

# **Economics as a Pre-requisite for the Stability of Afghanistan and the Region**

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## **I. INTRODUCTION**

President Obama announced in March three overall objectives of U.S. policy towards Afghanistan; to capture or kill the leadership of Al-Qaeda, eliminate its network, and stabilize Afghanistan. To achieve these objectives and particularly to stabilize Afghanistan requires substantial effort in developing the country's security, rule of law, economic and social development. In the context of Afghanistan, these efforts are highly interdependent and must be simultaneously undertaken.

The disastrous experiences of Afghanistan and the its people, basically emanates from the struggle of the U.S. and the Soviets in the latter period of the Cold War. The shocks of the Soviet military intervention, the rise and mobilization of the Afghans against the Soviets, sponsored by the U.S., Saudi Arabia and Pakistan, the abandonment of Afghanistan by the US after the Soviet withdrawal, and the chaotic and vicious civil war that followed were too much for Afghan society to absorb. The political, social and economic institutions and structures of Afghan society collapsed under these unbearable events. The chaos that followed gave rise to the Taliban and Al-Qaeda which led to the unleashing of unprecedented terror on the Afghan population and the disaster of 9/11. The subsequent invasion of Afghanistan by the U.S. and over throw of the Taliban regime, though welcomed, further increased the misery of the Afghan population. As a result, Afghanistan became the source of 90% of world heroine and a place where Taliban and Al-Qaeda planned and executed their terror regime, threatening Afghan and world security.

For Afghanistan, an impoverished society even in 1979, the total costs of warfare and conflict from 1979 to the end of 2001 were unprecedented. By one estimate, the cumulative GDP loss over the more than two decades of war and conflict was approximately \$700 billion dollars. If one adds the losses of physical and social capital, mining of large parts of agricultural and other types of land, the displacement of millions of people internally and five to six million as refugees in neighboring countries, the Middle East and the West, and particularly the loss of its managerial class and skilled labor by the tens of thousands, the costs are unimaginably high. Insecurity, extreme poverty, corruption, lack of national unity, the expanding narcotics industry, and the extra-ordinary unemployment (40-60%) are some of the symptoms that plague Afghanistan today.

The extent of destruction of the country's physical, institutional, human and social capital left Afghanistan and its international partners with a monumental task of how to build a pluralist state governed by the rule of law, in which all Afghans

have the opportunity to live in peace, security and reach their economic potential. Eight years later, after the U.S. invasion, despite considerable progress and sacrifices, this task is not and should not be expected to be completed in a short period. Everyone underestimated the degree of destruction of Afghan society, in all its dimensions; it has taken substantial time to understand more realistically the depth and complexity of the challenges facing Afghanistan.

## **II. ACHIEVEMENTS SINCE DECEMBER 2001**

The pace of progress in Afghanistan should not be measured on the basis of an abstract and ideal standard, usually that of Western countries, but on the conditions that Afghans found themselves in 2002. Based on this criterion, substantial progress has been made.

Beginning in late 2001, the Bonn Agreement guided Afghanistan's transformation towards a new era of democratic self-governance. Shortly after the Bonn meeting, an Interim Authority convened an Emergency Loya Jirga (ELJ), a representative Afghan national forum, and it established a Transitional Administration. In 2004, Afghanistan adopted its first constitution in three decades, laying the political and development foundations for the country. Three rounds of elections followed and the fourth, with some of its shortcomings, is being carried out for electing the next president.

Besides the political progress, Afghanistan's economy has been growing very rapidly (at an average of 12 % per year), one of the highest in the world though admittedly starting from a low base; Income per-capita more than doubled over the period 2002 to 2008; the rate of inflation has been very low until this year. Other significant achievements include the enrollment of 6.5 million children in primary and secondary education, 40 percent of whom are young girls; the establishment of a basic package of health services that now covers 85 percent of the country and the successful immunization of 80 percent of the population against vaccine-preventable diseases. It is also noteworthy that more than five million refugees have returned to Afghanistan; about 12,200 km of roads have been newly built or rehabilitated, including a national road network; over 63,000 former combatants have been disarmed, demobilized and reintegrated into civil society; the national army and police forces, though small in size, have been organized; the core state economic and social welfare institutions are in the process of formation; a single unified currency and national accounts have been established; macro-economic stability, fiscal discipline, prudent monetary policies, and public finance management systems have been established; commercial banking, telecommunication networks and about several million cell phones, led by the private sector, are operational. Trade with key economic partners in the region – Pakistan, China, and Iran – has grown and neighboring countries have helped rebuild Afghanistan's infrastructure – from roads to schools.

After the successful completion of the Bonn Agreement, Afghanistan and the international community adopted the Afghanistan Compact, agreed to at the London Conference of 2006. While the Bonn Agreement reestablished state institutions, the Afghanistan Compact aimed to make them functional. To implement its obligations under

the Afghanistan Compact, the Government of Afghanistan presented the Afghanistan National Development Strategy (ANDS) at the Paris Conference. The ANDS was adopted by the Conference and \$21.4 billion was pledged which when added with pledges of \$10.5 billion in the London Conference is a significant sum (a total of \$32 billion) by the international community. This amount will meet the needs of Afghanistan if it is properly delivered and invested to meet the needs of the Afghan people. What is needed is an effectively designed implementation plan, close cooperation between donors and the Afghan government and transparency in both Afghan government and the international donors' projects and expenditures.

In terms of developing institutions and infrastructures for enabling Afghanistan to make the necessary transformations for its development, the ANDS establishes that framework for the country. It is a road map for the next five years and contains a number of comprehensive programs and policies to move Afghanistan towards stability, self-sustaining growth and human development. It's based on three pillars: security, rule of law and governance, and economic and social development. These three pillars are highly interdependent with strong spillover effects on each other. In the area of economics and social development, detailed policies are designed for sectors such as energy, agriculture and rural development, transportation, mining, water resources, management and urban development. Policies for education, culture and media, health and nutrition, and social protection are the other sectors have been enumerated. A number of cross-cutting issues such as counter-narcotics, anti-corruption, capacity development, gender, and environmental and regional cooperation are also addressed in the ANDS. Among all these areas, irrigation, energy, agriculture and housing are considered to be of essential national priorities since they act to reduce unemployment and poverty in the rural areas. Hence, they must be dealt with simultaneously, with proper sequencing and practical coordination.

The first annual report of the ANDS has found that several measures have been taken in the right direction to allow this enabling environment. While overnight transformation is not likely, the gradual process has taken effect. Just a few such examples are:

- 1) A new Government Coordination Committee (GCC) has been created to oversee and facilitate progress in the implementation of the ANDS. This body reports to the President's office and the cabinet regularly.
- 2) Eighteen inter-ministerial committees have been established and are coordinating the implementation of the ANDS sector strategies.

On the effect ANDS has had on Afghanistan so far:

- 1) Strengthened the Afghan National Army (ANA) through training and equipping personnel, and increasing numbers to 86,000, representing 64% of its current goal of 134,000.
- 2) Implemented a total of 1,168 electricity projects in rural areas producing 11,520 KW of electricity benefiting one million people directly in 2008.
- 3) Established 13,000 water supply networks, providing access to drinking water to 2.8 million rural people by putting in place a sustainable water supply

- management plan.
- 4) Hired 8,000 new teachers, a 14% increase from 2008 and graduated 317,000 (36% female) from literacy programs, with over 8.1 million illiterate Afghans benefiting since 2002.
  - 5) Established 291 Health sub-centers and mobile centers; 10,000 health posts and 1,688 health facilities, which include sub-centers.
  - 6) Improved small-scale irrigation systems for 1,891 villages and irrigated some 48000 jereeb of land benefiting 644,777 households.
  - 7) Established a High Office of Oversight and Implementation of Anti Corruption Strategy.

Afghanistan does have basic institutions that are indigenous to its society. Local villages have their own centuries-old civic institutions. The National Solidarity Program was able to build development councils in 23,000 villages precisely because the remnants of civil society still exist.<sup>1</sup> Therefore, it must be emphasized that there is tremendous hope for this country in the future if the key stakeholders remain committed to its success.

### III. CURRENT CONDITIONS AND CHALLENGES

The challenges Afghanistan faces can be summarized in terms of a vector of needs and a vector of constraints. If one looks at these vectors from an economic standpoint, it can be viewed as a number of inputs that must be placed in order to get the desired output. This demonstrates the interdependency of each these vectors.

The needs and constraints vectors are the following:

<b>Needs</b>	<b>Constraints</b>
Energy	Security
Agriculture	Corruption
Water Resource Management	Narcotics
Roads	Unemployment
Shelter	Private Sector Development
Human Capital	Capacity
Public Administration	Aid Coordination

Afghanistan's social and economic development will not be achieved unless the insecurity that prevails in the eastern and southern parts of the country is reduced markedly. Despite the efforts by the Government and the international community to prevent terrorist and other extremist activities, security has steadily deteriorated since late 2006. The insurgency cannot be put down simply by military means. Nor, can the elimination of corruption and the establishment of the rule of law occur as long as the

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<sup>1</sup> Brooks, David "The Afghan Imperative." New York Times Sept. 24, 2009  
<<http://www.nytimes.com/2009/09/25/opinion/25brooks.html>>

extraordinary poverty exists in Afghanistan which feeds the insurgency. Therefore, addressing the economic need to make up for the lost ground on the above mentioned needs and constraints is a pre-requisite for stability in Afghanistan. As mentioned above, these factors have to be addressed and operated on simultaneously.

Although a framework for the next five years is agreed to, on the ANDS, and financial pledges have been made to fulfill the objectives described in Afghanistan's national development plan, there are significant issues of implementation and performance that require special emphasis to meet the challenges facing Afghanistan and the region.

#### **IV. WHAT NEEDS TO BE DONE**

The many achievements of the past several years, though impressive, are of course hardly sufficient. Afghanistan's transformation requires a long-term, holistic approach that is adequately resourced and a well-executed plan of ten to twenty years. This requires the commitment of the international community to maintain its commitment in Afghanistan's development for many years to come, while cooperating effectively with the Afghan government and society to accomplish the targeted goals. There are three objectives that a strategy for Afghanistan must include to accomplish the formidable challenges ahead:

- (1) A coherent and integrated strategic operational plan to achieve the current aims and goals of the ANDS and lay the foundation for long-term plans for the evolution and the transformation of Afghanistan's society and economy.
- (2) Serious efforts to effectively carry out the "Afghanization" process which entails Afghan ownership as the central force for the transformation process of the country; and
- (3) A regional political and economic framework, starting with Afghanistan and Pakistan, must be developed to allow Afghanistan and its neighbors to address their collective challenges.

This plan must account not only for security, governance and economic issues but also for the lack of Afghan capacity at all levels, i.e., in the public and private sectors, the skills of the labor force etc. Additional financial resources are not necessarily the key to success in Afghanistan. Rather, the coordination of the efforts by the Afghans and the international community is of greater importance. More importantly, it is not only the matter of grand strategy or policy that we apply in Afghanistan, but of how we apply the available resources that is the foremost challenge in this endeavor. In fact, it is mostly in the implementation that both the Afghan government and the international community have not delivered the services that the population has been expecting. The organization must come in the areas of continued substantial and coordinated new investments, an integrated and efficient implementation strategy, and a very strict and comprehensive monitoring, evaluation and transparent reporting system.

In addition, the specific suggestions in all areas of concern are the following:

- 1) The U.S. and NATO must declare that it will actively remain in Afghanistan and the region for a long period of time. This assurance is very important to deter the neighboring states to once again get involved by direct or covert means as they did before to re-generate the experience since the U.S. abandoned Afghanistan in the 1990s.
- 2) On the matter of the insurgency: there is no substitute for training rapidly and very well the Afghan security forces, so that they can take the lead in a few years and relieve the NATO forces to withdraw. The U.S. needs to actively support and encourage Pakistan to successfully complete its struggle against its own insurgency groups and deter effectively the cross-over of the Taliban and Al-Qaeda into Afghanistan. There is a policy debate, currently in the U.S., by some experts who say that Al-Qaeda is identifiable from the Pakistani and Afghan insurgents. And by doing so, they advocate counter-terrorism policies that require the use of drones, aerial bombardments etc. This is highly misguided and is based on the assumption that the Taliban and Al-Qaeda forces are separable. In reality, although they may not be vertically organized, they are extremely well coordinated and effective. Therefore, any military policy that ignores the inter-dependency between the Taliban and Al-Qaeda may not achieve its goal of contributing to the stability of Afghanistan and Pakistan.
- 3) A basic reform of the international aid structure to Afghanistan must be undertaken. Though \$32 billion dollars has been pledged to Afghanistan, it is well understood that a large fraction of it does not even get to Afghanistan. Of the amount that is delivered to Afghanistan, only about 20-25% of aid is channeled through the Afghan budget while the other 75% is distributed directly by the donors without reporting on a consistent basis to the government. Also, every country imposes its own conditionalities and caveats on how the money must be spent. This overwhelms the meager administrative capacity of the government to execute projects based on highly complicated international procurement procedures. Similarly, in the military sphere, every country imposes its own caveats on how and where to deploy their soldiers, which in turn, delays the effectiveness of security operations around the country. This phenomenon has been carried through to the training and financing of the Afghan security forces as well.
- 4) A substantial training and strengthening of the Afghan civilian administration must be undertaken. Similar to the military and security requirements, the Afghan civilian institutions must be populated by competent and well trained personnel. It is the deficiency on the Afghan side which may undermine the effectiveness of the U.S. civilian surges, which was pronounced by President Obama. The use of expertise from the international community is not a substitute for indigenous Afghan resources. This goes back to one of the main priorities stated earlier which is to emphasize on the “Afghanization” of the civilian institutions. A possible

temporary solution would be to enable the Afghan government to hire many skilled Afghans in the expatriate communities in the U.S. and Europe.

- 5) The problem of corruption must be addressed effectively and in all its forms. The Afghan government must reduce the red-tape in the ministries and reform and simplify its administrative procedures, while instituting severe and effective punishment for corruption. There is evidence of fairly large corrupt practices in the donor community as well in its disbursement of resources. Effective means need to be found on how to address them. In fact, it has been agreed upon in the Paris Conference in 2008 that all projects using international finance by the government of Afghanistan and directly by the donors must be audited by an international body. This agreement has not been regarded highly by the international community.
- 6) The unemployment in Afghanistan is a serious threat to stability and progress. The rate of unemployment is estimated to be around 40-60 % and unskilled labor makes up most of this percentage. Most of the Taliban recruitment takes advantage of the unemployed and uneducated youth. The dire unemployment situation provides the context for the kidnappings of businessmen, corruption, lawlessness and the thriving of the narcotics industry. Moreover, as it was mentioned earlier, Afghanistan has enrolled millions of students in schools in the past eight years. At present, almost 1.2 million students are going to graduate from primary schools, high schools and universities with very little prospect for employment. A sizeable number of these people could be absorbed in manning the security forces over time so that there will be an educated security force. However, a sizeable number of the graduates will remain unemployed if the economic prospect of the country does not expand continuously to generate employment.
- 7) The expansion in three critical areas, described below, will provide a resolution to this vexing problem of widespread unemployment in Afghanistan.

a) **Housing:** There is a severe shortage of housing in both urban and rural areas of Afghanistan. A properly designed and maintained strategy for housing will create an indigenous construction environment which will employ both skilled and unskilled labor, and it will also provide the opportunity of learning by doing for the employees which will be an effective policy for educating the labor force.

b) **Agriculture:** Agriculture constitutes the basic industry of Afghanistan and it is the poverty in the rural areas that forms the insurgency and related problems. The best procedure will be to develop a strategy for managing the water supply in Afghanistan. Afghanistan is the source of five major rivers that could bring millions of acres of land under cultivation. This could provide a robust source of export. *FACT:* At the present, Afghanistan exports \$500 million dollars while it imports over \$3 billion dollars. Emphasis has to be placed on the

development of small, medium and large scale dam projects which will help and sustain the economic development over time.

c) **Education:** Investment in the education of the youth for the next generations in Afghanistan is critical to enable Afghanistan to sustain a source of human capital. It is also necessary for the integration of Afghanistan into the regional economies, especially for the technical and managerial class that will rise through the education process who can be employed in light industries in agricultural areas and of the like.

- 7) The eradication of the poppy cultivation must be considered within the context of alternate livelihoods. The Afghan farmers receive about \$3 billion dollars from this cultivation but the value of the Afghan heroine in the world market is estimated between \$70-80 billion dollars. A larger number of traffickers, mainly non-Afghan, are present in this industry. The solution to this problem is to provide agricultural alternatives for Afghan farmers in such a way that farmers can maintain their current income while providing themselves with a sustainable livelihood for the future. Afghan farmers have shown several times that they can move away from the cultivation of poppy if alternatives are provided as it is demonstrated by the existence of eighteen “opium-free” provinces in Afghanistan today, as opposed to only six opium-free provinces in 2006. But the problem is that no effective investment, though promised, has come forth to encourage them to cultivate alternate licit agriculture. For this, an essential policy would be to build both small and large scale dams on Afghan water networks and encourage agricultural processing by businesses that in turn will be employment generating and will sustain the livelihood of the farmers currently engaged in this area.

In addition, serious and effective law enforcement is required against the traffickers of heroine in Afghanistan and neighboring states. A major source of corruption arises from poppy cultivation and the Taliban, as is well known, finance their operations by taxing this sector. Since both Iran, Russia, Tajikistan and European countries are suffering the most from the export of Afghan heroine; it will be useful if they can develop a unified system to provide alternative agricultural programs and enforce an effective interdiction of poppy trafficking in this field.

- 8) Serious investment must take place in major projects identified in the ANDS to assure long-term viability of economic growth and poverty reduction in the country. Of particular importance is investment in dams and water management to uplift the present subsistence agriculture. The longer such projects are postponed the more difficulties there will be in the future. The ANDS annual report indicates that there is a 45% financing gap of major ANDS sector projects. To head off future instabilities and serious food shortages, the critical projects in water, energy, agriculture, and housing must be expedited and undertaken now. .

- 9) Another major effort in the “Afghanization” process is to strengthen the capacity of the Afghan private sector. At present, this sector is very weak but has great potential for growth. There are possibilities for joint ventures. On the job training must be given priority, and gradually a large percentage of the projects must be given to Afghan businesses. There should be an enterprise fund with donor and private sector funds and with some contribution from the Afghan government to finance joint projects. Joint ventures of international companies with Afghan business can attract foreign direct investment and can also facilitate skill transfer to the Afghan labor force. The energy, mining and agriculture sectors are primary areas for private sector development.

### **Regional Considerations**

The problems facing Afghanistan and the development of its economy and social advancement are highly dependent on the events and development in the neighboring countries. Afghanistan occupies a strategic location linking Central Asia with South Asia, the Middle East with India and Pakistan, and providing China, India and the Far East with a direct route to the Middle East and Europe. The Afghan population is rising rapidly and its problems cannot be solved by simply investing in Afghanistan alone. It will be best to use Afghanistan as a facilitating mechanism for the joint operation of regional projects within and outside Afghanistan which will serve as an antidote to the insecurity of the entire region. A two-tiered approach must be undertaken to address the regional economic and security issues.

(a) The situation in Afghanistan will not improve much as long as its neighbors follow policies that serve only narrow and short-term political advantages. They need to take into consideration that a stable Afghanistan is mutually beneficial to Afghans, the region, and the rest of the world. Instability in Afghanistan has now spread to Pakistan and could very conceivably spread to other countries. The international community, the US government, the Afghan and Pakistani governments and other regional neighbors must make an effort to find a regional approach that assures the safety of the Afghan people.

(b) Afghanistan historically has been the crossroad of Asia. Its traditional role was to be a facilitator of trade commerce, energy, water, labor, investment and knowledge. Afghanistan can serve this pivotal role again, and the best way to begin the integration of the region is through well-designed mutual projects between Afghanistan and its regional neighbors. This process has already begun with China, but needs to be vigorously followed with other nations in the region. Investment in production of food resources, particularly from the gulf countries, and international investment in energy and extractive industries in Afghanistan and its regional neighbors will prove to be mutually beneficial.

### **V. CONCLUSION**

The disaster that has befallen Afghanistan has been extremely costly for the Afghan people and the world in terms of its destruction of the population, terrorism, narcotics,

and spillover of instability in and around the region. At present, at least seven atomic owning nations are vying with each other in Afghanistan (Pakistan, India, China, Russia, possibly Iran, U.S., and U.K.). The strategic role of Afghanistan and the region will not diminish for some time to come. The critical source of the insecurity and problems in Afghanistan and the region is the extreme poverty as a result of the destruction of Afghanistan.

Without the simultaneous and rigorous promotion of economic development and growth it is highly unlikely that the insecurity of the region will subside anytime soon. Using military means as the only pre-requisite for future economic development will not suffice. It is much more likely that if substantial progress in the economic sphere is experienced by the population, it will facilitate the emergence of security and application of law and order in Afghanistan and the region. This will be costly and will require a long term integrated plan, effective cooperation of the governments in the region, and the international community. However, this cost and time will be very small in comparison to the continued upheavals that will emanate from the region if left abandoned. Its effect will be felt throughout the world as well as for the indigenous population. If the NATO and U.S. governments pursue this course of economic development they should do it well and simultaneously on all the phases discussed above. Otherwise, they have the option to withdraw under one name or the other and live with the consequences.