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Afghanistan's Economic Transition: Path to Long-Term Stability

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Abstract

Much of the discourse on inequal (transition) in Afghanistan has focused on the numbers and capacities of the Afghan security sector tasked to repulse insurgent onslaughts. Civilian capacity building, economic opportunities, trade, transit and investment that would potentially change the narrative of Afghanistan from being an aid-dependent state to a self-sustaining economy, has received much less attention. As Afghanistan traverses a challenging path, the economic component will be critical to shore up Afghanistan's institutional capacities and bring in long-term stability.

The *inequal* process assumes that Afghanistan will remain an aid-dependent state, in need of international financial assistance to sustain its economy, security and development initiatives for at least another decade. However, the dwindling financial assistance to Afghanistan has given rise to concerns about the international commitment beyond 2014. Contrary to Afghan

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government's November 2011 estimate², it requires US\$120 billion (at the rate of US\$10 billion per year) in aid in the post-2014 period, through 2025. At the Tokyo summit in July 2012, however, international community promised to give a meagre US\$16 billion through 2015 to build its economy and make necessary reforms. Even the development aid from US, the largest donor, has dropped from US\$3.5 billion in 2010 to about US\$2 billion in 2011. Aid to support democracy, governance and civil society dropped by more than 50 per cent and from US\$231 million to US\$93 million and the allocation of support for "rule of law" dropped from \$43 million to \$16 million.³ In 2012, the World Bank warned that such a drop in aid-giving "could lead to major macroeconomic instability and serious socioeconomic consequences."

The full impact of the shrinkage on Afghanistan's economic growth, fiscal sustainability and service delivery will probably not be felt until after 2014. However, it is imperative to shore up Afghan state efforts to compensate for such shrinkage of external support, by way of exploring avenues for revenue generation, trade, foreign investment and development of indigenous economic base. Each of these is a huge challenge given Afghanistan's current state of economic growth. The World Bank's 2012 "Doing Business" report ranked Afghanistan at 168 in a list of 185 economies for the ease of doing business⁴, a decline of six positions from the 2011 ranking.

While the second Bonn conference on 'Afghanistan and the International Community: From Transition to the Transformation Decade' held in December 2011 set an extended period of international assistance, 2014-24 and termed it the 'transformational decade', the contours of international assistance and engagement remain highly unclear. A series of international conferences seems to miss the crucial point that stabilising Afghanistan by devising quick-fix solutions and setting arbitrary timelines do not meet the needs on the ground. A successful transition is contingent on the continued, albeit slow, growth in the administrative capacity of government ministries, and on improvements in local governance, civil service, development and employment opportunities at the provincial and district level.

With the intensification of the search for the Afghan 'end-game', a regional consensus by forging greater cooperation is seen as a way out of the imbroglio.⁵ One way of building a

² Towards a Self-Sustaining Afghanistan, An Economic Transition Strategy, Speech of President Hamid Karzai, Bonn Conference, Government of the Islamic Republic of Afghanistan, 29 November 2011, http://www.auswaertiges-amt.de/cae/servlet/contentblob/604482/publicationFile/162938/Economic_Side_Event_Towards_a_Self_Sustaining_Afghanistan.pdf. Accessed on 24 March 2013.

³ Julian Borger, 'Afghanistan conference promises support after troop withdrawal', The Guardian, 5 December 2011, <http://www.guardian.co.uk/world/2011/dec/05/afghanistan-conference-support-troop-withdrawal>. Accessed on 21 March 2013.

⁴ Doing Business, World Bank, June 2012, <http://www.doingbusiness.org/rankings>. Accessed on 23 March 2013.

⁵ Haroun Mir, 'Is Regional Consensus on Afghanistan Possible?' in Shanthie Mariet D'Souza (ed.) *Afghanistan in Transition: Beyond 2014?* (New Delhi: Pentagon Press, 2012).

cooperative regional architecture is through greater trade and transit, investment opportunities, including energy pipelines. The Istanbul Conference for Afghanistan: Security and Cooperation in the Heart of Asia, held on 2 November 2011, provided a new agenda for regional cooperation, by emphasising on a regionally owned process led by Afghanistan, with support and collaboration from its near and extended neighbours which would make this effort ‘sustainable and irreversible’ in the long-term.⁶

Attempts have also been made to link the prospect of Afghan's self-reliant economic future to its resource potential. The discovery of huge reserves of minerals and natural gas has raised hopes of possibility of revenue generation, foreign investment and employment opportunities. To what extent these strategies can overcome the need to bring in security remains to be seen.

The Afghanistan International Investment Conference of 30 November 2010 held in Dubai and the Brussels Euro Mines Conference of 26 October 2011, aimed at promoting economic investment in Afghanistan, made valuable recommendations, but they essentially put the onus for investment on actions to be initiated by Afghanistan. The 28 June 2012 Delhi Summit, taking into consideration the realities and needs on the ground, explored near-term and long-term possibilities in the current environment and at the same time, sought a mechanism to address the needs of foreign and private sector investors and the government of Afghanistan. This is reflective in the efforts geared to catalyse investment decisions and forge cross-country and international partnerships to promote cooperation and greater collective confidence.

The long-term economic benefits, revenue and employment opportunities arising out of investment, trade and transit would help build ‘constituencies of peace’. The Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline is another regional collaborative venture that has enormous potential of bringing in economic dividends through mutually beneficial regional cooperation. The forging of a greater stake and regional commitment to rebuilding Afghanistan through economic opportunities, foreign investment and transit potential – by capitalising on Afghanistan’s location, energy and mineral resources in a mutually interdependent regional framework – could pave the way out of the stability-instability paradox.

Despondency, however, would be premature. A unified vision and effort of putting Afghans in the lead for rebuilding their state and society, which remains the missing link in the decade-long international engagement in Afghanistan, needs priority emphasis. It is critical to set realistic timetables on drawdown based on conditions on the ground. Shoring up the state’s capacities and institutions before the drawdown date of 2014 through long-term

⁶ Author’s interview with Javed Ludin, Deputy Foreign Minister, Government of Afghanistan, Kabul, 30 June 2012.

international commitment, provision of economic opportunities and greater regional integration would remain the key to achieving durable peace and stability in Afghanistan.

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