



Opportunities for Economic Growth in Afghanistan

By Abdullah Sarwary¹

Economically speaking, Afghanistan is a weak state. The 2011 Ease of Doing Business Report by the World Bank ranked Afghanistan one of the most difficult countries (167 out of 183) in which to do business. Also according to the World Bank, 97% of Afghan Gross Domestic Product (GDP) is supported by foreign aid, while 42% of the Afghan population is living below the poverty line.² Afghanistan has received approximately \$60 billion of official development assistance from the International Community (IC) since 2001.³ But due to a variety of reasons including corruption at all levels of the Afghan government and fiscal mismanagement, Afghanistan has not developed a sustainable domestic economy.⁴ While the above paints a bleak picture of the present Afghan economy, there are still several domestic opportunities that can contribute to long-term economic and political stability in the country. This article discusses a few of those opportunities, concluding that Afghanistan's economy does have potential, however, that potential is unlikely to be fully realized unless the political ramifications of further development are mitigated.

The most valuable source of potential economic development in Afghanistan is the rich mineral mines that are found on an abundant scale in various regions of Afghanistan. There are currently more than 1,400 discovered mineral deposits of gems, copper, iron, ore, gold, and lithium in Afghanistan. U.S officials have estimated that mineral wealth in Afghanistan is worth \$3 trillion while the Afghan Ministry of Mines announced in June 2010 that the minerals may well be three times more valuable than what the US estimated.⁵ These untapped deposits have enormous potential for economic development in Afghanistan. For the extraction of these resources, the Afghan government has contracted international mining conglomerates including the Chinese state-owned China Metallurgical Company who

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² World Bank, "Afghanistan at a glance", Online. February 2011

³ Richburg, Keith, "U.S. boost efforts to track aid money to Afghanistan", 12 January 2010

⁴ Aid Effectiveness in Afghanistan - Matt Waldman, March 2008

⁵ ACCI – Mining in Afghanistan, 24th August, 2010



has won the right to mine the Aynak copper mine, located south of Kabul. The annual income of Afghanistan from the current tenders with international mining companies is 30 million USD and future successful contracts with international companies could increase this amount to billions of USD each year. The Afghan Ministry of Mines has said that based on their economic plan, the annual income of the Afghan government through mining could increase to 3.5 billion USD within the next 15 years.⁶ If this happens the estimated increase in government income through mining will cover 77.7 % (4.5 billion USD) of the total core budget of the Afghan government. Some analysts highlight the danger of rushing to exploit Afghanistan's natural resources too quickly: political instability and even greater corruption are factors most often cited.⁷ The extraction projects that are presently underway will be watched very closely to determine whether the hypothesis that Afghanistan's minerals will become a curse rather than a blessing has merit. Regardless of the outcome of these current projects, and even without its natural resources, Afghanistan has potential for economic development in other sectors.

Traditionally, the Afghan economy is agriculturally based, and 80% of the Afghan population earn their livelihoods from farming. Agricultural products generate about 31% of Afghanistan's licit GDP with wheat cultivation making up the largest and fresh and dried fruits making up the second largest share of agricultural production. Major dried fruit exports from Afghanistan include raisins, figs, almonds, and pistachios. For example, raisin exports in 2009-2010, was \$53 million while almond, pistachio and walnuts together was close to \$95 million during the same period. The former made up 21 % and the later 32 % of total agricultural exports. Livestock products account for 14 % of agricultural GDP. Dried fruits are anticipated to be the engine for boosting the agricultural Gross Domestic Product (GDP) and exports of Afghanistan in the upcoming years to Afghanistan's major export destinations- Pakistan, India, Iran, Russia, and Central Asian republics.⁸ Despite the above potential for goods exportation, still eighteen percent of the total imports of Afghanistan are basic food commodities such as wheat and wheat flour, rice, sugar, vegetable oils, chicken, beef, and

⁶ RAWA News – Afghanistan Mining Income to reach 1 Billion USD, 6th January, 2011

⁷ Thomas Ruttig, "The Great Hindukush Gold Rush", AAN-Afghanistan 20 August 2011

⁸ USDA Foreign Agriculture Service – GAIN Report, Afghanistan, 9th July, 2011



tea.⁹ This list of imports suggests that Afghanistan's domestic economy still has a long way to develop. With financial and technical assistance from international donors, the Afghan government has designed a number of agricultural development programs to boost the agricultural products both quantitatively and qualitatively. These programs, funded by World Bank, Asian Development Bank (ADB), International Fund for Agriculture Development (IFAD), Department for International Development (DFID), United States Department of Agriculture (USDA), and United Nations Food & Agriculture Organization (UN-FAO), could each contribute to economic development in Afghanistan. These programs will increase the agricultural products both in horticulture and livestock so as to generate maximum agricultural GDP that in return will contribute to the growth of Afghanistan's economy.

However, despite the above potential for economic growth there are still significant hurdles to be overcome in Afghanistan if its economic potential is to be realized. For instance, a lack of infrastructure such as cold storages prevents many Afghan exports from reaching neighboring countries; many fresh goods will spoil by the time they reach market. There are two possible solutions. The most obvious solution is to focus on the infrastructure required to facilitate exporting of goods such as cold storages and roads. However, this is a difficult endeavor in remote provinces where security is a serious concern; new roads (and their construction crews) have been regular targets of Taliban attacks in the past. Second, the government of Afghanistan can encourage domestic and foreign investors to establish food processing and preservation industries for the manufacturing of fruit jams, pastes, and pickles, processed meats and pasteurized dairy products. The establishment of food processing factories will boost the export of food items to the international market. Recently, an Arab-American company has committed to investing \$100 million to build a food processing plant to help bring Afghan goods to the international market, a needed and greatly beneficial step to develop Afghan's domestic economy.¹⁰

Many have argued that Afghanistan's geography is its curse, but it can also be an economic blessing.¹¹ As a link between Central Asia, South Asia, and the Middle East Afghanistan

⁹ Ibid.

¹⁰ Tolo news, Arab-American Company Investing \$100 million for food processing", 10 September 2011

¹¹ DG McNeil, "Next for Afghanistan, the Curse of Plenty?" NY Times 18 June 2011



could become an important hub of international trade. In order to become this international hub though requires further security in the peripheral regions of Afghanistan as well as considerable infrastructure development. Afghanistan needs to build roads, railways and civil aviation facilities.¹² These linkages with Central Asia, South Asia, and the Middle East will enhance the international trade of raw and processed materials, which will attract further foreign and domestic investment to Afghanistan. Numerous benefits to both the foreign investors and the Afghan people will be received. First, the investors will be provided with profitable opportunities to invest in logistics and transportation, construction materials, telecommunication, and natural resources. Secondly, the Afghan products, agricultural livestock as well as minerals will be exported to the potential markets at low cost with roads, railways, and civil aviation. Thirdly, the import of the demanded commodities from nearby markets will make the Afghan market inclusive and cheap for the Afghan public. Fourthly, trade among the countries of Central Asia, South Asia, and Middle East could be transited through Afghanistan which could potentially increase Afghan national revenues to nearly equal with the custom revenues of neighboring countries as a result of trade corridors through Afghanistan.

The effective utilization of the afore-discussed economic opportunities can boost the Afghan economy in many aspects. With the development of the agricultural and mining sectors, foreign and domestic investment in other industries will boost the domestic employment rate. Goods imported to the Afghan market will become more economical. The national revenues of Afghanistan will be boosted through increased custom revenues from imports and trade transit with other countries. These are all good prospects for Afghanistan's domestic economy, but the political ramifications of an increased domestic economy must not be underestimated.

¹² Afghanistan – EID Cluster, National Priority Programs, July 2011