities have relied on Islamic law for nearly a millennium to provide order and predictability to social and economic interactions. Islamic courts have existed in Somalia for many hundreds of years, and clans have long governed their own affairs through a combination of Sharia and Xeer. However, when the state collapsed, Somali communities increasingly relied on local clan-based Islamic courts to organize social life and administer juridical decisions. With the collapse of the central administration, these courts provided pockets of governance and rule of law for local communities and gained popularity for their demonstrations of effective arbitration of both family and corporate matters. The business community, which needed these informal

governing institutions to reduce transaction costs, had a practical interest in sponsoring the courts.

From the early 1990s, voluntary contributions from the business community increased the competence of the courts system. The courts helped to resolve disputes within clans and hired militias to improve neighbourhood security and reduce the power of bandits and freelance gangsters. This success in improving local governance was rewarded with further contributions by business patrons from the neighbourhood. However, while relatively effective, these early courts were only responsible for their specific sub-clan, and businesspeople financed courts from their own group. In 1999, these courts tried to assert more political authority, but were quickly suppressed by their business community sponsors. Therefore, these institutions remained weak, disconnected, and unable to provide law and order at a higher level.[358]

Conclusions:

By 2000, Mogadishu businesspeople began to play a more active role in the political process of state reconstruction. As part of the Djibouti process, the business community sponsored the formation of the moderately Islamist but now defunct Transitional National Government (TNG). The TNG was designed to balance power between Somali clans, and included strong representation from both Islamic and business lobbies. However, the TNG excluded warlord power, and local strongmen opposed the TNG both politically and militarily. After four

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[358] For a more detailed account of the evolution of the Islamic Courts in Somalia, see Marchal, Roland "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." Islamism and its Enemies in the Horn of Africa Alex De Waal (ed.) (London: Hurst and Co. Publishers, 2004).

years of paralysis, the TNG was replaced by a new warlord-dominated Transitional Federal Government (TFG), which also proved politically unviable. Growing increasingly frustrated with failed political reconciliation projects and continuing high levels of extortion under warlord protection rackets, the business community actively sought out a political alternative to social and political fragmentation.

Starting in 2004, members of the Mogadishu business community from multiple clan backgrounds began to sponsor an initiative to join disparate clan-based courts into one over-arching body. This collective effort was substantively different from the individual and ad hoc support for local clan courts that was common in the 1990s. Drawing upon the resources of the business community as a whole, this united effort in favour of the Islamic Courts project changed the balance of power in Mogadishu away from clan-based stalemate. In 2006, the Islamic Courts Union (ICU) was created with the support of Somali civil society organizations, the leadership of local religious leaders, and the financial backing of the majority of the Mogadishu business community. By 2006, an estimated 70-75% of the Mogadishu business community had voluntarily contributed resources to the Islamic Courts, in support of the unification effort.[359] Upon consolidation in 2006, the ICU emerged as a serious political contender against all other warlord groups. It quickly ousted all rival warlords from their traditional power bases, and within six months captured the overwhelming majority of the countryside. For the

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[359] This estimate is drawn from interviews with leaders of the Mogadishu business community, including S3, S5, and S7. See also, Stig Jarle Hansen, "Civil War Economies" NIBR Working Paper No. 1, 2007.

first time in 15 years of uninterrupted civil war, the majority of Somalia fell under a centralized government.

The next chapter explores what drove the Somali business community to support the Islamic Courts Union at this critical moment in history. Somalia had a long history of trade and statelessness. The business community has long relied on Islamic identity and institutions to facilitate economic relations. But why did the business community decide to support the Islamic Courts when and how it did? The ICU was not the first or only Islamic movement in Somalia that attempted to use religious identity to unify disparate clans. Several Islamic movements emerged and failed to generate any substantive popular momentum in Somalia since the collapse of the state. What made the Islamic Courts different? The next chapter looks at how the business community used the Islamic movement to overcome their collective action problem, in order to create a new Somali state out of statelessness.

Appendix 1: Graphics

Figure 1: Clan Trust and Islamic Trust
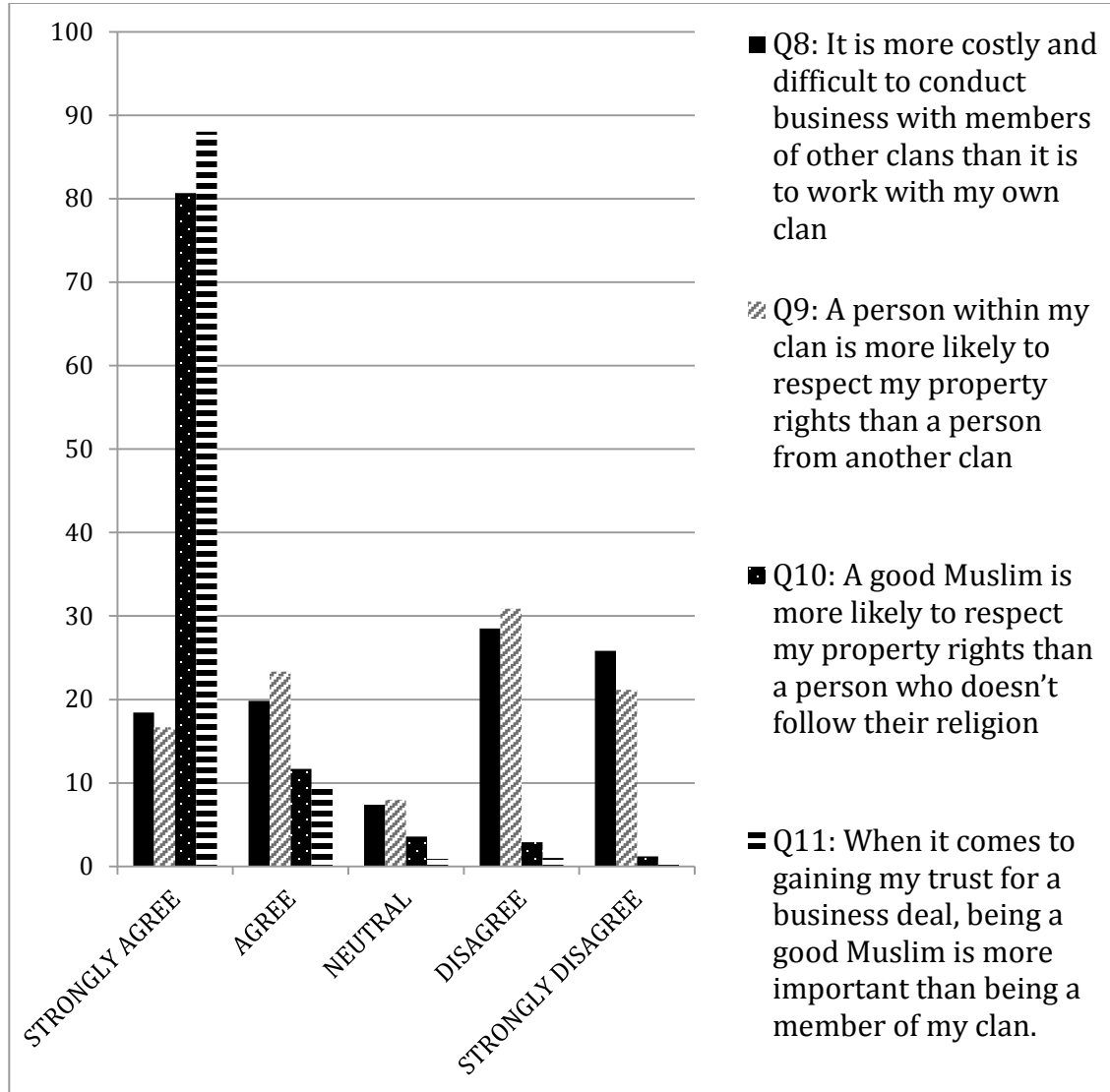
Q21:   In your business, whom would you be most comfortable working with in a business partnership or transaction?

4.69

19.74

75.57

■ Someone from my own clan

▢ Someone who has a reputation as a good Muslim

▤ Someone who is a successful businessperson

Chapter 6: The Price of Protection:

An Economic Explanation of the Rise of the Islamic Courts Union

The Islamic Courts Union emerged as a direct response to the extraordinary costs of state failure in Somalia. After the final withdrawal of UNOSOM forces in 1995, the number of clan-based factions in Somalia proliferated exponentially, further decentralizing political and military power. Every sub-clan group constructed its own political faction, increasing the number of fault lines in the conflict. Somalia became a paradigmatic case of state failure. The anarchic countryside was roughly divided by clan fiefdoms controlled by militia, which regularly engaged in violent turf battles with neighbouring groups. This clan conflict sometimes spiralled into sporadic episodes of ethnic cleansing.

Faced with the threat of extreme violence, individuals purchased protection from their local clan strongman to defend against attacks from neighbouring clan factions. However, this protection did not shield individuals from abuses at the hands of their own clan militias, which grew increasingly violent over the course of the civil war. These unruly militiamen often engaged in murder, extortion, and rape against their own communities. Despite these violent excesses, the existential threat posed by rival clans gave warlords and their local militias an enormous degree of impunity to extort and abuse their populations.

In 2006, the Islamic Courts Union (ICU) movement emerged as a reaction to the extreme violence of clan politics in Somalia. Under the leadership of a local schoolteacher, Sheikh Ahmed Sheikh Sharif, the ICU directly challenged and ousted the most heavily entrenched clan militias in Mogadishu. The ICU declared clan politics to be the scourge of Somalia and challenged the warlords for their

excesses against civilians. Under the banner of a common Islamic identity, the ICU set forth a mandate to reconstruct the Somali state and establish order over the unruly countryside. Within six months, the ICU had captured 90% of southern Somalia and centralized political power for the first time since the collapse of the state. Upon purging the countryside of the warlords and their private armies, the ICU established a rudimentary legal system based on Islamic law and established a new taxation system. For the first time since the collapse of the state, Somalia was under a central government.

Why was the Islamic Courts Union able to achieve political victory over heavily armed warlord groups? How was the ICU able to centralize political power in the midst of a fierce ethnic security dilemma?

The current literature currently favours three explanations for the rise of the ICU: Hawiye clan politics, fundamentalist Islamic ideology, and the provision of security. While clan, religion and security are all part of the story, the problem with these explanations is that they fail to explain why the ICU was able to achieve political momentum when and how it did. Political Islam has a very long history in the Horn of Africa and there were many other Islamist movements that emerged during the Somali civil war. Furthermore, there have been 14 failed peace processes in Somalia, each of which was dedicated to balancing clan politics. And yet, none of these initiatives succeeded in creating a centralized political government or the rule of law. What then made the ICU different?

This chapter proposes that the Mogadishu business community played a critical role in the success of the ICU in the Somali civil war. It examines the

economic motivations behind the social and political choices of the Mogadishu business community and tests why, between 2004 and 2006, the business community abandoned its long-standing alliances with warlords, and collectively switched sides to support the Islamic Courts movement, creating a fragile but centralized government. It argues that as the cost of protection under warlords increased, members of the business community made the collective decision to support a more cost-effective political Islamic alternative. The rate extortion under warlords versus the rate of extortion under the Islamic Courts directly affected the political preferences of the Mogadishu business community, causing them to withdraw support from warlord protection rackets and finance the rise of the ICU. This business community support gave the ICU the necessary resources to effectively challenge and expel heavily entrenched clan-based warlords from their turfs.

The chapter relies on original interview data from over two dozen of the most powerful members of the Mogadishu business community, members of the original ICU movement, and warlords that were opposed to the ICU. It also presents the results of an original 1,000-person survey on the interests, identities, and political preferences of the Mogadishu business community. Using qualitative methods, the chapter explains how state failure affected the economic interests of the Mogadishu business community and why these interests aligned with those of the Islamic courts. Using quantitative methods, it demonstrates that the rate of taxation under warlord protection rackets versus the ICU had a direct effect on political attitudes within the business community.

The chapter proceeds in four parts. The first section explains how state failure affected economic life in Somalia, with a particular attention to impact of extortion and criminality on the business community throughout the post-UNOSOM period. The second part describes the rise of the Islamic Courts movement from 2004-06, and evaluates the existing explanations for their success. The third section presents the microeconomic model, and argues that the material needs of the Mogadishu business community drove their decision to switch their support to the ICU. Using original interview and survey data, it tests the effects of taxation level, Islamic trust, and clan trust on the political preferences of members of the Mogadishu business community. The chapter concludes with a discussion of the impact of the ICU on the business community for the six months that they were in power.

Trade and Taxes during the Somali Civil War:

The 1992-95 UNOSOM mission brought hundreds of millions of dollars worth of aid resources to Somalia, which created an enormous boon to the Mogadishu business community and to their warlord patrons.[360] However, when UNOSOM completed its withdrawal from Somalia in 1995, the foreign resources that had been supplying the business community and the warlords quickly dried up. As these foreign resources dwindled, the number of armed sub-clan groups in Somalia proliferated. Without a ready and abundant source of foreign revenue, these new factions demanded increased protection payments from the local

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[360] For an explanation of how international aid under UNOSOM created an elite business-warlord relationship, see: Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal (2012).

business community to finance their power.[361] In the post-UNOSOM period, the Mogadishu business community became one of the most important sources of revenue for local strongmen and their militia.

After the UNOSOM withdrawal, there were two types of extortion that the business community faced. The first type was the protection payments that were directly demanded by local strongmen. Small businesses could be extorted at their storefront by local henchmen. However, for large businesses, these payments were extorted directly by the factional leader, who would simply call the business owner and demand a certain amount of money. In either case, denial of payment would result in physical reprisals against the business. "The warlords were demanding much from the business community," explained a top executive from one of the largest businesses in Somalia. "They sent freelancers to scare the business community into paying up. The warlords just demanded money and threatened violence. A businessperson would have to calculate what you have, what you would lose, and then pay up."[362] The business community not only paid these protection racket payments to warlords from their own clan's turf, but also to every subsequent warlord who held territory through which they wanted to move their goods.

The second type of extortion that the business community faced was direct taxation by militias along major trade routes. As the number of armed groups increased, so too did the number checkpoints that a businessperson would have to cross to secure passage along a trade route. "After UNOSOM left, the two main

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[361] Interview with S9, (October 2009)
[362] Interview with S10, (November 2009)

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factions broke down into many groups based on clan," explained one of the biggest business owners in Mogadishu. "As the number of factions increased, the number of checkpoints increased. Therefore, the business community all needed their own private security. This was like taxation. Everywhere you paid more at each checkpoint. For example, at one checkpoint you used to pay 1,000 [Somali] Shillings and two years later you would have to pay 100,000 Shillings. This was because of both inflation and greediness."[363]

The business community therefore found itself engaged in complex, multi-actor negotiations in order to move goods from one region into another. Important in-land trade routes were now divided between multiple groups, each of which held a portion of territory along the road. As traders passed through numerous clan turfs, they required multiple agreements to ensure safe passage for their goods. As a result, Somali businesspeople and clan powerbrokers created a noisy system of reciprocal permissions to help move goods across territory. However, even after securing all permissions and paying all fees, businesspeople regularly complained that they could still be held up on the roads by freelance gangs or unruly militia and lose everything.[364] One trader who moved goods from Bardera, Somalia to Elwak, Kenya told of how his colleague was held up by a checkpoint 110km outside of Mogadishu in the town of Lego: "The checkpoint asked for

[363] Interview with S11 (November 2009)

[364] The departure of UNOSOM also resulted in the closure of both the main seaport and airport in Mogadishu, as control over these lucrative trading ports was a point of great contention between rival clans. Instead, the business community was forced to use smaller airstrips and a natural seaport 15km away from Mogadishu at El Ma'an for import and export. The El Ma'an port became the primary entry point for goods entering markets in the Horn of Africa and its owners became some of the richest in Somalia. However, transporting goods from these air and sea ports to the main trade markets in downtown Mogadishu meant that additional transportation costs had to be paid at the checkpoints along the roads. These additional transportation and security fees were added to the sale price in the market, thus inflating the cost of goods.

60% [of the entire product]. The leader of the militia arrived and [my colleague] tried to negotiate, but the leader refused. At last, the leader said 'go ask the man who was sleeping there [in a nearby shelter] and whatever he asks, I will accept'. My colleague went inside and saw that it was a dead man. He agreed to their amount."[365] The business community were therefore paying for security from warlords, but failing to receive any such security provision. "The warlords were taking money for 'security', but the insecurity was still there," explained the Bardera-to-Elwak trader. "A certain amount would be agreed with a warlord, but another militia would then come and ask for money."[366] In essence, the business community was being fleeced twice: first by the warlord protection payments, and second by various local gunmen on the roads.

One of the most important transit routes in Somalia is the strategically significant Afgooye corridor, a 250km East-West road that connects Mogadishu to the important in-land city of Baidoa. The head of the Suuq Ba'ad market, the second largest market in Mogadishu that services markets in the interior, explained how the extraordinary number if checkpoints in Afgooye produced a dramatic shift in prices for goods in Baidoa. "During [the reign of] warlords, there was an increase in the number of checkpoints, so we added this to the price of the commodity before sale," he said. "The difference between a sack of sugar in Mogadishu and Baidoa was approximately $2 to more, including the cost of the car rental, fuel and checkpoints."[367] The Bardera-to-Elwak businessman complained bitterly about impact of this extortion on his ability to compete on the

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[365] Interview with S16 (November 2009)
[366] Interview with S16 (November 2009)
[367] Interview with S12 (November 2009)

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market. "The price of sugar per sack went up $4-5 because of checkpoints on the Afgooye corridor," he explained. "I practiced. I took [sugar] from Mogadishu to Baidoa. The lowest price difference was $3.50. Lower than this was impossible due to insecurity."[368] For this businessman, ploughing through the checkpoints increased the price of his goods at sale, subsequently reducing his overall competitiveness.

Other in-land markets were similarly affected. The town of Jowhar, located 90km north of Mogadishu, is an important economic centre in Middle Shabelle region and a key trade conduit from Mogadishu to other domestic markets. However, the cost of warlord taxes was so debilitating to trade in Jowhar that it frustrated business development. The head of a prominent Mogadishu business school explained, "Jowhar was under warlord Mohamed Dheere's control and he imposed very high taxes on incoming goods that really affected the economy. A sack of sugar was $3 to $5 more expensive in Jowhar than in Mogadishu. The price of goods in Jowhar was so high that people from Middle Shabelle started going directly to Mogadishu instead of buying in Jowhar. It became less expensive to go to Mogadishu than to buy goods in Jowhar."[369]

However, not all businesses suffered under the system of warlord rule. Rather, in rare cases, businesspeople that had ties to the security establishment could negotiate better protection payments than those who lacked such connections. For example, a much more savvy and connected businesswoman from Mogadishu bested her beleaguered colleagues by negotiating an agreement

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[368] Interview with S16(November 2009)
[369] Interview with S7 (2009)

that allowed her to bypass the checkpoints. "I could buy sugar through El Ma'an port for $12/sack, plus a $1.80/sack charge for transport to Mogadishu," she explained. "It arrived in Mogadishu markets for $13.80, but I sold for $15 in Mogadishu markets with a $1.20 profit margin. I sent to Baidoa paying $1/sack transportation costs, so it was $16 to get to Baidoa, with a $0.50 profit. To send to Jowhar it was approximately $0.70-0.80/sack, with a $0.50 profit. In Jowhar I could sell for $16.20."[370]

This businesswoman, known for her powerful kinship connections to the local security establishment in Afgooye, easily outclassed her competitors by paying a lower rate on the roads. While other businesspeople had to pay an additional premium to move their goods from Mogadishu to Baidoa, her ties to the security apparatus allowed her to negotiate a $1/sack transportation cost. Notably, according to the head of the business school, the price of transportation from Mogadishu to Baidoa for fuel and trucking fees was $1/sack, which suggests that the well-connected businesswoman had managed to negotiate her trucks through the Afgooye corridor without paying any checkpoints at all.[371] The businesswoman herself suggested as much, saying, "In most cases, it is better for our business when there is no government, as we make more profit."[372]

However, for the overwhelming majority of the business community, this was simply not the case. "Under the warlords, the price of goods was high and the demand was low," griped a frustrated businessman. "It took two days to get the

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[370] Interview with S15 (2009)
[371] Although the size of the demand for sugar made it impossible for her to monopolize the entire sugar market in Baidoa, this businesswoman and those privileged few like her profited enormously from the low transportation costs.
[372] Interview with S15 (2009)

goods from the port to the market."[373] Extortion by warlords and militia had limited the business community's ability to service potentially profitable in-land markets. For most traders, political fragmentation proved to be incredibly costly to business.

Frustrated with these barriers, the Somali business community began to exercise its collective political power to find a solution to the high costs of state failure. Specifically, the business community invested in the 2000 Somali peace talks held in the Arta, Djibouti. With the material support of the business community and the leadership of Somali religious and civil society actors, the Arta process created the Transitional National Government (TNG), the first attempt at a new government since the collapse of the Barre regime. The TNG was constructed on what is known as the '4.5 system', which divides power equally among the four dominant Somali clans and offers a one-half share to all other minority clans. The business community financially supported the TNG in the hopes that this new government could reduce the costs of doing business in Somalia and open the country up to more trade and investment.

However, despite being internationally recognized as the legitimate Somali government from 2000-04, the new TNG was vehemently opposed by local warlords who felt excluded from the new political system and were unwilling to relinquish their economic and military control. These warlords formed a joint military alliance called the Somalia Reconstruction and Restoration Council (SRRC), which effectively challenged the legitimacy and undermined the

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[373] Interview with S14 (2009)

practical abilities of the TNG throughout its tenure.[374] "Both the business community and the civil society backed the TNG," explained a prominent businessman in the import-export business. "But it excluded warlords, so it was ineffective. That government never succeeded in removing even one checkpoint."[375]

Nevertheless, the general enthusiasm for the prospect of a new Somali government increased consumer confidence and investment, causing a short-term economic boom. Although the business community continued to pay protection payments to warlords and militias on the roads, the TNG also attracted development assistance dollars and refrained from imposing any new taxes. As such, the business community's recollections of economic wellbeing during the TNG period remain comparatively positive.

Despite this economic growth, the SRRC ensured that the political situation in Somalia remained stagnant. After four years of political stalemate and under pressure from the international community, in 2004 the TNG and the SRRC initiated a new peace process hosted in Mbagathi, Kenya. Through the 2004 peace process, the SRRC formally reconciled with the TNG on the promise that they would construct a new government and constitution that included the warlords in the formal political process. The Mbagathi process thus created the new Transitional Federal Government (TFG), under the leadership of then-President Abdullahi Yusuf. Endowed with this new legitimacy, the TFG attempted to

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[374] The SRRC declared the TNG to be illegitimate and sympathetic to Islamic fundamentalism. This claim allowed members of the SRRC to plead for external economic and military resources to undermine the TNG.
[375] Interview with S11 (2009)

transform warlord power into official government power, in the hopes that inclusion in the political process would pacify the strongmen on the battlefield. Instead, the TFG became a collection of warlord-parliamentarians, whose disagreements in parliament often prompted new skirmishes between respective militias. So ineffective was the TFG that it operated almost entirely in exile in Nairobi, Kenya.[376]

Throughout the reign of the TFG, the Mogadishu business community continued to pay protection racket rents to warlords, many of whom were actually members of the new government. Both the TNG and TFG existed in principle, but had no real impact on changing the security realities on the ground. In fact, the security in Somalia deteriorated even further once the warlords were given parliamentary titles. As TFG parliamentarians squabbled over political power in exile in Nairobi, they neglected to govern their respective turfs inside Somalia. Local militia behaved with increasing impunity, extorting the local business community on the roads and abusing civilians at will. At the same time, the number of freelance militia targeting the business community on the streets of Mogadishu increased. These freelancers lacked any particular factional affiliation or leadership, and operated primarily as armed criminal gangs.[377] "A new face of kidnappers and bandits emerged, a new wave of second level independent warlords, with no politics and no clan," explained the prominent Mogadishu

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[376] I was a guest at the presidential inauguration of Abdullahi Yusuf, and the audience was replete with the most powerful warlords in Somalia, each of whom had been given a new parliamentary title. In the months and years to follow, the easiest place to find a warlord-parliamentarian was in the lobby of the posh Intercontinental Hotel in downtown Nairobi.

[377] See Mancur Olson, Power and Prosperity (2000) for a discussion on the different behaviours and interests of stationary versus roving bandits.

import-exporter. "They were just opportunists. They were the cruellest of all."[378] The unpredictability of this extortion created the most aggravation. "You could not plan," explained the trader who worked from Bardera to Elwak. "You plan to waste a certain amount of money [on checkpoints], and then someone would increase it on you."[379]

This spike in costs frustrated the powerful trading community. Even the largest and most well connected businesspeople were affected by this increase. One of the most illustrative examples is the case of the Coca Cola Company in Mogadishu. Coca Cola is an inexpensive, luxury good; in order to sell, it must remain cheap. Mogadishu has a functioning Coca Cola manufacturing plant with the production capacity to supply the countryside. However, the company remained underproductive because of the checkpoints on the roads. "In the time of warlords, I couldn't sell coke outside of Mogadishu," explained the head of the Mogadishu Coca Cola Company. "My average production was 500 cases/day and 15,000 cases/month. But my actual production capacity was 285,000 produced per month, but I couldn't sell this because of the insecurity on the roads."[380] Because the militia at checkpoints perceived soft drinks as a luxury item, they were keen to tax trucks carrying coke bottles. However, because coke is a nonessential good, it would not sell when the price was inflated. As a result, production and sale were both under capacity.

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[378] Interview with S11 (2009)
[379] Interview with S16 (November 2009)
[380] Interview with S17 (2009). He added: "With the checkpoints, we lost both time and money. Delays on the road also reduce profits because you make only one trip when you could have made 2 or 3 trips back and forth with the same truck."

The extortion of the business community therefore created two sources of ire. First, the business community were forced to pay protection rents to local warlords, despite the unwillingness or inability of those warlords to furnish an adequate degree of protection. And second, the business community were directly extorted on the roads by militia and freelance criminals, who made it impossible to predict the cost of transportation to in-land markets. So debilitating was this unpredictability that many businesspeople said that their greatest frustration was actually the lost business opportunities. "The risk reduced growth by 40%," explained the beleaguered small businessman. "Because of the inability to access the countryside, people reduced their business, froze it in the markets, and decided not to take risks."[381] Even the well-connected businesswoman agreed that the increase in unpredictable freelance criminals reduced her opportunities: "Because of the checkpoints, I calculate that I am losing 50% of business profits overall. I cannot import what I want. I don't have the freedom to do what I want."[382]

As such, while the business community strove to mitigate the costs of political anarchy, state failure had become a serious impediment to business development. For most businesspeople, improved security was a necessary prerequisite to growth. The increased extortion rates under the TFG therefore drove the business community to use its economic power to seek out a solution to state failure. One of the most promising avenues for exercising this power was the local Islamic courts system.

The Rise of the Islamic Courts Union:

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[381] Interview with S16(November 2009)
[382] Interview with S15 (2009)

Islamic courts have a long history of providing law and order at the community level in Somalia. However, since the collapse of the state, these courts have taken on a much larger role in local governance. From the early 1990s, Somalis invested in local Sharia courts to help create pockets of law and order in the midst of the civil war. However, these courts were only able to exercise jurisdiction over their own specific sub-clan groups and did not exercise legal power over members of other clans.[383] "At first, every clan worked in their own areas," explained the import-exporter, who is a long-time financier of the courts. "The first assignment was that every clan was to reduce insecurity and bandits in their own areas. This was led by local leaders. Every clan was willing to fight against freelancing bandits. At this stage, the courts could only fight low-level bandits, not against warlords who had heavy weapons. There was even a relationship between the warlords and the original clan-based courts. The elders balanced the security situation to co-exist with the warlords."[384]

Over time, the success of the courts at the local level increased their material capabilities and political aspirations. By the late 1990s, these disparate, clan-based Islamic courts were an emerging political contender in their own right. Pleased with the courts demonstrated ability to provide effective adjudication over disputes, the business community invested in the maintenance and expansion of their respective clan courts' local power, including the hiring of religiously-trained clan militias to safeguard the court's neighbourhood. Through this support, the courts became a powerful enough actor to oppose warlord power. In

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[383] Kenneth Menkhaus, "Governance without Government in Somalia." International Security. (2007), 85-86
[384] Interview with S11 (November 2009)

this way, the courts provided the business community with a mechanism through which it could exercise its political voice. In fact, Menkhaus describes the business community's 1999 boost in support for local Islamic courts as a "coup" against warlord protection rackets:

> Frustrated with having to pay tribute to militias that provided no security in return (and that were usually the source of insecurity and banditry), leading businesspeople in Mogadishu refused to pay taxes to the warlords associated with their clans. Instead, they bought out the militiamen from beneath the warlords and assigned the gunmen to the command of local sharia courts. The sharia militias promptly became an impressive source of law and order, at the expense of the much-weakened warlords.[385]

The 1999 enthusiasm for the courts generated some momentum for a joint Islamic Courts project, which could unify the courts in southern Mogadishu and adjacent neighbourhoods.[386] "With every small court, there was a necessity for coordination," explained the long-time financier of the courts. "It was necessary to unite because thieves run from one district to another."[387]

However, this support was short-lived. By 2000, the business community shifted its attention away from the courts to the new TNG, whose leadership drew from the Muslim intellectual elite.[388] With their focus intent on sponsoring the TNG, the business community reduced its financial support for the Islamic courts. With this decline in resources, the courts' power and prominence waned, allowing the warlords to re-establish their political power through the SRRC. For the next

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[385] Kenneth Menkhaus, "Governance without Government in Somalia." International Security. (2007), 88

[386] Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." Journal of Eastern African Studies. (2007), 153.

[387] Interview with S11 (2009)

[388] Marchal, Roland "Islamic Political Dynamics After the Somali Civil War: Before and After September 11." Islamism and its Enemies in the Horn of Africa Ed. Alex De Waal (2004), pg. 137

few years, the courts remained politically fragmented and thus materially incapable of challenging the political status quo.

This began to change in 2004, when a cleric-turned-schoolteacher named Sheikh Ahmed Sheikh Sharif engaged in a grassroots political campaign to unify and empower the Islamic courts across Mogadishu. In 2003, Sheikh Sharif was working as a local schoolteacher at Jubba Secondary School, in the crime-ridden Siisii neighbourhood of northern Mogadishu. During the school year, local gangsters kidnapped one of Sheikh Sharif's young students, 12-year old Abdulkadir, and demanded a huge ransom for his return.[389] Sheikh Sharif responded by mobilizing a grassroots community movement to create a new Islamic court in the SiiSii district. By rallying the community's power through the newly established court, Sheikh Sharif pressured the kidnappers to release Abdulkadir and return him safely to his parents.[390]

The triumph of new SiiSii court in north Mogadishu inspired a new wave of optimism for the Islamic courts model. Sheikh Sharif's heroic rescue increased popular support for the Islamic courts, which seemed to offer better security provision and public service than either the TNG or the SRRC. Buoyed by this success, Sheikh Sharif was appointed chairman of a group of Mogadishu courts and began work on organizing the courts into a coherent political group. Although still loyal to their respective sub-clan groups, these disparate Islamic courts began to recruit and train young men from their communities into the courts' militias. They affectionately named the courts' militias *Al Shabaab*, or "the youth".

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[389] "Somalia's Moderate Islamist Leader." <u>BBC News</u>. January 22, 2007. <http://news.bbc.co.uk/2/hi/5072268.stm>
[390] Ibid.

In late 2005, Sheikh Sharif joined forces with and Salafi Islamist leader Sheikh Hassan Dahir Aweys on a mission to transform the clan courts in Mogadishu into a singular political entity, the Islamic Courts Union.[391] At first, Sheikh Sharif and the courts maintained cooperative and respectful relationships with Mogadishu-based warlords. Keeping their distance from the warlords' private militias, Al Shabaab focused their efforts on removing freelance criminals from their own communities. These freelancers were a drain on the business community, but were of no consequence to the warlords.

However, in early 2006, the ICU brought together the leaders of all the Mogadishu-based courts into one Supreme Council and unified their clan militias into one military force. This unification created a dramatic change in the political environment. The amalgamation of Al Shabaab fighters into one military force transformed the courts' small clan contingents into a sizeable Islamist army. The ICU emerged as a powerful political and military contender, with enough muscle to effectively challenge the heavily entrenched warlords.

This shift in the balance of power had a dramatic effect on the political landscape. By July 2006, the ICU successfully challenged and expelled all of the most heavily entrenched warlords in Mogadishu and opened its sea and airports for the first time in a decade. The warlord protection rackets were dismantled and the checkpoints were cleared. Six months later, the ICU had captured 90% of southern Somalia, bringing the majority of the country under a centralized government for the first time since the collapse of the state in 1991.

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[391] The ICU is also referred to in the literature as the Union of Islamic Courts (UIC) and the Supreme Council of Islamic Courts (SCIC).

The ICU as Islamic State-Builders:

Given the magnitude and durability of state failure in Somalia, the success of the ICU is highly significant for two reasons. First, the ICU is striking because of it utilized Islamic identity to create a central government that commanded the support of multiple clans. Although the core Mogadishu courts drew from the Ayr sub-clan of the Hawiye-Habr Gidir, the Supreme Council made concrete efforts to include meaningful representation from other clan backgrounds and acquired supporters across clan divisions. "The ICU was not about clan," claimed a high-ranking Darod member of the original ICU movement. "It was an Islamic government that included all the clans."[392] While there was staunch resistance to the ICU from then-TFG President Abdullahi Yusuf's Darod-Majerteen clan in the north, the ICU successfully incorporated Isaaq, Hawiye-Abgal, Darod-Marehan, Darod-Ogadeen, and Rahanweyn members into its umbrella organization.

In fact, as the ICU advanced into Middle Shabelle and then the Bay and Bakool region in the summer of 2006, fighters from the Rahanweyn Resistance Army (RRA) and other factions surrendered to the ICU.[393] In a clear demonstration of their Islamic political identity, military leader Sheikh Mukhtar Robow AKA Abu Mansour declared that the ICU was willing to accept any soldiers defecting from the government, regardless of their clan affiliation.[394] Most significantly, by opening membership up to different clan backgrounds, the ICU was able to construct a pan-clan Islamist identity that allowed it to extend its

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[392] Interview with S1, (2009)
[393] Abdi Farah, Mohamed "Islamists welcome defected government militia in the capital"
SomaliNet News, December 15 2006. <http://somalinet.com/news/world/Somalia/5825>
(Retrieved last on February 11, 2009)
[394] Ibid.

influence across the country. This emphasis on Islamic nationalism over clan fragmentation gave the ICU the ability to draw support from multiple clan groups, thus tipping the balance of power in their favour.

Second, the ICU demonstrated a nascent and notable ability to monopolize the use of force and impose its will on society. Although a sizeable international invasion in 2007 prevented it from becoming a more established government, for the short time that the ICU was allowed to hold power, it demonstrated an impressive degree of centralized power and political autonomy. One of the most significant indications of the ICU's relative monopoly on the use of force was their ability to implement unpopular laws without incurring insurrection. For example, after assuming control of Mogadishu, the Supreme Council imposed a number of new regulations that caused immediate ire to the business community. First, they banned the widely consumed narcotic qaat, cigarettes, as well as watching soccer matches and other popular social activities.[395] Although these interdictions were incredibly unpopular among Somalis, the ICU remained resolute. Second, the ICU also implemented a tax system and quality control regulations, the absence of which had been an advantage for the business community in the past. The new quality control regulations on imports eliminated the highly profitable business of selling expired food and medicines.

However, despite much ire amongst the business community, once the clan-based warlords had been expelled from Mogadishu, the business community

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[395] Qaat is a popular narcotic drug that is consumed widely in the Horn of Africa region. Qaat is chewed almost ubiquitously in Somalia, and soccer is one of the most popular social activities in the country. Banning these were wildly unpopular moves by a new government. Notably, in Somalia, the qaat industry is dominated by women.

found itself with no political alternative left to oppose the ICU. They had constructed a relative monopoly on the use of force, which could now be used against them. "The ICU came up with regulatory practices, such as stopping the qaat trade and cigarettes, that were not attractive at the time," explained one of the most powerful businessmen in Somalia.[396] This businessman had taken a lead role in financing the ICU from 2004-06, but, ironically, was the owner of a multimillion-dollar cigarette business. Once the ICU took power, he found he could no longer control their political decisions, even when the ICU was causing immense harm to his company. "If the business community had influence over the ICU, there would have been no mistakes," he said. "[But] we could not stop supporting them because they were a power to reckon with."[397] The Supreme Council's ability to impose their writ speaks to their political autonomy and power over the society that they had captured. Although members of the business community had collectively mobilized their support for the ICU, they quickly found that they did not control the Islamic leviathan that they had helped create.

Existing Explanations:

Why was the ICU able to achieve this level of political power? What caused members of the business community to abandon their relationships with warlord protection rackets and shift their support to the ICU? The existing academic literature and policy community have pointed to three main causal explanations: first, the business community's need for physical security; second, the importance of clan-identity in creating a winning coalition; and third, the

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[396] Interview with S18 (May, 2007)
[397] Interview with S18 (May, 2007)

power of Islamic ideology and religious zeal within the business community for an Islamic state. However, while each of these explanations provides important insights about the Islamic courts movement, they fail to explain why the business community made the decision to support the ICU at a critical moment in history.

The first argument is that the Somali business community supported the ICU because they provided physical security. Security was good for business, and the courts provided better security than its political rivals in the TFG.[398] This hypothesis argues that the desire for security is causal in the business community's decision to switch sides.

The ICU unquestionably had the best record in providing security in the history of Somali civil war. However, the flaw in this argument is that the reason that the courts were able to provide any security in the first place was because they had already acquired sufficient financial and material support to counter heavily entrenched warlords. Security provision was made possible by the recruitment and training of Al Shabaab foot soldiers, which was paid for through the contributions of the business community. Therefore, the security explanation of the ICU's success is fundamentally tautological. The Mogadishu business community did not support the ICU because it provided them with security; rather, the ICU was able to create security because it had already attained the support of the business community. While Somalis will indeed remember the ICU

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[398] Stig Jarle Hansen, "Somalia – Grievance, Religion, Clan and Profit" <u>The Borders of Islam.</u> Ed. Stig Jarle Hansen, Atle Mesoy and Tuncay Kardas. (2009), 127-138; Christian Weberisk, "Mogadishu: An Economy Without a State" <u>Third World Quarterly</u> Volume 27, No. 8 (2006), pp. 1463; Andre Le Sage, "Stateless Justice in Somalia: Formal and Informal Rule of Law Initiatives." Geneva: Centre for Humanitarian Dialogue Report, July 2005. <http://www.ssrnetwork.net/uploaded_files/4397.pdf>; Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11" <u>Islamism and its Enemies in the Horn of Africa</u> Ed. Alex De Waal (2004).

as a time of greater security, the provision of this security occurred as a product of the business community's support for the courts. Security cannot therefore be treated as a causal variable in the rise of the ICU movement. Because of this fundamental logical fallacy, the security hypothesis is not included in the statistical model for testing.

The second explanation of why the business community backed the ICU looks at the clan composition of the ICU leadership. This explanation is rooted in the fact that clan structure has been the dominant social and political order in Somalia since the collapse of the state. These arguments correctly point out that 11 out of 12 of the original Islamic courts were from the Hawiye clan and that the majority of the leadership was disproportionately from the Hawiye-Habr Gidir-Ayr sub-clan and were seen to exclude members of the Abgal sub-clan.[399] As such, many analysts have treated the Islamic Courts phenomenon as epiphenomenal of clan politics.

However, as the last chapter discussed, the importance of clan identity in the Somali business world has waned over the last decade, making it unlikely that clan is the driving force behind their political decision-making. Over the past decade the Somali business community has actively moved away from clan-dominated business and the largest Somali industries (including billion-dollar telecommunications and money transfer conglomerates) all have multi-clan shareholder structures and a pan-clan approach to business development. Interviews with women that owned a large Mogadishu-based qaat-trading

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[399] Kenneth Menkhaus, "There and Back Again in Somalia." <u>Middle East Report Online</u>. (2007); Interviews, Matt Bryden (2007 and 2009)

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company confirmed this rejection of tribalism in the business community. "Clan has no place in business. We are all from different clans and we can work together for our interests".[400] Nonetheless, because clan conflict has historically played such a significant role in Somali politics, the role of tribalism is included in the statistical model for testing.

The third explanation looks at the role of Islamic ideology and identity in shaping the business community's economic interests.[401] As discussed, the business-Islamist alliance in Somalia emerged in response to the high costs of clan divisions. In fact, as the business community moved away from clan-based business relationships in the late 1990s, Islamic trust became an increasingly important tool for facilitating transactions across clan lines, leading to a promotion of Islamic identity in elite business circles. This long-term process of Islamicization of the business community suggests that Islamic identity has an impact on the business community's political preference.

However, the problem with the ideological explanation is that it does not explain why the ICU succeeded while other groups with a similar ideological make-up failed. Political Islam has a long history in Somalia and there have been many predecessor Islamic movements over the course of the civil war, none of which developed a comparable level of success. For example, *al-Ittihad al-Islam, al-Islah, and Ahle Sunna Waljama'* are all political Islamic groups with a long

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[400] Interview with S6 (2009)

[401] Saul Shay, Somalia between Jihad and Restoration (2008); See Harry Verhoeven, "The Self-fulfilling Prophesy of Failed States" Journal of East African Studies. (2009) for a strong critique of terrorist allegations against the ICU. See also Cedric Barnes and Harun Hassan. "The Rise and Fall of Mogadishu's Islamic Courts." Journal of Eastern African Studies. Vol.1, No. 2 (2007), 160-170; Jon Abbink, "The Islamic Courts Union: The ebb and flow of a Somali Islamist movement." Movers and Shakers: Social Movements in Africa Ed. Stephen Ellis and Ineke van Kessel. (The Netherlands: Koninklijke Brill N.V. Inc., 2009).

history in Somalia. In fact, many former al-Ittihad and al-Islah members became supporters of the ICU movement. However, none of these predecessor Islamic groups generated nearly as much political traction as did the ICU. The religious explanation therefore fails to explain why the ICU gained political ground, while other Islamic groups of a similar ideological orientation failed to do so. Nonetheless, because the ICU was primarily a religious political movement, the role of Islam is also included in the statistical analysis.

This chapter tests these explanations against a fourth hypothesis: a microeconomic explanation of political preference in the Mogadishu business community, based on perceived rates of taxation. It argues that the Mogadishu business community lends its support to those groups that it perceives lower the cost of doing business, creating momentum against groups that extract punitive rents. The ICU was successful in acquiring the support of the business community not because of clan identity or Islamic ideology, but because the cost of warlord protection rackets exceeded the cost of financing the courts. The business community's preference for low taxes informs how they distribute their support, and this support has a decisive impact on outcomes in civil war competition.

An Economic Explanation of the ICU:

The significance of the Mogadishu business community in the Somali civil war has been documented in the literature.[402] Stig Hansen's pioneering field

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[402] Stig Jarle Hansen, "Somalia – Grievance, Religion, Clan and Profit" The Borders of Islam. Ed. Stig Jarle Hansen, Atle Mesoy and Tuncay Kardas. (2009), 127-138; Kenneth Menkhaus, "Political Islam in Somalia." Middle East Policy. (2002), 109-123; Kenneth Menkhaus, "Governance without Government." International Security. (2007), 74-106; Christian Weberisk, "Mogadishu." Third World Quarterly. (2006), 1463-1480; Roland Marchal, A Survey of Mogadishu's Economy (2002); Andre Le Sage, "Somalia: Sovereign Disguise for a Mogadishu Mafia." Review of African Political Economy. (2002), 132-138; Andre Le Sage, "Stateless Justice

research showed that the Mogadishu business community provided the Islamic Courts with essential monetary support, which gave the ICU the momentum to break the stalemate.[403] The empirical record shows that the business community shifted its resources towards the ICU and against Mogadishu's warlords, but the literature does not clearly explain why. This chapter tests all three falsifiable hypotheses about political preferences in Somalia: the clan-based explanation, the Islamic ideology argument, and the microeconomic analysis of decision-making, to answer this question. First, it presents interview data from the chief business financiers of the ICU movement, which highlights the specific details surrounding the dramatic rise in the power of the ICU. Next, it analyzes the survey data collected from 1,000 respondents from the Mogadishu business community to explain the relationship between their identities, interests, and political preferences.

Qualitative Data:

The process by which the ICU came to power was directly linked to key members of the Mogadishu business community. Specifically, the mobilization of the ICU against the warlords in 2006 was catalyzed by a conflict between a warlord and a prominent member of the business community, both from the same clan. This conflict became a watershed moment for the ICU, wherein the Somali

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in Somalia." Centre for Humanitarian Dialogue Report, 2005.
<http://www.ssrnetwork.net/uploaded_files/4397.pdf>
[403] Stig Jarle Hansen, "Civil War Economies" NIBR Working Paper No. 1, 2007.
Hansen's research on the ICU points to the importance of both the ideological and material reasons that the business community provided financial support to the Courts. Hansen correctly points out the importance of having Islamic credentials as a reputational tool in business, as well as a means of gaining access to markets in the Gulf. See Stig Jarle Hansen, "Somalia – Grievance, Religion, Clan and Profit" The Borders of Islam. Ed. Stig Jarle Hansen, Atle Mesoy and Tuncay Kardas. (2009), 127-138

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business community made the strategic decision to withdraw support from warlords and decisively back the Islamic courts.

Abukar Omar Adani, who comes from the Warsangali clan of the Hawiye-Abgal, is one of the most powerful businessmen in Somalia. In 1995, Adani established the El Ma'an Port Authority, the natural seaport just 15km from Mogadishu. During the civil war, Mogadishu's main port was closed due to fighting and El Ma'an became one of a primary seaport servicing markets in Middle Shabelle and beyond. According to one of the chief executives of the Adani family, "the main agenda was to facilitate our own import-export, not to run a port."[404] However, through the port, the Adani family was able to charge a small import and handling fee to every user, thus amassing a personal fortune. Unlike most businesses, the El Ma'an Port Authority was so wealthy that it could afford to hire its own private security forces, rather than paying for protection from other armed groups.

However, the chief executive explained that the cost of maintaining that force was significant. "Just to provide security we needed 1,000 soldiers and 100 technicals," he grumbled. "80% of our revenues were spent on security. We never saved anything from El Ma'an."[405] Frustrated with these costs, Adani became one of the two chief financiers of the Islamic courts. The other was the primary shareholder in the Hormud telecom firm and the former owner of the Barakat hawala company, Ahmed Nur Jim'ale. Together, Adani and Jim'ale were the largest financial supporters of the ICU; both would later received political

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[404] Interview with S13 (2009)
[405] Interview with S13 (2009)

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positions in the ICU leadership. "To start, there were two key individuals financing the ICU: Ahmed Nur Jim'ale and Omar Adani," explained the head of the Mogadishu Coca Cola company. "During the initial stages, Jim'ale and Adani were supporting 50-60% of the ICU [to remove freelancers]. Everyone else jumped on board after seeing some success."[406]

In January 2006, Adani came into confrontation with one of Mogadishu's most established warlords, Bashir Rage, who also hails from the Warsangali sub-clan. The Adani family had an interest in a strip of land in Galgalato, located in the northeast outskirts of Mogadishu along the coast, which was inside the territory held by Rage. "We bought land in Galgalato area," explained the chief executive from the Adani family. "We bought this land, but Bashir felt threatened. Bashir said 'you can't buy here, it's my territory'. We used to ally with Bashir against warlord Muse Sudi.[407] Rage is from the same clan as us."[408]

The Adani-Rage battle became a watershed moment for the nascent Islamic courts movement. Having invested so heavily in the courts, Adani called in a favour from the ICU leadership. At the same time, Rage called upon members of the business community from his own turf to financially support him in this battle against Adani. These businesspeople were now faced with a choice between supporting their warlord protection racket and backing the Islamic courts movement. They chose the ICU. "We fought against Rage with the moral and

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[406] Interview with S17 (2009)

[407] Muse Sudi Yalahow is a Hawiye-Abdgal warlord from another clan

[408] The executive argued that Rage, who owned Esaley airstrip, was landing CIA planes and acquiring material support from the Americans: "When the US gave money to Rage, the Adani family supported [Sheikh] Sharif because he brought stability. Then Bashir captured our technicals and positions and he was moving to capture El Ma'an port. He said, 'it's not me who has the authority to give back technicals and positions; the authority is with the Americans. I met with the officers from the CIA and InterPol to get back out technicals. The US said Rage is their friend."

material support of the ICU. After 20 years, people were fed up with fighting. It was four months of continuous fighting, from February/March to June 2006."[409]

Alarmed by the ICU's display of power, other warlords mobilized to defend their turfs. In a seismic shift in the balance of power, 70% of the business community shifted its support to the ICU.[410] "We and Jimcale had no political agenda," argued the Adani executive. "We did not even expect to defeat the warlords. We were just acting out of our own interests."[411]

What caused the business community to switch its political allegiance? The business community's support for the Islamic courts had gradually developed over the course of several years. A pivotal shift took place between 2004 and 2006, when the Mogadishu business community increased their sponsorship of their own clan-based courts to clear the roads of the unpredictable and debilitating checkpoints. The Adani-Rage battle precipitated this change. The prominent Mogadishu trader who was a leader in financing the courts for many years described how the business community systematically worked together during this critical period:

> There was a regular budget paid by the business community and the clans to the ICU. At first, it was only to your own area, your own clan. Every clan took money to his own court only. Then upon centralization, taxes and fees were given at the district level. These were not taxes, but voluntary contributions. There were a committee of 65 elders who collected for them. In the beginning of 2004, [the business community] allocated $1000 per month, per district. By the end of 2004 until mid-2005, we gave $3000 per month, per district. From mid-2005 to 2006, we gave $10,000 per

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[409] Interview with S13 (2009)

[410] The 70% figure was corroborated in many interviews with the business community, including S11 and S13. Stig Hansen's 2007 survey work in Mogadishu argues that 69% supported the ICU. Stig Jarle Hansen, "Civil War Economies" NIBR Working Paper No. 1, 2007.

[411] Interview with S13 (2009)

month, per district. In Yaqshiid district, near Suuq Ba'ad market, the amount of our contributions increased over time, as [the courts'] activities increased. In 2006, [the ICU] took the whole city, so there was no more need for voluntary contributions. We went from voluntary contributions to taxation, paid by all people for the security of their own houses.[412]

As the statistical analysis suggests, the political preferences of the business community were directly affected by the perceived rates of extortion under the TFG versus the ICU. The TFG warlords consistently charged higher rates than their Islamist counterparts. "The reasons that the business community supported the ICU was because of the illegal taxes," said a prominent Mogadishu-based economics professor and businessman. "The ICU didn't say they wanted taxes. They only asked for *khidmat* (service charges) or *zakat*. People felt they were better off." [413] Because the warlords were financed by their own specific sub-clans, they had a narrower base of support and subsequently charged higher margins for protection provision. However, because the courts drew support from a wider pool, the ICU was able to charge lower margins across clan divisions. This comparative advantage gave the ICU a competitive edge over its rivals, which made them an attractive political alternative for the business community. How substantial was this advantage? The chairman of one of the most lucrative markets in Mogadishu explained, "For every $100 we were forced to pay to the warlords, we would give $35 to the Islamic Courts" to provide security.[414]

Survey:

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[412] Interview with S11 (2009)
[413] Interview with S4 (2009)
[414] Interview with S12 (2009)

The results of the statistical analysis corroborate the argument that the level of extortion significantly impacted political attitudes. Despite the business-Islamist alliance in Somalia, Islamic identity did not provide a clear explanation of why the business community supported the ICU. Clan identity also failed to explain political preference, and the data even shows evidence of a waning centrality of clan politics in Somali business.

The dependent variable selected for this investigation is *Political Preference* of the Mogadishu business community.[415] The specific question used to measure the dependent variable is as follows:

What system of government did you feel was the most favourable (or least damaging) to economic growth for your business?
a. The TNG government in 2000-2004
b. The TFG government in 2004-2006
c. The ICU government in 2006
d. My business is best with no government at all.

Importantly, this characterization of political preference presents a statistical problem; defining political preference as recollection of economic well being under a given political system exaggerates the effect independent variables such as taxation level on the dependent variable. Because the survey asks respondents to recollect past events, there is a causal feedback between respondents' political preferences and their economic perceptions.[416]

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[415] A more ideal question for the dependent variable would have been "Which of the following political alternatives do you like the best?" However, there are two problems with this wording: first, the study is about past events, and therefore the question must be retrospective; second, because survey respondents were fearful of and vulnerable to reprisals, the wording of the question could not have been more directly about their recent political choices and actions.

[416] There are some concerns in the economic voting literature about endogeneity and retrospective economic assessments. See Christopher Wlezien, et al., "Economic Perceptions and Vote Choice: Disentangling the Endogeneity." Political Behaviour. Vol. 19, No.1 (March, 1997), 7-17.
This can be dealt with in part through instrumental variables estimation. Results of this estimation are presented in Appendix I.

Furthermore, the dependent variable doesn't fully capture overall political preference, which can be informed by multiple variables. Understanding what drives political choice and behaviour in Somalia will require further research. However, this question does allow us to investigate the drivers of the economic determinants of political choices, which is a significant first step in understanding the decisions and actions of the business community.

The frequency distribution of responses is as follows: 54% of all people felt they did best under the TNG; 9.5% felt they fared better under the TFG; 20% of the sample preferred the ICU; and 16.5% of all respondents felt they would do best with no government at all.[417] The TNG was a predecessor movement to the TFG and was therefore not in direct competition with either the TFG or the ICU. The TNG was therefore the safest and least politically charged choice a respondent could make. The TNG was therefore chosen to serve as the residual category in the analysis.

The two primary independent variables under investigation are *Warlord Taxes* and *ICU Taxes*, which are measured on the same ascending five-point ordinal scale of: (1) none, (2) low, (3) average, (4) high, and (5) very high.[418] These two variables measure a respondent's recollection of the amount he or she paid in taxes and fees under warlord protection rackets and the ICU, respectively.

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[417] It was during the period of formal TFG rule that the third option, the Islamic Courts Union, emerged as a parallel authority. The TFG, which was still operating in exile, remained the *de jure* political authority, but all *de facto* power rested with the ICU.

[418] The term "warlord taxes" refers to the rates of extraction under warlord protection rackets. The study did not include any measures of "TFG taxes" because the TFG did not implement a meaningful system of formal taxation. More precise numerical values for the scale of taxes were not possible.

Also included in the analysis are socioeconomic indicators, including gender, education level, and size of business.

Three additional binary independent variables were also included to test the role of identity on political preference. The variable *Clan Trust* is based on questions 8 and 9 in the survey, using agree and strongly agree as 1 and all other responses as 0. These survey questions ask the respondent to agree or disagree with the following statements:

> 8. It is more costly and difficult to conduct business with members of other clans than it is to work with my own clan.

> 9. A person within my clan is more likely to respect my property rights and contracts than a person from another clan.

The variable *Islamic trust* is based on question 10 of the survey, using strongly agree as 1 and all other responses as 0.

> 10. A good Muslim is more likely to respect my property rights and
>
> contracts than a person who doesn't follow their religion.

The variable *Support for Islamic Law* is based on question 18 of the survey, and uses strongly agree as 1 and all other responses as 0.

> 18. Islamic law is a good way to regulate transactions between business
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> partners.

The variables were recoded this way because of the differences in the frequency distributions for the responses to the questions on clan trust versus Islamic trust.[419] Table 1 indicates the frequency distributions for questions 8, 9, and 10 on clan trust and Islamic trust, respectively. These results show that clan

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[419] Alternative specifications using the interval-level variables were also tested; these tests produced no significant changes in any of the overall conclusions presented in this paper. Variables were recoded to improve the readability of the regression results.

identity provokes a diverse range of responses, with a slightly negative attitude towards clan trust, whereas respondents were far more favourable to Islamic trust. In recent years clan favouritism has become increasingly tabooed and is considered by many to be an out-dated way of thinking, thus leading to much more varied responses to the question about clan trust. All survey questions on Islamic trust showed a much more uniformly positive response. This pattern reflects the shift away from clan identity and towards a wider Islamic identity within the Somali business community.

The analysis of data uses multinomial logit analysis in STATA. Logit, rather than probit, was used so that the analysis could produce interpretable coefficients, specifically risk ratios. The independence of irrelevant alternatives (IIA) problem was ruled out using the Hausman test, thereby making the utility of multinomial logit equal to that of multinomial probit.

Table 2 shows the results of the multinomial logit model, with risk ratios and the standard error in parentheses, using the TNG as the residual category. Negative relationships are indicated by values lower than 1. The regression results consistently show strong statistical significance for the taxation variables in determining the political preferences of members of the business community.

Results:

Recollection of high warlord taxes was negatively correlated with preference for the TFG, and positively correlated with preference for the ICU. Other things equal, a one-level increase on the scale of warlord taxes made an individual 45% less likely to prefer the TFG and 32% more likely to favour the

ICU. The taxation variables also show particular robustness on political preferences both for and against the courts. A one-level increase in the level of recollected ICU taxes on the quintile range made one 51% less likely to prefer the ICU and 24% more likely to support the TFG.

While the ICU offered better security than its political rivals, it was the rate of extraction, not the provision of security, which determined political preference. Despite the fact that 78.86% of all respondents stated that general insecurity was the greatest challenge facing their business and that 97% said they would be willing to pay higher taxes in order to have a central government, those that felt they were paying higher rates under the ICU were significantly more favourable to political anarchy. Most notably, a one-level increase in ICU taxation levels made an individual 72% more inclined to prefer having no government at all. These results provide an important insight into how the business community might act as spoilers in civil war competition, and highlight the powerful role of tax aversion in determining political preferences in failed states.

Whether in the form or taxes, corruption, or extortion, every political alternative in Somalia will cost businesspeople money. Even those that prefer no government at all will have to finance their own militias to secure their assets and guarantee their transactions. Therefore, traders had to evaluate whether it was more cost effective to buy into their clan's warlord protection racket, support the Islamic Courts, or like the Adani family, shoulder the costs of security alone. The data suggest that higher costs of TFG protection rackets resulted in increased support for the ICU, while high ICU taxes prompted businesspeople to go it alone.

Neither *Islamic trust* nor *Support for Islamic Law* produced expected results with respect to explaining preference for the ICU.[420] In fact, those that felt most strongly that Islamic identity is a good measure of trustworthiness were actually *negatively* correlated with preference for the ICU. Businesspeople that felt most strongly about Islamic trust were actually 49% *less* likely to favour the ICU. Furthermore, there was also no statistically significant correlation between strong support for Islamic law and preference for the ICU. Respondents that felt strongly in favour of Islamic law as a way to regulate transactions between businesses were 36% less likely to support the TFG and 33% less likely to prefer no government at all. However, strong feelings about Islamic law did not correspond with any increased support for the ICU versus the TNG. Therefore, while there has been a long-term business-Islamist alliance, political Islamism does not clearly predict political preferences of the business community.

Moreover, Islamic education had no obvious impact on support for the ICU. Religious education did make one 43% less likely to support the TFG and 45% less likely to prefer no government at all; however, there is no indication from the survey results that religious training or strong religious sentiment explains why members of the business community might prefer the ICU. On the contrary, the data shows that respondents that had university level education were twice as likely to feel positively about the ICU, indicating that advanced secular education, rather than religious education, may be correlated with preference for

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[420] Several diagnostic tests were conducted to rule out problems of multicollinearity with all independent variables in the model.

the Islamic courts movement. Gender did not show statistical significance in any tests.

While Islamic identity failed to produce a clear causal explanation for political preference, clan identity offered even fewer insights. The variable *Clan trust* showed no statistical significance in political preference for either the TFG or the ICU, and clan favouritism was negatively correlated with preference for political anarchy. In fact, only the residual category, the TNG, attracted the support of those that felt positively about clan as a measure of social trust.[421] Given that the TNG governing structure formally divided power on the basis on clan identity, this result is expected. Despite this insight, the overall regression data shows no clear explanation of how clan trust affects *Political Preference*.

Size of business was also important in understanding political preferences; moving one level up on the tertile range for size of business made one 36% more likely to prefer the ICU and 24% less likely to want no government at all. Interviews with large business owners involved in the ICU movement revealed that elite businesspeople not only experienced the highest rates of extortion under warlord protection rackets, but they also had the most resources to try to change their situation. This suggests that future research needs to explore the possibility of a curvilinear relationship between income and political activism in civil war competition.

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[421] Notably, those that felt clan identity was a good measure of trust were 33% more likely to prefer the TNG to the ICU, despite the fact that both are considered to have roots in the business-Islamist alliance. Roland Marchal, "Islamic Political Dynamics After the Somali Civil War: Before and After September 11" Islamism and its Enemies in the Horn of Africa Ed. Alex De Waal (2004).

The most striking results of the multinomial logit analysis are the strong correlation between the taxation data and political preference. While the identity variables demonstrate interesting patterns, they do not produce a clear explanation of what drives the business community's interests and preferences. Just as important are the results for those individuals that preferred no government at all. These results suggest that when the costs of negotiating anarchy are less than the cost of paying formal government taxes, individuals have reason to go it alone. This observation has significant implications for developing realistic approaches to conflict resolution and post-conflict peace-building in collapsed states.

Conclusions:

The qualitative and quantitative data both indicate that Mogadishu business community's support for the ICU was driven by rational, economic interests. As the cost of financing warlord protection rackets increased, the business community began to collectively finance the creation of a political alternative. The Islamic courts had a demonstrated record of providing security without engaging in corruption, and therefore offered the business community a useful channel to express their political discontent. The fact that the courts relied on voluntary contributions from the business community, rather than upon any formal system of taxation or extraction, increased the political legitimacy and popularity of the courts among the tax-averse population.

Once the courts unified, the ICU became a power to be reckoned with in Somalia. The fact that the ICU drew support from multiple clan backgrounds gave them a comparative advantage over the warlords, who could only draw resources

from members of their own clans. While the ethnic security dilemma prevented the warlords from reaching out to members of other groups, the ICU was able to acquire support from members of the business community across clan lines. By widening the pool from which they could draw support, the courts were able to amass a strong military force that allowed them to effectively oust the most heavily entrenched warlords in Somalia.

As the ICU expanded its influence into the countryside, Al Shabaab absorbed the foot soldiers of clan-based factions across southern Somalia. Unlike encroachments by other armed groups in Somalia, the advent of Al Shabaab provided clan militias with the option of defection. Because Al Shabaab's identity was primarily religious, these militias could defect to the ICU without the fear of ethnic extermination. Once these foot soldiers switched sides, they were incorporated into the ranks of Al Shabaab and retrained to serve as Islamist fighters. Not only did this allow the ICU to develop a substantial army that could compete against the largest clan militias, but it also gave Al Shabaab a fundamentally clan-less political identity.

Nonetheless, once the ICU established its monopoly on the use of force in Mogadishu and beyond, the business community found that it could no longer dictate its will upon the new Islamic regime. Not only did Sheikh Sharif implement a series of unpopular laws and regulations that undermined the illicit economy, but the success of the ICU produced a number of inadvertent consequences that the business community had not prepared for. First, the ICU found itself indebted to its biggest business sponsors, who were then rewarded

with positions of political power. Because Adani had contributed so much to the courts, he expected a return on that investment. "When the ICU took over in June 2006, [we] wanted to quit the ICU," explained his executive. "We had spent a lot of money and we wanted to be refunded for these costs."[422] However, instead of quitting, Sheikh Sharif made an agreement with the Adani family, making Omar Adani's son Abukar the Secretary of Finance for the ICU. Ahmed Nur Jim'ale was also rewarded for his contribution to the ICU, with his brother assuming the Vice Secretary of Finance for the Islamic Courts.

Through his official position, Abukar Adani opened Mogadishu port and began to charge formal taxes on importers, which helped to finance the ICU but also allowed Adani to extract a percentage to recollect his investment. "We only charged fixed taxes from the seaport and the airport," explained the Adani executive. "Everyone paid the same."[423] However, this "fixed tax" proved to be deeply frustrating to some traders, who claimed that the ICU taxes were poorly conceived or unfairly applied. One beleaguered businessman exclaimed, "They charged you for the size of your crate, not the value of the product inside it!" One businessman who was among the minority of traders that didn't support the ICU argued that the courts' taxes were unfairly distributed and that the ICU government was less flexible than the reign of warlords: "If you cannot pay to the warlord, you can go to the clan elders or to another warlord to have the amount reduced. But for the ICU, there were two types of businesspeople: 1) those who gave a lot to the ICU voluntarily, and 2) those who benefitted from security but

[422] Interview with S13 (2009)
[423] Interview with S13 (2009)

were not with the ICU. For the latter, they had to pay 'forced voluntary' taxes. You could not refuse these and there was no recourse."[424]

Second, the anti-corruption measures that the ICU implemented actually created problems for the local economy. Specifically, the business community had insisted on the removal of checkpoints to facilitate their business along the road; however, a few businessmen argued that the ICU's success in clearing checkpoints unintentionally created adverse economic effects in the short-term. "It stopped the money flow," explained a Mogadishu trader who works in the bottled water business. "You see, the militiamen at the checkpoints were big spenders. So if they have no income, then they are not chewing qaat or buying from the market. Then the stores are not making money, so they buy less from the traders."[425] In their zeal to remove freelancers, the business community had failed to consider these secondary and tertiary impacts that purging checkpoints would cause.

However, despite these unexpected consequences, the majority of businesspeople insisted that the security provided by the ICU would have resulted in economic growth in the long-term. The businessman who had been extorted along the Afgooye corridor clearly thought that the ICU was a golden age for Somali business: "Overall, business increased by 10-15% under the ICU due to reduced prices and increased demand, not only in Jowhar and Baidoa but everywhere. We never saw this [the ICU contributions] as a cost. It was holy

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[424] Interview with S20 (November 1, 2009)
[425] Interview with S19 (November 2009)

money to pay."[426] Even the much shrewd businesswoman who could avoid the checkpoints felt that the ICU had promise: "[The ICU] was 'pay what you can'. They opened Mogadishu port, so I saved from what I used to pay for El Ma'an. There was increase in demand and the volume of goods. If the ICU stayed, we would have had expansion in business."[427]

The economic pressures of state failure drove the business community to sponsor the ICU, in order to create a cohesive state structure. At that time, only a small handful of foreign Islamists were in contact with the ICU leadership, none of whom held significant power or influence. In fact, Sheikh Sharif publicly invited the international community to visit Somalia, meet his government, and establish peaceful diplomatic relations with the new regime. However, the Islamic character of the ICU provoked fear and alarm among American policy makers, who feared that the courts could become Africa's Taliban. Only six months after the ICU took power, the US backed an Ethiopian invasion of Somalia, aimed at expelling the Islamic Courts and re-installing the TFG warlords. This foreign intervention inadvertently sparked a new Islamist insurgency, which has grown increasingly more extreme over the past five years in response to the prolonged presence of foreign forces.[428] The concluding chapter addresses the impact of this international intervention on state formation in the Muslim world.

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[426] Interview with S12 (November 2009)
[427] Interview with S15 (2009)
[428] Harry Verhoeven, "The Self-fulfilling Prophesy of Failed States." <u>Journal of East African Studies</u>. (2009), 405-425.

Table 1: Frequency Distributions for Identity and Trust Variables:

SURVEY QUESTION:	Q8: It is more costly and difficult to conduct business with members of other clans than it is to work with my own clan	Q9: A person within my clan is more likely to respect my property rights than a person from another clan	Q10: A good Muslim is more likely to respect my property rights than a person who doesn't follow their religion
1. STRONGLY AGREE	18.44%	16.65%	80.66%
2. AGREE	19.84	23.33	11.67
3. NEUTRAL	7.38	7.98	3.59
4. DISAGREE	28.51	30.91	2.89
5. STRONGLY DISAGREE	25.82	21.14	1.20

Table 2: Political Preference: Multinomial Logit Analysis

Independent Variables:	Dependent Variable: Risk Ratio Multinomial Logit Coefficient (Standard Error)		
	TFG	ICU	Prefer No Gov't
General Social Indicators:			
Male	1.065 .063 (.258)	.903 -.101(.194)	1.312 .272(210)
Size of Business	1.175 .161 (.167)	1.367** .313(.131)	.769* .261(.135)
High School	.415*** -.878(.331)	.601** -.507(.307)	.482*** -.727(.268)
University	.809 -.211(.537)	2.007* .696(.405)	.688 -.373(.456)
Religious Education	.576* -.550(.311)	1.096 -.091(.279)	.552** -.593(.251)
Identity and Ideology:			
Clan Trust	.675 -.392(.246)	.788 -.238(.195)	.683** -.380(.193)
Islam Trust	.845 -.167(.327)	.510**** -.671(.221)	1.564 .447(.304)
Like Islamic Law	.646* -.436(.241)	.850 -.161 (.191)	.681** -.383(.194)
Taxes:			
ICU Taxes	1.248* .222(.122)	.496**** -.700 (.110)	1.722**** .544(.111)
Warlord Taxes	.569**** -.562(.116)	1.325*** .281 (.101)	1.039 .038(.106)
Constant	.573(.718)	.659(597)	-2.848(.759)****

Cells contain risk ratios with standard error indicated in parentheses. Number of observations= 1003. *p<.10, ** p<.05, *** p<.01, **** p<.001. TNG as residual category.

Chapter 7: The Rational Islamist:
How Business and Islam Can Lead to Peace or Conflict

In its quest to understand how states that have failed can be reconstituted, this dissertation has concentrated on the power and influence of members of the local business community to affect social and political change. It argued that the rational, economic interests of the business community have played a key role in the construction of new institutions and social identities to reduce the high costs of doing business in a failed state. These interests and identities work together to set in motion a path dependent process of endogenous state formation.

The dissertation presented a two-part process of Islamic state formation out of collapse. First, the business community in failed states undertakes a long-term process of Islamic identity transformation, in order to reduce transaction costs and improve access to markets. Because failed states are low trust environments of an extreme form, the business community seeks out versatile sources of social capital that can mitigate uncertainty and facilitate contracts. In the Muslim world, Islam can provide a particularly robust form of social capital to meet these needs. These practical interests encourage the business community to adopt an Islamic social identity.

Second, the local business community continuously makes short-term strategic calculations about the costs of maintaining state failure. When the cost of doing business under warlord protection rackets outweighs the cost of financing a political alternative, the business community can make the joint decision to finance political change. That is, they can collectively act to reconstruct the monopoly on the use of force. Because Islamic movements have the capacity to

offer lower rates for protection than their ethnic and tribal political rivals, Islamists have a particular advantage in capitalizing on the collective interests of the local business community and subsequently capturing the state.

I have argued that together these two processes drive the process of Islamic state formation in failed states. Islamic identity formation creates the necessary conditions for an Islamic movement to succeed in capturing the state. Once this business-Islamist alliance is established, the relative rate of taxation causes the business community to finance an Islamic state-building project. With the collective support of the business community, an Islamist movement becomes able to capture and reconstruct the state, creating an Islamic leviathan.

This concluding chapter evaluates the evidence from the empirical chapters and assesses its theoretical and policy implications. It unfolds in five main parts. First, it reviews of the theoretical underpinnings of the dissertation. Second, it compares and contrasts the evidence from the empirical chapters on rise of the Taliban in Afghanistan and ICU in Somalia, and gleans insights from those cases.

Third, it explores the causes and consequences of the collapse of the Taliban and the ICU, and discusses why both of these states have once again failed. Fourth, it explores the theoretical implications of the dissertation for other cases, and offers an agenda for future research. Fifth, it concludes with implications for policy, including an assessment of how to diplomatically engage domestic Islamic movements towards the goals of domestic and international peace.

<u>Theory</u>

In the absence of the state, one of the most powerful forces in society is the market. In failed states, the free market shapes the interests and actions of the local business community, which can incentivize certain types of political behaviour. This dissertation argues that when the material interests of members of the business community align, their collective action has the ability to drive the very process of state reconstruction out of collapse. Islamic movements, more that other identity-based groups, are adept in capitalizing on the interests and grievances of the local business community.

For centuries before the construction of the modern state, Islamic identity, institutions, laws and norms have provided valuable social capital for businesspeople across the Muslim world. However, this dissertation has shown how Islamic social capital becomes increasingly important under conditions of modern state failure in the Muslims world. Islamic identity and institutions can provide businesspeople with a robust mechanism to guarantee transactions, reduce uncertainty, lower transaction costs, and build trust across deep social divisions. The business community's need for lower costs is what drives a business-Islamist alliance to develop in failed states.

The dissertation conceptualizes a failed state as a free market competition for political and military power. In a functioning state, only the government is able to legitimately use and protect against violence. However, a failed state is characterized by the absence of the monopoly on the legitimate use of force.

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When this monopoly collapses, there is an economic competition between sub-state groups over the ability to use and protect against violence.

When the state fails, individuals must purchase their protection from local security providers, or warlords, who have the power to offer protection services within their given territory. In these warlord protection rackets, a price is paid for protection against violence, often violence that would have been perpetrated by the warlord himself. The political competition between these protection rackets sets the price that individuals must pay to defend against other groups and to maintain the security architecture of the failed state.

Within this free market security environment, the business community has the unique power to affect political change. Unlike landowners or other elites whose resources may be tied to property or infrastructure, businesspeople often have liquid assets that can be easily converted into political influence. In some cases, a warlord may have access to natural resources or external funding that make him financially independent of his domestic constituency. However, when a warlord depends upon the financial support of the local business community to maintain his political power, a protection-taxation relationship is established between members of the business community and the warlord. In such cases, the business community, more than any other group, is able to negotiate this social contract between ruler and subject.

For the most part, individuals in failed states purchase protection from the security provider that best represents their ethnic or tribal constituency. However, because the security environment is subject to free market competition, warlords

must be careful not to over-extort or abuse their support base. If a protection racket overcharges for security provision, a businessperson has the option to withdraw support from that racket and invest in an alternative security provider. If a warlord fails to offer a competitive rate for protection, his supporters might take their business elsewhere. The business community's ability to switch sides therefore sets the price of protection at equilibrium: the rate must be high enough to maintain the warlord's political power, but low enough so as to not encourage defection.

In the Muslim world, political Islamic movements have an advantage in capitalizing on these interests within the business community. First, as mentioned, the business community in failed states often relies on Islamic social capital to reduce uncertainty and facilitate transactions. Second, because they espouse a broader identity framework than ethnic or tribal groups, Islamists can recruit from a wider base than their political rivals. By drawing from a larger pool of support, they are therefore able to charge lower margins than their more ethnic or tribal political rivals. While an ethnic faction may only be able to recruit support from its ethnic kin, an Islamist group could potentially draw resources from several different ethnic groups that share the same religious identity. By drawing support from a wider business base, the Islamists therefore have the potential to finance the creation of a monopoly on the use of force. They can recreate the state out of failure.

Evaluating Causes and Consequences:

The dissertation presented an empirical test of the business explanation of Islamic state formation using cases from two of the most enduring failed states in the world: Afghanistan and Somalia. First, it examined the emergence of the business-Islamist alliance in these failed states. Second, it evaluated the impact of relative rates of taxation on political preferences, in order to explain support for either warlord protection rackets or political Islamists. It found that the rational, economic interests of the local business community were of critical importance in helping certain Islamist groups gain political power and reconstruct central governing institutions. The evidence presented in this dissertation indicates that the collective support of the business community is a driving factor behind the creation of Islamic regimes.

The empirical chapters of the dissertation provide solid evidence that economic interests are of critical importance in understanding (a) the emergence of a business-Islamist alliance in failed states, and (b) the success of certain Islamic movements in failed states over other comparable groups.

Evidence of the Business-Islamist Alliance:

The within-case comparison of Afghanistan and Somalia provided clear evidence that state failure had a direct impact on the interests and identities of the local business community. Not only did state weakness and failure bolster the development of the informal economy, but it also encouraged the business community to adopt an Islamist identity, which led to the long-term development of a business-Islamist alliance.

In Afghanistan and Pakistan, the success of the informal and illicit economies was a by-product of the failure of the state. Pakistan's inability and unwillingness to impose direct taxes on its population made it necessary for the government to rely on indirect taxes, such as customs duties. The Pakistani government's weak enforcement capacity in collecting these indirect taxes created lucrative smuggling opportunities for cross-border traders in the Pakistan-Afghanistan border region. Afghanistan's abundant supply of opium-producing poppies also incentivized tribal populations in the border regions to participate in the narcotics trade. State weakness in Pakistan and Afghanistan made it impossible to crack down on these illicit activities, which expanded from the 1960s to throughout the Afghan civil war period. The inability of the Afghan and Pakistani states to control these illicit economic activities allowed these businesses to develop into a multi-billion dollar industry.

Because the government was absent from this business environment, the Pakistan-Afghanistan trading community relied on informal religious and cultural institutions to establish and facilitate business deals across ethnic and tribal lines. Islam, which had traditionally provided legitimacy to economic activities, became especially important to transit traders and smugglers who needed social capital to establish trust-based relationships, gain access to new markets, and legitimize participation in illicit business. The trade community's need to work across ethnic and tribal divisions made Islamic identity an important social lubricant, which was used to facilitate contracts and reduce uncertainty.

During the Soviet-Afghan War, this relationship between the business community and Islam became much more direct. The religious convictions of the Afghan populations augmented by Pakistani and Arab influence gave the anti-Soviet resistance an Islamist identity. In support of this jihad, Pakistan managed the American supply lines to the mujahideen through its unmonitored and mountainous border with Afghanistan. In this effort, the cross-border trade and smuggling community became an indispensible ally to both the mujahideen and the Pakistani intelligence community. Through this decade-long interaction between the mujahideen and the smuggling industry, the Pakistan-Afghanistan trading community also established an Islamist identity, which endured after the Soviet withdrawal.

The empirical evidence from Somalia also demonstrated how state weakness and failure made it possible for a business-Islamist alliance to form. Like Pakistan, throughout the post-colonial period the Somali government was unable to directly tax its population and relied instead on indirect forms of taxation. This created lucrative opportunities in customs duty evasion, which bolstered the size and strength of the informal economy at the expense of the state.

When the government collapsed in 1991, a new wave of Somali business elites emerged, who capitalized on the illicit business opportunities afforded by state failure. Financed by smuggling, looting, and the cooption of hundreds of millions of dollars in external aid money from the United Nations Operation in

Somalia (UNOSOM) mission, the emergent criminal business class in Mogadishu quickly established itself as a powerful economic actor.

However, after UNOSOM withdrew and international dollars dried up, the costs of clan warfare became a nuisance to members of the business community, who were frustrated by their inability to conduct business across clan lines. Clan divisions made it difficult to establish business partnerships across groups and rendered much of the countryside inaccessible. State failure also made it difficult to establish business relations with wealthy Gulf States, which Somalia had traditionally traded with.

Faced with these obstacles, members of the Mogadishu business community underwent an active and deliberate process of Islamic identity construction. They adopted outward symbols of Islamic adherence and dress, in an effort to mitigate the trust deficit between the clans. To legitimate their Islamic credentials, businesspeople invested in Islamic institutions and charities, which subsequently filled the roles traditionally played by the state. Driven by the need to do business across clan lines, over the course of a decade, the business community built a strong Islamic identity and deep relationships with local Islamic organizations. This identity transformation created a new Islamist corporate culture among the business elite of Mogadishu.

The empirical evidence from both Afghanistan and Somalia indicates that state weakness increased the power of the informal economy, but also created a need for social capital to facilitate economic interactions. In the absence of formal governing institutions, the business community turned to informal mechanisms to

mitigate uncertainty and increase access to markets. This need for social capital drove members of the business community to augment their Islamic identity over ethnic or tribal affiliations. This long-term identity construction within the business community subsequently led to the emergence of a business-Islamist alliance in these failed states.

Evidence of the Market Explanation of Islamic State Formation:

The case study evidence in the empirical chapters found that the rate of taxation charged by warlord protection rackets was of critical importance to the local business communities, and directly affected their decisions to finance the Taliban in Afghanistan and the Islamic Courts Union in Somalia, respectively. In both countries, members of the business community who sought lower rates of protection financed these Islamist movements.

In Afghanistan, the civil war had divided the countryside into a multitude of warlord fiefdoms, each of which extorted money from its local ethnic or tribal community in exchange for protection. For members of the Pakistan-Afghanistan trade community, these taxes were a direct impediment to business. Not only did warlords directly charge members of the business community for permission to travel through their territories, but they also allowed their militias to extort trucks along main trade routes. These taxes were then added to the price of goods sold in the market, subsequently reducing consumer demand.

Calculating these losses, cross-border traders grew frustrated with the system of warlords in Afghanistan, and began to seek out an alternative. From 1994 to 1996 members of the cross-border trade and smuggling community

collectively financed the rise of the Taliban movement, which quickly defeated other Pashtun and Islamist groups in the south and the east.

As the Taliban gained power, the warlords who were fighting over the spoils of Afghanistan quickly realized their common enemy. In hopes of checking the rising Taliban, these mujahideen commanders desperately banded together to form a loose coalition, calling themselves *Jabha-yi Muttahid-i Islami-yi Milli bara-yi Nijat-i Afghanistan*, or the United Islamic Front for the Salvation of Afghanistan. Despite this unification, the United Front failed to develop sufficient resources to challenge the Taliban's political power and was forced back to a small strip of territory in the far north of Afghanistan. By expelling the United Front warlords from the majority of the countryside, the Taliban established a relative monopoly on the use of force. Unchecked by any significant political rivals, the Taliban proceeded to institute one of the most radical and draconian systems of centralized government in the history of Afghanistan.

In Somalia, the rate of extortion by warlord protection rackets also directly affected the political interests of the Mogadishu business community, leading to the rise of a political Islamist regime. From the mid-1990s until 2006, the business community had purchased its protection from individual clan-based protection rackets, each led by a local strongman. Payment to these warlords was needed for safe passage through the respective strongman's territory. However, in the early 2000s, the number of freelance militias along the roads increased within these territories, directly extorting members of the business community along key transportation routes.

Consumed with the ongoing power negotiations in Nairobi, Kenya, the warlords who were responsible for these turfs were unable or unwilling to protect the business community from these freelancers. As businesspeople shouldered the increasing costs of this criminality, the amounts extorted at checkpoints were invariable added to the prices of goods in the market, thus collapsing demand in the market.

The business community's frustration with these payments compelled them to seek out an alternative political arrangement. From 2004 to 2006, the business community worked collectively to finance the unification of local clan-based Islamic courts. In 2006, 70% of the business community made the decision to withdraw its financial support from warlords and invest entirely in the Islamic Courts Union project.

Within six months, the warlords that had dominated Somalia for 15 years were militarily defeated and pushed out of their turfs. Territories that were long held by clan strongmen fell to the pan-clan Islamic movement, ushering in an unprecedented period of political centralization in the Somali civil war. Backed by the resources of the Mogadishu business community, the ICU emerged as the decisive victor in the political competition in Somalia, ending 15 years of continuous state collapse and centralizing political power in a new Islamic government.

Defeat of the Taliban and ICU Movements:

In both Afghanistan and Somalia, these domestic Islamic regimes ended in devastating ruin. The Taliban and ICU proved to be attractive to transnational

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terrorists, who sought to infiltrate and co-opt these new regimes. Inexperienced, underfunded, and diplomatically alienated from the international community, the Taliban and Islamic Courts were prime targets for the transnational terrorist network Al Qaeda, which sought to feed off their domestic hosts. By offering resources and support, Al Qaeda planned to imbed with the domestic Islamists and use their hosts to organize and coordinate their military activities. The goal of these transnational terrorists was to provoke a conflict between the international community and the host country.

In Afghanistan, Al Qaeda's infiltration of the Taliban leadership culminated in the devastating terrorist attacks of September 11th 2001, which left 2,996 Americans dead. The US responded by staging the longest war in American history, with a sustained military occupation of Afghanistan lasting well over a decade. In Somalia, Al Qaeda's initial, limited contact with the Islamic Courts was enough to provoke a pre-emptive US-backed Ethiopian invasion in 2007. In an unfortunately ironic self-fulfilling prophesy, the subsequent foreign occupation of Somalia initiated an unprecedented era of religious extremism across the countryside. In both cases, Al Qaeda successfully provoked an international military intervention that collapsed the state and subsequently increased the ideological radicalization of domestic Islamists.

The following sections address the collapse of the Taliban and the ICU regimes, the rise of radical transnational extremism, and the capacity of the international community to rebuild the state after the fall of these Islamist regimes.

The fall of the Taliban:

During the initial stages of their political development, the Taliban appear to have been enthusiastic about establishing good relations with the United States. In 1995, a Taliban official reached out to the US Embassy in Pakistan, calling the Americans "an important and unbiased friend."[429] In 1996, the Taliban invited the Americans to set up a Consulate in Kandahar to establish direct relations with the regime.[430] At other times the Taliban thanked the Americans for "the help that the US provided during the struggle against the Soviets."[431] However, the Taliban's inexperience in international relations kept them isolated. The Taliban leadership lacked both technocrats and diplomats, leading to domestic and international policy platforms that were both primitive and reckless. 24-year old Sayed Rahmatullah Hashemi was made an international envoy for the Taliban because he was one of the few dedicated Talibs with a command of the English language.

By 1998, the Taliban's refusal to extradite Osama bin Laden had defined the limited discourse between Washington and Kandahar. In 30 direct communications between the United States government and the Taliban leadership between 1996 and 2001, the Americans informed the Taliban leadership of bin Laden's role in international terrorism and demanded his

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[429] US Embassy (Islamabad) cable. "1995ISLAMA01792 Finally, a Talkative Talib: Origins and Membership of the Religious Students Movement." National Security Archive. February 20, 1995. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB97/tal8.pdf>

[430] US Embassy (Islamabad) cable. "1995ISLAMA01686 Meeting with the Taliban in Kandahar: More Questions than Answers." National Security Archive. February 15, 1995. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB97/tal7.pdf>

[431] US Department of State (Washington, DC) cable. "SECRET ISLAMABAD 008803 Osama bin Laden: Taliban Spokesperson seeks New Proposal for Resolving bin Laden Problem." National Security Archive. November 28, 1998. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Document%204%20-%20STATE%20220495.pdf>

extradition. The Americans presented a clear warning to the Taliban: "Because bin Laden had been in Afghanistan for so long and has committed so many terrorist acts, the US will hold the Taliban accountable if he commits any further acts."[432] In their public statements, Taliban officials consistently argued that bin Laden was a scapegoat or excuse, and that the international community was using him as an excuse to sanction or attack Afghanistan.[433] However the diplomatic cables suggest that the Taliban leaders repeatedly tried to distance themselves from bin Laden's terrorist activities and blatant anti-American rhetoric; yet, they refused to surrender bin Laden for extradition, and said they would do their best to control him.[434]

The diplomatic cables reveal that the Taliban supreme leadership council was divided over Al Qaeda's presence, with a majority favouring bin Laden's extradition. On September 13, 1998, Taliban official Abdul Hakim Mujahid stated that: "80% of Taliban officials oppose [bin Laden's presence]."[435] However, a council of ulema ultimately decided to allow bin Laden to stay in Afghanistan, with "his political activities curtailed."[436] Despite evidence that bin Laden was "out of control", in 1998 the Taliban leadership appeared unable or unwilling to

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[432] US Embassy (Islamabad) cable. "2000ISLAMA 00567 A/S Inderfurth and S/CT Sheehan Meet Taliban Representatives." [Excised] National Security Archive. February 1, 2000 <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Doc%2015.pdf>

[433] Sayyid Rahmatullah Hashemi, "The Invisible Afghanistan." Outlook India News. March 16, 2001. <http://www.outlookindia.com/article.aspx?211088>

[434] US Embassy (Islamabad) cable. "1998ISLAMA09488 Usama Bin Ladin: Charge Underscores U.S. Concerns on Interviews; Taliban Envoy Says Bin Ladin Hoodwinked Them and it Will Not Happen Again." National Security Archive. December 30, 1998. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Doc%2014.pdf>

[435] US Embassy (Islamabad) cable. "1998ISLAMA06863 Demarche to Taliban on New bin Laden Threat." National Security Archive. September 14, 1998. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Doc%206.pdf>

[436] US Department of State (Washington) cable. "1998STATE177309 Afghanistan: Taliban Convene Ulema, Iran and Bin Ladin on the Agenda." National Security Archive. September 25, 1998, 4. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB97/tal26.pdf>

cooperate on the issue of extradition.[437] When pressed, Mujahid was evasive and apologetic, saying: "The Taliban have 'shortcomings' and the world should not expect too much from them."[438]

In his memoirs, Mullah Zaeef discusses his lengthy and futile negotiations with US officials about bin Laden's extraditions, particularly his proposals to Ambassador William Milam. "I held four meetings with the US ambassador over the issue of Osama bin Laden, each without result. Even though we had both tried to improve the relationship between our countries, and had a good personal rapport, nothing came of these encounters as neither of us had the power to take decisions. Other people were responsible for authorising all of our meetings as well as our decisions and answers, all of which were negative."[439]

In a lengthy but cryptic discussion, the Taliban's Foreign Minister Mullah Wakil Ahmed Mutawakkil insinuated to the then-Deputy Chief of Mission to the US Embassy in Pakistan Alan W. Eastham Jr. that an internal political issue was preventing the Taliban from cooperating on the bin Laden extradition: "Wakil then asked rhetorically why, in light of the above, the Taliban still did not expel bin Laden. He said it should be obvious that there was an internal obstacle to doing so, since the easiest way to proceed would be to respect international laws

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[437] US Embassy (Islamabad) cable. "1998ISLAMA09488 Usama Bin Ladin: Charge Underscores U.S. Concerns on Interviews; Taliban Envoy Says Bin Ladin Hoodwinked Them and it Will Not Happen Again." National Security Archive. December 30, 1998. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Doc%2014.pdf>

[438] US Embassy (Islamabad) cable. "1998ISLAMA06863 Demarche to Taliban on New bin Laden Threat." National Security Archive. September 14, 1998, 2. <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Doc%206.pdf>

[439] Abdul Saleem Zaeef, My Life with the Taliban (2010), 138

and norms."[440] Mutawakkil argued that if the Taliban simply handed over bin Laden the regime would be destroyed. Yet, to date, neither the diplomatic cables, the Taliban's public statements, nor my interviews with Taliban members and supporters reveal a coherent explanation about the specific internal factors that prevented the Taliban from relinquishing bin Laden, both before and after the September 11th attacks.

When Mutawakkil learned of Al Qaeda's plan to attack the United States in July 2001, he immediately visited the US consulate in Peshawar and the United Nations in an attempt to warn the United States.[441] These warnings were unfortunately unheeded in time to prevent the devastating attacks. Al Qaeda not only succeeded in murdering nearly 3,000 innocent Americans on September 11th, but less than one month later, bin Laden had also successfully lured the United States into a decade-long, multi-billion dollar military quagmire.

Shortly after the September 11th 2001 terrorist attacks, a US-led coalition overthrew the Taliban regime, which was charged with providing a safe haven for the Al Qaeda terrorist network. On October 7, 2001, the United States and its allies launched Operation Enduring Freedom, aimed at dislodging the Taliban and creating a new interim government in Afghanistan. However, rather than staging a large ground invasion to overthrow the Taliban, the Americans provided weapons, cash, and aerial support to the United Front commanders who were expelled in

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[440] US Department of State (Washington, DC) cable. "SECRET STATE 220495 Osama bin Laden: Taliban Spokesperson seeks New Proposal for Resolving bin Laden Problem." National Security Archive. November 28, 1998, 4.
<http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB134/Document%204%20-%20STATE%20220495.pdf>
[441] Kate Clark, "Taleban 'warned US of huge attack'." BBC News September 7, 2002.
<http://news.bbc.co.uk/2/hi/south_asia/2242594.stm>

1996. Armed with these resources, the United Front proceeded to force out the Taliban and re-establish the warlord fiefdoms of the civil war period. The political process not only re-installed the United Front warlords, but it also provided political legitimacy to their military power. The subsequent Afghan interim government was overwhelmingly comprised of the powerbrokers and strongmen of the United Front, many whom continue to have considerable political influence at the time of writing.

When Mullah Omar received the news that the Americans were coming, the Taliban leadership quickly pulled back from the cities and shifted their focus to waging a guerrilla-style insurgency aimed at draining and disrupting the American coalition forces and the Afghan interim government. The US-led occupation of Afghanistan was interpreted by the Taliban leadership as an American endorsement and approval of the United Front commanders, the majority of whom had a long history of corruption and human rights abuses. The Taliban framed the foreign presence in Afghanistan as a systematic assault on the principles of Islamic government and an endorsement of the violent rule of warlords, in order to legitimate their call to jihad.

One consequence of the war was that it conflated the Taliban and Al Qaeda. Policy-makers often incorrectly treated each group as if it were part of a single ideological and organizational unit, in spite of the fact that most Taliban leaders were adamant about making a distinction between the Taliban and bin Laden's group. Upon his release from Guantanamo Bay, Mullah Zaeef declared,

"I was a Talib, I am a Talib, and I will always be a Talib, but I have never been part of Al Qaeda!"[442]

However, by treating the Taliban as if it were synonymous with Al Qaeda, especially during the initial years of the US-led war, Al Qaeda dominated the information operations within the movement's ranks. The number of insurgents espousing transnational extremism in the mountainous Pakistan-Afghanistan border region has increased exponentially over the course of the war. The ideological orientation of many Taliban members shifted from a traditionalist Deobandi religious conservatism to the Arab-style Salafi extremism that characterizes Al Qaeda. This is a significant distinction, as Salafi Islam is foreign to the Pashtun border region. Moreover, the region has experienced a rise in the number and power of *Takfiri,* or "excommunication" groups, which target other Muslims by labelling them "apostates" and thus making them targets for murder. The ideological shift of certain parts of the Taliban insurgency to a more extremist Salafi and Takfiri orientation is evident from the evolution of both the content and publication methods of their jihadi media operations over the course of the past ten years.

Over ten years later, the international community is seeking an exit from Afghanistan and a negotiated political resolution with the Taliban leadership is now actively being pursued. However, this push for a political settlement comes at a time when the level of ideological radicalization in the border region is significantly higher than in previous years, with an unprecedented number of Takfiri groups active in the tribal areas. Furthermore, the Taliban leadership no

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[442] Abdul Saleem Zaeef, <u>My Life with the Taliban </u>(2010) xxxviii

longer appears to have the ability to fully control those militants that claim to be Taliban fighters, some of whom have blatantly violated direct orders from Mullah Omar himself. The Taliban brand is therefore widely used, but the original leadership no longer has the ability to reign in all who have adopted the label. This proliferation in possible spoiler groups makes it even more difficult for a negotiated settlement with the Taliban leadership to produce durable peace.[443]

Furthermore, even if a political settlement could be reached with the Taliban, the greatest source of insecurity in Afghanistan today actually comes from the former United Front warlords who have established themselves as power-brokers in Afghanistan and benefitted from lucrative opportunities in corruption, extortion, and the drug trade. The Afghan government is not only unable to prevent these excesses, but it is actually comprised of some of the worst perpetrators of these offenses. Although the military intervention has proven capable of preventing a full-scale Taliban take-over, there is little evidence that the international community can successfully construct a new monopoly on the use of force to take its place.

The Collapse of the Islamic Courts:

The fall of the Islamic Courts Union in Somalia happened very quickly after its initial rise to power. The success of the ICU not only fuelled hostilities with the deposed warlords, but also stoked American fears that the new Islamists would provide a safe haven to Al Qaeda. The Taliban experience weighed heavily on the perceptions of policy-makers, whose interpretations of the ICU as a

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[443] David E. Cunningham, Barriers to Peace in Civil War. (Cambridge: Cambridge University Press, 2011).

terrorist organization were encouraged by the Courts' political opponents in Somalia and neighbouring Ethiopia.

Threatened by the rise of the Islamists, a number of powerful Mogadishu-based warlords formed a loose coalition called the Alliance for the Restoration of Peace and Counter-Terrorism (ARPCT), which immediately received covert financial support from Washington. In early 2006, a report from The Guardian states, "the Bush administration bankrolled the warlords, who are secular, to gain access to al-Qaida suspects and block the rise of the Islamic militia. CIA operatives based in Nairobi funnelled $100,000 to $150,000 (£80,000) a month to their proxies, according to John Prendergast, an International Crisis Group expert on Somalia who has interviewed warlords. 'This was counter-terrorism on the cheap. This is a backwater place that nobody really wants to get involved in, so [they] thought, let's just do this and maybe we'll get lucky.'"[444]

With very few Somalia experts in the world to call upon, the primary concern among American policy-makers was that the new ICU movement would, like the Taliban, become co-opted by transnational terrorists. Then-US President George W. Bush commented on the rise of the ICU, saying: "The first concern, of course, would be to make sure that Somalia does not become an al-Qaeda safe haven, it doesn't become a place from which terrorists can plot and plan."[445]

When asked about the American government's response to the Islamic Courts in June 2006, Sean McCormack, the US State Department spokesman said,

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[444] Xan Rice, Oliver Burkeman and Rory Carroll. "Fall of Mogadishu leaves US policy in ruins." The Guardian. 9 June 2006. <http://www.guardian.co.uk/world/2006/jun/10/rorycarroll.oliverburkeman>
[445] "Somalia unrest worries Bush." Al Jazeera News. 3 June 2006. <http://www.aljazeera.com/archive/2006/06/20084912547561773.html>

"We certainly want to work with people in Somalia who are interested in combating terrorism. The presence of foreign terrorists in Somalia is a destabilising fact."[446] Secret diplomatic cables from the US Embassy in Addis Ababa indicate that Ethiopia presented Somalia as a clear threat for rising Islamism. Ethiopian Prime Minister Meles "called the rise of extremism in Somalia the greatest long-term security threat facing the region" and said that Somalia's "ports were the focal point for organized crime and links with Al Qaeda."[447]

Specific individuals involved with the ICU stoked these fears. Sheikh Hassan Dahir Aweys was a key leader developing in the ICU project and shared authority with Sheikh Ahmed Sheikh Sharif. Although Aweys did not assume a public role, his influence in the ICU leadership was notable. Aweys was previously a member of the now-defunct Al-Ittihad group, which is suspected of having links to Al Qaeda in the 1990s. Although the group formally dissolved before the rise of the ICU, many of the supporters of the courts had a history of involvement with Al-Ittihad. In 2001, Aweys was added to the US State Department terrorist suspects list for his involvement in Al-Ittihad's operations in the Horn of Africa.

Furthermore, the ICU also instituted a draconian form of Sharia law, which appeared reminiscent of the Taliban movement. The bans on soccer, cinema and cigarettes were unpopular with Somalis, who were unaccustomed to

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[446] Ibid.
[447] US Embassy (Addis Ababa) cable. "05ADDISABABA3984 Ethiopia: PM Meles Welcomes USG Engagement on Somalia, Calls it Greatest Long-term Security Threat." Wikileaks. November 11, 2005 <http://wikileaks.cabledrum.net/cable/2005/11/05ADDISABABA3984.html>

such restrictions. Furthermore, the imposition of harsh sentences, including amputations and capital punishment for egregious crimes, was alarming to Somalis and international observers alike.[448] A string of unexplained and shadowy assassination plots against foreign workers, journalists, and TFG officials from 2003 to 2006 fuelled suspicions that the ICU was dangerous and extremist.[449]

Despite these legitimate concerns, the evidence associating the ICU and Al Qaeda is significantly less robust than in the Afghanistan case. In 2006, the number of foreign extremists in Somalia was limited to a small handful, with little political influence.[450] Although Al Qaeda sought to infiltrate Somali Islamist organizations, transnational terrorists consistently found the country to be hostile to foreigners.[451] Throughout the civil war period, Somalis proved to be inhospitable to transnational jihadi movements and uninterested in extremist versions of Islamism.

The ICU also made clear that it sought peaceful relations with the international community. In a letter addressed to the United States, the United Nations, African Union, League of Arab Nations, Organization of Islamic Countries *(sic)*, and several countries, the ICU leadership insisted that it had no transnational terrorist objectives and that it sought peaceful relations with the

[448] "Profile: Somalia's Islamic Courts." BBC News. 6 June, 2006. 10 May 2012. <http://news.bbc.co.uk/2/hi/5051588.stm>
[449] Kenneth Menkhaus, "Somalia and Somaliland." Battling Terrorism in the Horn of Africa. Ed. Robert Rotberg (2005), 38-44.
[450] Matt Bryden interview in *Devil's Bargain* Bishari Films (2007)
[451] For a discussion on the successes and failures of Al Qaeda in Somalia in the pre-ICU period, see: Kenneth Menkhaus, "Somalia and Somaliland." Battling Terrorism in the Horn of Africa. Ed. Robert Rotberg (2005), 38-44.

international community.[452] "We categorically deny and reject any accusation that we are harbouring any terrorists or supporters of terrorism in the areas where the courts operate," it stated. "We share no objectives, goals or methods with groups that sponsor or support terrorism."[453] The statement then specifically invited the international community to engage with the ICU on the specific issue of terrorism, saying: "We invite the International Community to visit the area where the court operates and see for themselves if there are any terrorists elements being harbored or living in this area. We commit ourselves and our clan elders to this position: to be open and honest in order to spare the Somali people the violence and the suffering being perpetrated by the warlords. *We have nothing to hide from the international community and we strongly believe that, once they realize what we do and what we have achieved, they will support our initiative and efforts to bring peace and stability to Somalia.*"[454] Sheikh Sharif then sent an invitation to the international media, saying, "It is my pleasure to invite you to come to Mogadishu and see it yourself what we have achieved."[455]

Despite these overtures, the international community opted not to engage the ICU in direct diplomacy. Manipulation by the ARPCT warlords and misinformation by security analysts affected international perceptions of the Islamists. The deposed warlords and their supporters were quick to label the ICU

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[452] "The Union of Islamic Courts in Somalia breaks the silence." (Press Release) Hiiraan News. 6 June, 2006. <http://www.hiiraan.com/news/2006/jun/somali_news6_7.aspx> and Rory Carroll, "Mogadishu's new rulers reassure west." The Guardian. June 14, 2006. <http://www.guardian.co.uk/world/2006/jun/14/rorycarroll>
[453] "Somali Islamists deny terror role." BBC News. 7 June, 2006. <http://news.bbc.co.uk/2/hi/africa/5057012.stm>
[454] "The Union of Islamic Courts in Somalia breaks the silence." (Press Release), Hiiraan News June 6, 2006. Emphasis in original
[455] Rory Carroll, "Mogadishu's new rulers reassure west." The Guardian. June 14, 2006.

a terrorist organization, which allowed them to appeal to the US for more financial support. Some professional analysts fuelled these allegations. For example, the 2006 UN Monitoring Group team produced a report that claimed that the ICU was receiving funds from Iran and had sent over 700 Somali fighters to Lebanon to fight against Israel.[456] These allegations eventually proved baseless, but the message of the report resonated in Washington and helped justify the military intervention that overthrew the ICU.[457]

In an unfortunate irony, this military operation inadvertently caused the mobilization and radicalization of a large segment of the domestic population, which subsequently increased the strength and influence of Al Qaeda in Somalia. Suicide bombings, which were previously unheard of in Somalia, became a common occurrence.[458] The recruitment of young men from the Somali Diaspora swelled the ranks of Al-Shabaab and gave the insurgency an international character. As Ethiopia scaled down its military occupation, African Union troops assumed their peacekeeping responsibilities in Mogadishu. In response, Al-Shabaab announced that it would target those countries sending AU troops into Somalia. In July 11, 2010, Al-Shabaab staged a brutal suicide bombing attack in Kampala, Uganda, which killed 74 people and injured dozens more.

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[456] Robert F. Worth, "U.N. Says Somalis Helped Hezbollah Fighters." New York Times. 15 November 2006. <http://www.nytimes.com/2006/11/15/world/middleeast/15nations.html>
[457] This 2006 report was produced by the UN Monitoring Group team led by Bruno Schiemsky and Mel Holt. Since 2008, the UN Monitoring Group has been directed by Matt Bryden, who has travelled extensively across Somalia, speaks Somali, and is a reputed expert on Somali culture.
[458] Somalia's first known suicide bombing occurred in September 2006 in Baidoa, targeting then-TFG President Abdullahi Yusuf. See: "Somali leader escapes attack." International Herald Tribune. 18 September, 2006. <http://www.nytimes.com/2006/09/18/world/africa/18iht-capital.2851800.html>

The radicalization of Al-Shabaab emerged as a response to the foreign occupation of Somalia, and bolstered the transnational identity of the Islamists. Over time, this shift to internationalism created a rift within the Al-Shabaab leadership, specifically between two former leaders of the ICU movement. Sheikh Mukhtar Abu al-Zubeyr, AKA Ahmed Abdi Godane, leads the camp of internationally-focused Islamists, which openly pledged allegiance to Al Qaeda. However, by April 2012, Sheikh Aweys openly criticized and warned Godane for attacks on civilians.

Christopher Anzalone, an expert on insurgent media operations explains, "I think that there are fissures within the leadership, which Hassan Dahir Aweys' public critique in late March represent. The question that remains open is whether other Al-Shabab leaders, senior or regional, will join Aweys in making public criticisms of Godane and the 'transnationalists.'"[459] However, as the international military operations in Somalia expanded, so too did the strength of Godane's transnational camp. On February 9, 2012, Al-Shabaab formally announced its official affiliation with Al Qaeda Central at an event in Lower Shabelle.[460] Anzalone argues that this affiliation does not necessarily represent a merger: "Al-Shabab is most accurately seen as a type of "glocal" militant movement, a mainly localized militant movement that uses transnational rhetoric and maintains an operational capability to carry out attacks outside of its home base inside Somalia,

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[459] Interview with Chris Anzalone, June 14, 2012.
[460] Chris Anzalone, "In Pictures: Somalia's Harakat Al-Shabab Host Celebrations across Lower Shabelle for Formalization of Affiliation with Al-Qaida Central." Views from the Occident. February 13, 2012. <http://occident.blogspot.com/2012/02/abd-al-qadir-mumin-somali-insurgent.html>

primarily but not necessarily limited to regional countries in East Africa."[461] Nonetheless, it was the presence of foreign forces, particularly Ethiopian troops, inside Somalia has increased the legitimacy of Al-Shabaab's transnational military operations.

In both Afghanistan and Somalia, the consequences of the international interventions have been significant. The interventions re-installed the warlords and militias of the civil war era and gave international legitimacy to their political authority. However, providing these strongmen with official titles and foreign resources has not eliminated their predatory behaviour against civilians. Instead, by financing these sub-state actors, the international community has further decentralized political power and increased the capacity for intra-state violence.

Furthermore, in both cases the military operations that overthrew the domestic Islamic regime helped to frame the conflict as an international confrontation with political Islam. This framing amplified the ideological and political influence of Al Qaeda, radicalizing the domestic insurgency and increasing support for transnational terrorism. Ironically, these operations inadvertently fostered the spread of those exact radical ideologies that the interventions had originally intended to combat.

Finally, in both Afghanistan and Somalia, the international community's military operations were able to defeat the Islamist regime, but not necessarily reconstruct the state or establish a new monopoly on the use of force. This has

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[461] Chris Anzalone, "The Formalizing of an Affiliation: Somalia's Harakat Al-Shabab Al-Mujahideen and Al Qa'ida Central." <u>Al-Wasat</u>. February 10, 2012. <http://thewasat.wordpress.com/2012/02/10/the-formalizing-of-an-affiliation-somalias-harakat-al-shabab-al-mujahideen-al-qaida-central/>

resulted in a return to a state to civil war. International interventions in these cases have thus shown that states are easy to break, but hard to make.

Easy to Break but Hard to Make:

This dissertation has demonstrated that state-building in failed states is an endogenous process, rooted in domestic social and economic conditions, which cannot be imposed from the outside-in or the top-down. In fact, large-scale international state-building initiatives may actually have unintended state-destroying effects.[462] It is not only unrealistic to externally construct and finance statehood for failing states, but the attempt to do so may inadvertently undermine the endogenous economic processes of political order-making that occurs naturally within failed states, increase predatory violence, and prolong civil war.

The international interventions in Afghanistan and Somalia successfully broke the monopoly on the use of force held by the Taliban and ICU, respectively. However, in each case these interventions have yet to successfully construct a new central government that has a comparable degree of centralized political power as the fallen Islamist regimes. Nonetheless, a possible critique of the theory presented in this dissertation is that the fall of the Taliban and ICU indicates that they cannot be considered examples of state formation. If the Taliban and Islamic Courts actually centralized political power, then why did they collapse so quickly?

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[462] See Walter Clarke and Jeffrey Herbst (eds.) <u>Learning from Somalia: The Lessons of Armed Humanitarian Intervention</u> Boulder: Westview Press, 1997; Peter Andreas, <u>Blue Helmets and Black Markets: The Business of Survival in the Seige of Sarajevo</u> (2008); and Aisha Ahmad, "Agenda for Peace or Budget for War?" <u>International Journal</u> (2012).

While this question is understandable, such criticism is unfair for three key reasons. First, in both Afghanistan and Somalia, the Islamists inherited historically weak states that had been devastated by civil war. Second, in both cases, the Islamists deliberately shifted their military strategy from governance to guerrilla warfare, and did not seek to hold territory. And third, the power asymmetry between the domestic Islamists and the US military was so great that it is unreasonable and unrealistic to expect that the Islamist regimes could have effectively deterred the US in a military confrontation.

Before the rise of either the Taliban or ICU, both Afghanistan and Somalia had endured over a decade of continuous and devastating civil war, which shattered central governing institutions and eroded the national identity of the population. Entire generations were raised in refugee and IDP camps, never having experienced peace. Young people grew up with no meaningful education about the history, politics, culture, religion and traditions of their own peoples, fuelling radicalism and gun culture. The youth and elderly alike have untreated post-traumatic stress disorder.

Not all successful Islamist regimes inherit equally strong states. In the Islamic Revolution of Iran, the Islamists captured a strong state, with a coherent national identity, a large number of educated technocrats, a powerful modern army, and functioning central government institutions. In contrast, the Islamists in Afghanistan and Somalia inherited states that were war-torn, bankrupt, socially fragmented, and extremely poor. Both ranked among the lowest in the world on multiple indicators on the Human Development Index. The Taliban and ICU

captured states that were bereft of functioning central governing institutions, a large educated workforce, professional armed forces, and advanced weapons technology. Neither group had any real experience with the governance, diplomacy, or international relations.

The success of American military intervention in overthrowing these Islamist regimes is therefore unsurprising. The asymmetry between American airpower and these Islamist groups is so skewed that there was simply no possibility of the Islamists success in a direct confrontation. Furthermore, in both cases the US had access to a local ally, the United Front in Afghanistan and the ARPCT in Somalia, to perpetuate the ground war. Understanding this, the Islamists in both countries adapted their military strategies, shifting from governance to guerrilla tactics designed to drain the international intervention. The goal of these insurgencies is not to win or hold territory, but to bleed and frustrate their opponents until they deemed their efforts futile and withdrew. In Afghanistan, the Taliban policy has been to wait out the Americans, and then mobilize again after withdrawal. In Somalia, by late December 2006, the ICU forces had already shifted to a guerrilla-style insurgency. Faced with encroaching AU forces, Al-Shabaab has also adopted this strategy, pulling back from key cities and devoting their resources to stage guerrilla and suicide attacks deep inside TFG territory. The interventions in Afghanistan and Somalia may have successfully dismantled the Islamic regimes, but they have simultaneously inadvertently mobilized and empowered more radical Islamic insurgencies.

This evidence suggests that an international military intervention may be strong enough to break a monopoly on the use of force, but not sufficiently powerful to recreate a new one. Neither the post-Taliban or post-ICU governments have succeeded in centralizing political power. The Afghan and Somali experience reveal that while intervention might be successful at destroying states, it is less effective at building states once they have collapsed.

International state-building projects are immensely costly and complex. Foreign aid makes it possible for the state to exist, but it fails to produce a monopoly on the use of force. In fact, external resources create economic incentives for sub-state actors to engage in spoiler behaviour, perpetuating dependence and failure. Once these foreign resources are infused into the informal economy, the strategic interests of both warlords and businesspeople shift to capitalize on the new opportunities afforded by the intervention.[463] The cash influx from international interventions therefore changes the political preferences and behaviour of the business community, creating lucrative new opportunities in corruption and other state-destroying activities.[464] International efforts to create the state therefore often produce unintended but powerful effects, particularly by increasing the incentives to engage in corruption and spoiler behaviour.

In both the Afghan and Somali experience, the international state-building projects have created weak central governments that are dependent on foreign resources and controlled by a loose coalition of sub-state armed groups. The presence of these foreign resources has encouraged enormous political and

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[463] Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal. (2012)
[464] Peter Andreas Blue Helmets and Black Markets. (2008)

economic corruption in both the Afghan government and the Somali Transitional Federal Government. The 2012 UN Monitoring Group report alleges that, "the real scale of corruption is probably even higher, since millions or dollars of revenue go unrecorded. In other words, out of every US$10 received by the TFG in 2009-10, US$7 never made it into state coffers."[465] In Afghanistan, government corruption is so extensive that it is taken as a given. Roland Paris commented on the 2012 international donors' conference in Tokyo saying, "there is virtually no chance that the Afghan government will tackle corruption – and everyone knows it."[466] New York Times foreign correspondents Matthew Rosenberg and Graham Bowley made an equally scathing assessment of graft in Afghanistan: "the United States is leaving behind a problem it underwrote over the past decade with tens of billions of dollars of aid and logistical support: a narrow business and political elite defined by its corruption, and despised by most Afghans for it."[467]

Not only is corruption extensive, but political and military power in Afghanistan and Somalia also remains decentralized along ethnic or tribal lines. Backed by billions of dollars of foreign aid, these states are just strong enough to prevent an Islamist victory, but incapable of defeating the Islamist insurgency outright. They are also unable to centralize political power and reign in the power of ethnic and tribal strongmen. In sum, in both Afghanistan and Somalia,

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[465] UN Monitoring Group Letter dated 27 June 2012 from the members of the Monitoring Group on Somalia and Eritrea addressed to the Chairman of the Security Council Committee pursuant to resolutions 751 (1992) and 1907 (2009) concerning Somalia and Eritrea.

[466] Roland Paris "Is corruption the cost of saving Afghanistan?" Globe and Mail. July 11, 2012. http://www.theglobeandmail.com/commentary/is-corruption-the-cost-of-saving-afghanistan/article4403844/

[467] Matthew Rosenberg and Graham Bowley "Intractable Afghan graft hampering US strategy" New York Times. March 7, 2012. http://www.nytimes.com/2012/03/08/world/asia/corruption-remains-intractable-in-afghanistan-under-karzai-government.html?pagewanted=all

international intervention has created the optimal conditions for enduring state failure.

Implications for Future Research:

This model provides theoretical insights that can help answer broader questions about both state formation and political Islam. First, the dissertation provided an economic explanation of Islamism, with a particular focus on the relationship between the local business community and political Islam. This explanation of the business-Islamist alliance can help to explain the rise of political Islam in both weak and strong states across the Muslim world.

Second, the dissertation explains how economies work under conditions of state failure. It demonstrates how the material interests of economic elites in failed states are directly related to an endogenous process of order-making. The dissertation offers testable hypotheses on the role of formal and informal taxes in the state formation process in other parts of the developing world. The dissertation concludes by exploring the potential relevance of both of these theoretical contributions to other cases, and proposes an agenda for future research.

Business-Islamist Relationship:

The relationship between business and Islam has existed for hundreds of years before the formation of the modern state. This relationship continues to have relevance for the rise and success of modern political Islam. This dissertation has shown that support for political Islam often stems from rational, material interests. Interests, rather than ideology, drive the local business community to align with Islamists. This hypothesis can help to improve understanding of other cases in the

Muslim world where Islamic groups, movements, or parties have gained political influence and power.

The literature on Iranian Revolution provides a foundation for this argument. The relationship between the bazaar and ulema, which developed over the course of several decades, played an important role in the success of the Islamic Revolution in 1979. Afghanistan and Somalia also witnessed the local business community's strategic adoption of Islam, which culminated in their support for Islamic movements. However, business interests can also help to explain the success of political Islam in other parts of the Muslim world, including in less extreme cases.

After the 2011 Tunisian Revolution that ousted President Zine al-Abidine Ben Ali from power, the population voted in an historic election that brought to power the previously-banned Ennahda Movement, a politically moderate Islamist party with a long history of opposition to the Ben Ali regime. Originally founded in 1981, Ennahda drew its political inspiration from Egypt's Muslim Brotherhood and espoused a number of staunchly conservative political and social positions. When the Ennahda party won the Parliament in 2011, some analysts feared that the Tunisian Revolution was in fact an Islamist takeover.[468]

However, it was economic interests above ideological issues that defined the 2011 election results. Unlike its left-leaning political rivals, Ennahda was elected on a conservative, pro-business economic platform. Economic liberalism, not Islamism, made Ennahda popular among voters. Ennahda won 89 seats in the

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[468] "Now is the Time: In Egypt and Tunisia women are both hopeful and fearful of what the Arab revolutions might mean for them." The Economist 15 October, 2011.
<http://www.economist.com/node/21532256>

Parliament; in second place, the secular leftist Congress for the Republic party (CRP) received only 26 seats. The Tunisian business class was a key source of support for Ennahda, which explains why the party has established a strong liberal economic platform. "A lot of their backers are from the merchant class who are keen on the idea of a liberal economic policy and they don't have serious plans to change the economic policy of previous governments," explained a Western diplomat based in Tunis.[469]

With this newly acquired political power, Ennahda quickly announced that it would not implement any religious reforms that might compromise the economic future of the country.[470] The party was particularly clear that they would not institute any policies that might undermine European tourism, upon which the Tunisian economy heavily relied. "The tourism sector is among the achievements which we cannot touch," said Ennahda secretary general Hamadi Jbeli. "Is it logical to handicap a strategic sector like tourism by forbidding wine or wearing bathing costumes?"[471]

Understanding that it was unemployment, not religion, that had inspired the Revolution, the Ennahda leadership reiterated that the focus of the new government would remain resolving the economic crisis. Although the party declared Islam to be the official state religion, it backed away from any

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[469] Andrew Hammond, "Tunisia's Ennahda likely to back open economy" Reuters News Agency. October 27, 2011 http://uk.reuters.com/article/2011/10/27/uk-tunisia-economy-idUKLNE79Q01220111027
[470] Ibid.
[471] Christian Lowe and Tarek Amara. "Tunisia Islamists: No dress code for foreign tourists." Reuters News Agency. October 26, 2011. <http://www.reuters.com/article/2011/10/26/us-tunisia-vote-tourism-idUSTRE79P3YU20111026>

suggestion that Sharia would be used as the constitution.[472] Three days after the historic election, Rachid Ghannouchi, co-founder of the Ennahda party, met with leaders of the Tunisian stock exchange to emphasize that the new government would remain "business-friendly".[473]

Turkey is also an important example of how business interests can align with Islam. The Turkish business class is a major source of support of the centre-right Justice and Development Party (JDP), which has a moderate Islamic political identity. With the support of Turkey's new business elite based in Central Anatolia, the JDP was elected in 2002 and has held power for over ten years.

The "Anatolian Tigers" emerged in Turkey's most traditional religious and cultural region, home to Sufi shrines and Dervish orders. With the export-oriented economic policies of the 1980s and 1990s, the small and medium enterprises in this region developed into multi-million dollar industries.[474] Espousing both an Islamic and capitalist political identity, the Anatolian Tigers became strong supporters of the JDP.[475] The JDP's liberal economic values were successful in reducing inflation and fostering growth, increasing the party's domestic popularity. Once again, economics and not ideology explain the political success of the Islamic party.

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[472] "Tunisia's Islamist Ennahda edges away from Sharia." BBC News. 26 March 2012.
<http://www.bbc.co.uk/news/world-africa-17517113>
[473] Tarek Amara and Christian Lowe, "Tunisia Islamists send business-friendly message after victory." Reuters News. Wednesday, October 26, 2011.
<http://www.reuters.com/article/2011/10/26/us-tunisia-election-idUSTRE79L28820111026>
[474] Banu Eligür, The Mobilization of Political Islam in Turkey (Cambridge: Cambridge University Press, 2010), pg. 201
[475] "Islamic Calvinists: Change and Conservatism in Central Anatolia" Berlin and Istanbul: European Stability Initiative, September 19, 2005.
<http://www.esiweb.org/pdf/esi_document_id_69.pdf>

Notably, Turkey's economic success has been an important development in the wider Muslim world. The JDP's fusion traditional Islamic culture with modern capitalism has also proven highly resonant in many other Muslim countries. This successful marriage of tradition and capitalism has led analysts from Pakistan to Tunisia to ask whether the "Turkish model" is viable political solution for other Muslim states.[476] Turkey's success has added to a dynamic and ongoing discussion within the Muslim world about the relationship between Islam, capitalism, and democracy.

In many other parts of the Muslim world, the tension between modern statehood and political Islam defines the political discourse. Understanding how economic interests can shape that discourse is essential to understanding why certain political Islamic groups succeed, while others fail to generate momentum. This dissertation has provided some preliminary insights on why and under what condition modern business interests can encourage reliance upon Islamic identities and institutions. I have demonstrated that the tilt towards Islam in weak and failed states is often a product of the real material needs of the business community, particularly the need for social capital and lower transaction costs.

Given the ongoing political upheaval in South Asia, the Middle East, and North Africa, these preliminary observations can help to generate a fruitful research agenda for other parts of the Muslim world. When looking at other cases of Islamism, understanding the material interests and social identities of members of the local business community can help to explain and predict why and under

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[476] Turkey's increased presence in the Muslim world has helped to bolster interest. Over the past ten years, Turkey has played a progressively more important role in the Muslim world in economic relations, peacebuilding, and humanitarian operations.

what conditions the business community may opt to establish an alliance with domestic political Islamic groups.

Taxes and State Formation:

In addition to its discussion of political Islam, the dissertation offered a market explanation of state failure and formation. By framing a failed state as a market competition between sub-state groups, it presented an endogenous economic model of state formation out of collapse. I showed that when a group offers a competitive rate of taxation, that group draws the collective support of the local business community. And with this broad-based support, the group has the ability to capture the state and reconstruct the monopoly on the use of force.

This market explanation has relevance for other cases, in both the Muslim and non-Muslim world. State failure is a serious regional and international security concern in Africa, the Middle East, Latin America, and Central, South and East Asia. According to the 2012 Failed States Index, over 72 countries across the globe have been identified as either failing or at high risk of failure. In response to these crises, the existing literature prescribes internationally-sponsored state-building endeavours designed to reconstruct central governing institutions and rescue failed states. However, without appreciating the endogenous processes of social and political change within failed state, international interventions can inadvertently undermine state formation and finance continued state failure.[477]

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[477] Peter Andreas, Blue Helmets and Black Markets: The Business of Survival in the Seife of Sarajevo (2008); Aisha Ahmad, "Agenda for Peace or Budget for War?" International Journal (2012).

The dissertation has shown that formal and informal taxation is a critical variable in understanding how failed states are able to reconstitute themselves. Societies adapt to conditions of state weakness or failure and build informal institutions to help organize and facilitate economic life. Informal taxation, in the form of protection payments, checkpoints, and other forms of extortion play an important role in shaping domestic political interests. When these interests align, they can motivate collective action.

These observations have important implications for other types of informal taxation, such as corruption. Both NATO and Afghan officials have acknowledged that government corruption is a key driver of popular support for the Taliban movement, which is currently running parallel shadow governments in every province of Afghanistan. The 2010 Integrity Watch Afghanistan *National Survey on Corruption* found that government corruption presents the single greatest challenge to the legitimacy of the state-building project in Afghanistan: "50% of the respondents consider that corruption fosters expansion of the Taliban [and] one third of respondents said they had heard the Taliban were mobilizing against the government on the basis of corruption allegations."[478] According to the 2010 United Nations Office of Drugs and Crime (UNODC) survey on corruption and crime, "for an overwhelming 59% of the population the daily

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[478] "Afghan Perceptions and Experiences of Corruption: A National Survey 2010." Integrity Watch Afghanistan, pg.3
<http://www.iwaweb.org/corruptionSurvey2010/NationalCorruption2010.html>

experience of public dishonesty is a bigger concern than insecurity (54%) and unemployment (52%)."[479]

In the battle for hearts and minds, Taliban shadow governments work extremely hard to eliminate any form of corruption in their ranks, especially in fence-sitting and bellwether districts. The Taliban leadership has even fired several of its own shadow governors for allegations of extortion, in an effort to prove itself as more accountable than the current Afghan government. As the international community prepares to reduce its military presence and bolster Afghanistan's domestic security architecture, government corruption now stands as a key obstacle to success in Afghanistan. In the free market competition for political power, the invisible hand is currently working in favour of the Taliban.

In the case of Somalia, this research has produced a first effort in quantifying the identities, interests, and political preferences of the Mogadishu business community, which continues to wield an enormous amount of political influence. Since the collapse of the ICU, the Mogadishu business community has been frustrated with the rates of extortion under the TFG government, which has important implications for the future of the state. A June 2012 BBC report highlights how rates of extortion by TFG militias continue to affect the political preferences of the business community: "At Mogadishu seaport, we watch two dozen men unloading bundles and boxes from cargo ships and piling them onto their trucks. All the drivers said they thought life was better under al-Shabab - less corrupt and more secure, so long as you stayed out of politics. 'In al-Shabab areas,

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[479] "Corruption in Afghanistan: Bribery as reported by the victims." Report by the United Nations Office on Drugs and Crime, January 2010, 3

we don't see guns everywhere,' said Mahmood Abdullahi. 'If the government disarmed the militias and got rid of the checkpoints that steal money from us, then we would support the government.'"[480] The model presented in this dissertation predicts that as long as the TFG militias continue to increase the costs of business, members of the business community will lack incentives to support the current state-building process.

Given the international community's desire to find solutions to other cases of chronic state failure in the world, further investigation into the economic drivers of the business community's political preferences is warranted. This dissertation has presented an initial test of the effect of formal and informal "taxes" on economic vote choice, and the results have shown that taxation levels do affect political leanings in civil war competition. This insight has relevance for failed states in other regions of the world, and presents an important challenge to internationalist approaches to state formation.

This taxation hypothesis should be tested in a multi-country study across the developing world, taking into account rates of formal and informal taxation on state and sub-state power. Some preliminary research questions include: What types of formal or informal taxes create political order and what types are state-destroying? What makes societies more or less likely to buy into a tax system? How can tax policy be used to construct the state? A multi-country study of the role of formal and informal taxes on state formation in the developing world would be an appropriate test of these questions.

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[480] Gabriel Gatehouse, "Can Somalia's cheap peacekeeping defeat al-Shabab?" <u>BBC News</u>. June 11, 2012.
<http://www.bbc.co.uk/news/world-africa-18392212>

Implications for Policy: How to Engage a Domestic Islamist Movement:

This study has argued that the rise of Islamic regimes can be explained by economic interests that emerge under conditions of state collapse. The implications of these findings are significant to both theoreticians and practitioners alike. Given that state failure is such a pernicious regional and international security threat, it may be unproductive to destroy endogenous processes of state formation that emerge in failed states. Overthrowing domestic Islamist regimes in failed states is costly, dangerous, and unproductive. How then can the world build peaceful relations with Islamists regimes, without exacerbating the potential threat of transnational extremism?

Perhaps the most important ingredient to building peace with Islamic movements is early and substantial diplomatic engagement. When they first came to power in 1994, the Taliban invited the United States and the international community to set up offices and consulates inside Afghanistan in order to build peaceful relations with the new government. This invitation was declined. Human rights abuses, repressive treatment of women, and a general lack of strategic interest in Afghanistan led the US to devote nominal resources and attention to the Taliban. There were no diplomatic conferences held or delegations hosted to reach out to the new Islamist regime. As the isolation worsened, so did the impasse between the Taliban leadership and the international community. As the impasse grew deeper, the international community responded with ever-greater diplomatic isolation.

Although there were interactions between the United States and the Taliban's representatives, this communication was started late and remained limited. The international community failed to develop a relationship with the Taliban leadership. When the Al Qaeda presence in Afghanistan created a greater rift, the US responded to the problem with sanctions, air strikes, and even greater isolation. This lack of engagement gave Al Qaeda an opportunity to entrench its position in Afghanistan, which it then surreptitiously exploited to launch terrorist attacks on the US and precipitate another inter-state war in Afghanistan.

The international community also failed to engage the ICU during its limited reign over Somalia. One of the key reasons for this lack of engagement was the physical location of the international organizations and foreign government agencies that were responsible for engaging with Somalia. During the civil war, the security environment in Somalia forced these organizations to relocate to Nairobi, Kenya. None were physically located inside Somalia. As a result, none of these policy-makers were in direct contact with the Islamists on the ground.

On the other hand, the deposed TFG warlords had been residing in the posh hotels of downtown Nairobi for years, and had regular access to these international organizations and officials. The TFG were therefore physically present to file charges against the ICU with the international community. While the ICU devoted its attention to winning hearts and minds with citizens in Somalia, the TFG warlords worked the backchannels in Nairobi to secure international support against them. The international community therefore

continued to recognize the TFG as the legitimate government of Somalia, accept the TFG argument that the ICU was a terrorist-led organization, and isolate the Islamist leadership in Somalia.

In both cases, lack of diplomatic engagement with domestic Islamists led to increased radicalization, tragic policy blunders, and costly wars. These negative outcomes are avoidable.

International engagement of a domestic Islamist movement must start early, particularly while the group is in its early developmental stages. During the initial rise of an Islamist group, there is often a lively and hopeful debate about the meaning and purpose of the movement within both the leadership and the rank and file. Transnational extremists work quickly and strategically to infiltrate these discussions, often manipulating and coercing domestic actors to adopt their interpretations of Islamism. Delaying international engagement creates a space for extremist elements to dominate the internal discourse of the movement, thus making future engagement less productive. Historical analogies are unhelpful and create self-fulfilling prophesies. Assuming that a domestic Islamist movement is extremist leads to isolation; and this isolation directly increases the power of extremists.

When the leaders of a domestic Islamist regime invite the international community to visit them, they should go. This engagement should not only happen early on, but it should be significant in scope and frequency. It should maintain a positive and friendly tone, and focus on building trust and mutual understanding. First and second track diplomacy both have a role to play. Track I

engagements should seek to directly engage the leaders of Islamist regimes and provide opportunities for increased interaction with the international community. Cooperation with other Islamic organizations and countries may help to facilitate these diplomatic engagements. The Organization of Islamic Cooperation (OIC) could potentially provide a useful forum for hosting dialogue and discussion. Other leading Muslim nations, such as Turkey, may also be well positioned to reach out to a new Islamic movement to help develop their skills in diplomacy and provide guidance on international affairs.

This direct diplomatic engagement should emphasize building mutually beneficial trade relations and fostering economic development. There is substantial evidence that trade reduces the probability of violent conflict between states.[481] Economic interdependence incentivizes cooperation and makes war or extremism more costly and unattractive.[482] There is an extensive literature that suggests a strong relationship between economic liberalism and political openness.[483] Li and Schaub find that "the economic development of a country and its top economic partners reduces the number of transnational terrorist incidents within the country. To the extent that trade and FDI promote economic

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[481] Edward D. Mansfield and Brian Pollins, Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate (Massachusetts: The University of Michigan Press, 2003); John R. Oneal and Bruce Russett, "Assessing the Liberal Peace with Alternative Specifications: Trade Still Reduces Conflict." Journal of Peace Research. Vol. 36, No. 4, 1999: 423-442.

[482] The economic engagement of failed or weak states is not an unproblematic proposition. For a critical review of how FDI and economic relations can exacerbate state failure, see Will Reno ""Order and Commerce in Turbulent Areas: 19th Century Lessons, 21st Century Practice," Third World Quarterly. Vol. 25, No. 4 (2004), 607-25.

[483] Helen V. Milner and Keiko Kubota, "Why the Move to Free Trade? Democracy and Trade Policy in the Developing Countries." International Organization. Vol.59, No. 1 (Winter 2005), 107-143; J. Ernesto Lopez-Cordova and Christopher M. Meissner, "The Globalization of Trade and Democracy, 1870-2000" National Bureau of Economic Research Working Paper, No.11117, February 2005.

development, economic globalization has an indirect negative effect on transnational terrorism."[484]

These insights are especially useful for understanding how trade can be used to build peace with Islamist regimes that come to power in failed or weak states. State failure fosters the development of a fierce capitalist spirit and a free market economy. Societies emerging from lengthy periods of state failure may be poor, but they are also averse to taxes, regulations, trade barriers, and government intervention in business. Furthermore, new Islamist regimes are in dire need of foreign investment, trade relations, and infrastructure development. While these regimes may lack skilled technocrats or diplomats, they are full of individuals who are experienced negotiating business contracts. The local business community often wield a significant amount of political influence over Islamists. Engaging these actors towards the goal of establishing peaceful trade relations is an essential step to opening and liberalizing the political process, while respecting the Islamic identity and culture of the regime.

Track II diplomacy should also be used to build trust and understanding over the long-term. Second track initiatives reveal how parties understand conflicts and problems through iterated interactions over time. One of the biggest sources of antipathy towards new Islamist regimes comes from the international community's lacks information about their identities, interests, and goals. Establishing a Track II process early on can help mitigate uncertainty, identify potential sources of insecurity, and build trust-based relationships. These efforts

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[484] Quan Li and Drew Schaub, "Economic Globalization and Transnational Terrorism: A Pooled Time-Series Analysis." Journal of Conflict Resolution. Vol. 48, No. 2 (April 2004), 232

can also help to develop creative and non-violent strategies of suppressing the threat of transnational extremism and increasing the power of political moderates within the group. By including internationally-respected Islamic scholars in these discussions, Track II processes can also be helpful in preventing human rights abuses perpetrated under harsh or violent interpretations of Sharia law.

In both first and second track diplomacy, international engagement minimizes and restricts space for transnational extremists to infiltrate and influence a domestic Islamist regime. These diplomatic efforts should start early and be significant in scope and frequency. Building relationships with the regime's leadership will reduce the potential international security threat posed by transnational extremists, as well as incentivize political moderation within the regime. These diplomatic efforts will cost a fraction of the price of inaction, in both blood and treasure.

The role of ideology and identity in explaining political Islamism is overstated. The vast majority of Islamists want jobs and peace, and have no quarrel with the rest of the world. This dissertation has found that rational, economic interests drive the emergence of the business-Islamist alliance. It has found that economic interests motivate collective action in support of particular Islamic groups. These interests are not, in principle, in conflict with the non-Islamic world. In fact, if the power of the market is used effectively, it may actually provide new opportunities for cooperation, prosperity, and peace-building.

APPENDIX I: Dealing with Endogeneity

The problem of feedback between the dependent variable of political preferences and the independent variables on taxation levels means that the statistical significance of taxation on political preferences is likely exaggerated. In order to control for this endogeneity, the independent variables in question can be manually instrumented and then regressed in the multinomial logit model. 25 instruments were selected to purge this endogeneity, including: size of business, gender, education level, and type of business (trading, telecommunications, energy, small business, small industry, and qaat dealing). Additional instruments included responses to questions 8-19, 21, and 22 of the survey, which are public opinion questions on social trust. The same variables were used to instrument both *Warlord Taxes* and *ICU Taxes*. The multinomial logit model, using the instrumented taxation variables is presented in Table 3.

Using the instrumented taxation variables in the multinomial logit model produces some interesting changes in the results, but it does not significantly alter the overall explanation about the success of the ICU. That is, using instrumented taxation variables, high warlord taxes remain positively correlated with preference for the ICU, and high ICU taxes continue to be negatively correlated with ICU support. The significance levels for the instrumented taxation variables remain high, and in places show even greater robustness.

Most significantly, instrumentation of the ICU taxation variables changes the results for the TFG and preference for no government. The original multinomial logit model indicates that high ICU taxes are positively correlated

with preference for the TFG and no government, and negatively correlated with preference for the ICU. Using instrumented variables, high ICU taxes have no statistical correlation to preference for the TFG, but are far more robust with respect to preference for no government at all. In the instrumented model, a one-level increase in perceived ICU taxes makes one 52% less likely to favour the ICU and 94% more likely to prefer no government at all.

Furthermore, the impact of high warlord taxes is also increased using the instrumented variables, wherein a one-level increase in perceived warlord taxes makes one 44% less likely to support the TFG and 94% more likely to support the ICU. Importantly, higher warlord taxes also make one 2.3 times more likely to prefer no government at all. That is, both high ICU taxes and high warlord taxes encourage preference for no government. Therefore, while the instrumented variables do not make a significant change in explaining support for the ICU, controlling for the endogeneity in the model shows a somewhat different trend regarding preference for the TFG or preference for no government.

Instrumentation of the endogenous independent variables aims to correct the endogeneity in the original multinomial probit model. The instrumented model shows some interesting differences from the original model with respect to the effect of ICU and warlord taxes and support for the TFG; however, the instrumented model does not challenge the core hypothesis of the research. In fact, with respect to the role of taxation levels and support for the ICU, the instrumented model shows even greater significance than the original non-instrumented model.

Table 1: Political Preference: Multinomial Logit Analysis

Independent Variables:	Dependent Variable: Risk Ratio Multinomial Logit Coefficient (Standard Error)		
	TFG	ICU	Prefer No Gov't
General Social Indicators:			
Male	1.145 .135(.253)	.837 -.177(.190)	1.469 .385(.207)
Size of Business	1.233 .209(.162)	1.230 .207(.128)	.837 -.177(.133)
High School	.454** -.788(.327)	.562* -.576(.303)	.480*** -.733(.266)
University	.714 -.336(.532)	1.882 .632(.401)	.617 -.481(.451)
Religious Education	.540** -.615(.314)	1.042 .041(.278)	.456*** -.783(.255)
Identity and Ideology:			
Clan Trust	.749 -.288(.246)	.716* -.333(.194)	.799 -.223(.195)
Islam Trust	.965 -.034(.380)	.482*** -.728(.242)	1.311 .271(.316)
Like Islamic Law	.633* -.456(.239)	.926 -.076(.188)	.711 -.340(.194)
Taxes:			
ICU Taxes (instrumented)	1.015 .015(.314)	.486*** -.720(.235)	1.944** .664(.335)
Warlord Taxes (instrumented)	.567* -.567(.300)	1.947*** .666(.226)	2.356*** .857(.291)
Constant	1.248(1.257)	-.462(.928)	-6.674(1.848)****

Standard Error indicated in parentheses. Number of observations= 1003. *p<.10, ** p<.05, *** p<.01, **** p<.001. Residual category: Preference for TNG.

INTRODUCTION: "Hello, my name is _____, and I am helping to conduct an academic survey of the challenges faced by the Mogadishu business community during different historical time periods. All of the questions are "multiple choice" – A, B, C – and are about general public opinion only. Your answers are 100% anonymous, and your answer sheet will be mixed up with 1,000 other answer sheets. I will not write down your name or any other identifying information. We are only trying to make some general statistics. You don't have to participate, but we would be grateful if you would help us. Do you have 5 minutes to take the survey?"

QUALIFYING QUESTION: "Did you have any business, big or small, in Mogadishu between 2004-2006?"
IF YES: "Thank you! Please note that these questions are about business life in Mogadishu, and not in Eastleigh, so please prepare your answers accordingly."

ADDITIONAL DETAILS: "This is purely for an academic research by Miss Aisha Ahmad, who is doing her PhD, assisted by Ibrahim Farah from the University of Nairobi. The goal is to understand how different systems of government (TNG, TFG, ICU) have affected business success in the past. We have absolutely no questions about current events in Somalia, and we have limited our study up until 2006 only. There is no government involvement at all."

TAXES AND COSTS QUESTIONS:

1. What is the biggest challenge your business faced from 2004-06, under the reign of the warlords?
   a. High taxes (checkpoints on roads and taxes at airports and ports)
   b. General insecurity
   c. Environmental factors (drought, floods, etc.)

2. What is the biggest challenge your business faced in 2006, under the ICU?
   a. High taxes (formal taxes and taxes at airports and ports)
   b. Banning or regulation of certain industries (quality control, banning of *khat* etc)
   c. Fears about ICU in the international community

3. Of all the possible challenges to your business, which one is the **worst**?
   a. High taxes
   b. General insecurity
   c. Banning or regulation of certain industries (quality control, banning of *khat* etc)
   d. Environmental factors (drought, floods, etc.)

4. From 2004-2006 under the reign of the warlords in Mogadishu, how high were your financial losses due to insecurity and taxes?
   a. Very high
   b. High
   c. Average
   d. Low
   e. None

5. In 2006 under the Islamic Courts, how high were your taxes?
   a. Very high
   b. High
   c. Average
   d. Low
   e. None

6. If you compare your losses due to both taxes and insecurity under the reign of the warlords (2004-2006) and the taxes under the ICU (2006), when did you **lose the most** money?
   a. I lost more money because of taxes with the ICU administration.
   b. I lost more money because of insecurity with the reign of the warlords.
   c. My losses were about the same.

7. What system of government did you feel was the **most favourable (or least damaging)** to economic growth for your business?
   a. The TNG government in 2000-2004
   b. The TFG government in 2004-2006
   c. The ICU government in 2006
   d. My business is best with no government at all.

   AGREE OR DISAGREE QUESTIONS:

   State whether you agree or disagree with the following statements (1 is Strongly Agree, 2 is Agree, 3 is Neutral, 4 is Disagree, and 5 is Strongly Disagree):

8. It is more costly and difficult to conduct business with members of other clans than it is to work with my own clan.

9. A person within my clan is more likely to respect my property rights and contracts than a person from another clan.

10. A good Muslim is more likely to respect my property rights and contracts than a person who doesn't follow their religion.

11. When it comes to gaining my trust for a business deal, being a good Muslim is more important than being a member of my clan.

12. If I have to make a business agreement with someone from another clan, I'd rather work with someone who is a good Muslim than with a non-religious person.

13. Clan divisions make it more difficult to expand business into another clan's market.

14. I would make a lot more money if my business could surmount clan divisions.

15. I am willing to pay higher taxes in order to remove checkpoints and have a peaceful central government.

16. Political instability is financially worse for my business than high taxes.

17. In business, it's better to have rules that are not perfect, than to have no rules at all.

18. Islamic law is a good way to regulate transactions between business partners.

19. Islamic institutions and courts can facilitate inter-clan business relations, by resolving conflicts and increasing transparency and trust.

TRUST AND LEADERSHIP QUESTIONS:

20. The **most** important thing that I want the government to do is:
    a. Not tax or regulate my business
    b. Remove checkpoints and insecurity
    c. Balance clan power
    d. Share my ideological or religious beliefs

21. In your business, whom would you be **most** comfortable working with in a business partnership or transaction?
    a. Someone from my own clan.
    b. Someone who has a reputation as a good Muslim.
    c. Someone who is a successful businessperson.

22. My primary identity is:
    a. As a Muslim
    b. As a Somali
    c. As a member of my clan
    d. As a businessperson

GENERAL SOCIAL INDICATORS:

23. What was the size of all your business interests from 2004-2007?
    a. Large   (+ USD$350K/year)
    b. Medium   (= USD$50K - $350K/year)
    c. Small   (< USD$50K/year)

24. Male or Female? _____

25. Education? (Please circle all that apply)
    a. Formal – up to secondary
    b. Formal – advanced degree
    c. Informal - religious
    d. None

26. What type of business are you in? (Please circle all that apply; asterisk the dominant)
    a. Agricultural
    b. Telecommunications
    c. Trader of goods
    d. Energy
    e. Small business (shop owner)
    f. Small industry (small factory owner)
    g. Other (specify)_____

Thank you for your help and participation! Finally, we want to prove that our survey is not biased towards any one clan's perspective. Therefore, if you are willing to tell us your major clan, we will note it. If you are uncomfortable, then we will leave it.

Appendix III: List of Interviews

<u>Interviews Quoted:</u>

Colonel Amir Tarar Sultan, AKA Colonel "Imam", Islamabad, June 2009.

General Hamid Gul, Islamabad, June 2009.

Lt. General Asad Durrani, Islamabad, June 2009.

Lt. General Ali Jan Aurakzai, Islamabad, June 2009.

Rostam Shah Momand, Islamabad, June 2009.

Avocat Zakaria Mohammed Sheikh, Nairobi, October 2009.

Matt Bryden, Nairobi, March 2007 and October 2009.

Chris Anzalone, Montreal, June 2012.

<u>Anonymous Interviews Quoted:</u>

P1 – Former president of Pakistan-Afghanistan Transit Trade Commission

P2 – Prominent Pakistan-Afghanistan narcotics smuggler from tribal region

P3 – Afghanistan-Pakistan transit trader #1

P4 – Afghanistan-Pakistan transit trader #2

P5 – Afghanistan-Pakistan transit trader #3

P6 – Afghanistan-Pakistan transit trader #4

P7 – Afghanistan-Pakistan transit trader #5

P8 – High-ranking Pakistani official responsible for arming Afghan mujahideen

P9 – Former Taliban member responsible for fundraising

S1 – Darod Sheikh who was part of the Supreme Council of the Islamic Courts

S2 – Economist and educator at Mogadishu-based business school

S3 – Mogadishu-based businessman #1, prominent trader from Suuq Ba'ad Market

S4 – Mogadishu-based businessman #2, also an economics professor

S5 – Economics professor at University of Mogadishu

S6 – Mogadishu-based businesswoman #1, mid-sized operation, primarily in the qaat trade

S7 – Director of Mogadishu-based business school

S8 – Mogadishu-based businessman #3, head of a business association

S9 – Mogadishu-based warlord and businessman

S10 – Mogadishu-based businessman #4

S11 – Mogadishu-based businessman #5, large operations, primarily in imports

S12 – Mogadishu-based businessman #6, chairman of Suuq Ba'ad market

S13 – Chief officer of the El Ma'an Port Authority

S14 - Mogadishu-based businessman #7, primarily in imports

S15 – Mogadishu-based businesswoman #2, large operations, primarily in import-export

S16 - Mogadishu-based businessman #8, worked Elwak to Berdera route

S17 – Chief officer of Coca Cola Company in Mogadishu

S18 – Mogadishu-based businessman #9, primarily in cigarettes and aid delivery

S19 – Mogadishu-based businessman #10, primarily in water

S20 – Mogadishu-based businessman #11, primarily in trade

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