Published: December 15, 1997
Last Updated: January 17, 2017

ECONOMY XI. IN MODERN AFGHANISTAN

ECONOMY

xi. IN MODERN AFGHANISTAN

Introduction. Attempts at modernization in Afghanistan in such spheres as land tenure, taxation, currency, and trade were made in the 19th century by various governments and with different degrees of success. (For historical background on these reforms, see the relevant chapters of Ali; Ḡobār; Kakar; Gregorian; Dupree; Ḥabībī.) Two factors constrained government efforts at reform: limited domestic resources and an overriding concern for safeguarding the country’s sovereignty and independence. Modernization entailed opening avenues to European imperialism through dependence on European resources and technology, especially in the later 19th and early 20th centuries. Ironically, while market economies in Europe, the United States, and other parts of the world suffered from the Great Depression of the 1930s and subsequent entanglement in World War II, Afghanistan experienced significant development in finance, manufacturing, trade, land reclamation and settlement, and broad modernization. Afghanistan’s first modern banks, Bānk-e mellī (National bank), organized by private entrepreneurs with government support, and D’Afḡānestān bānk (the central bank), were established in 1932 and 1938, respectively. A significant number of modern, privately financed and operated manufacturing plants were established under the leadership of Bānk-e mellī (see below), whereas earlier attempts at industrialization had been undertaken as government programs. Trade also expanded, under both private and state monopolies. The largest reclamation program ever undertaken in the Helmand valley was initiated in 1946 (Wezārat-e pelan, 1960, pp. 84-87; idem, 1961-62, pp. 10-12). Although important, these developments fulfilled but a fraction of the requirements for modernization of the country. After a decade without further economic reform or development the government made serious attempts to achieve modernization and development through a series of five-year plans, beginning in 1956.

Sustained growth in Afghanistan. From 1970 until the coup d'état in April 1978 by the combined Ḵalq and Parčam branches of the Communist Party (see COMMUNISM iv), followed by the Soviet invasion in December 1979, the Afghan economy experienced sustained high economic growth. Gross domestic product (GDP) rose at a rate of 4.5 percent annually in constant prices (Table 1). Major structural changes also occurred, as aggregate shares of output and employment declined in the agricultural and primary sectors and increased in manufacturing and service industries. The high rate of growth in comparison with the previous decade was generated by increasing domestic investment and to a lesser extent by foreign assistance. The absolute value of annual gross capital inflows had risen from a low of $31 million in 1970 to $41 million by 1979 (Table 2). As a proportion of gross national product (GNP), capital inflows had, however, declined from about 48 to 29 percent, indicating a smaller contribution to the growth of GNP (Noorzoy, 1976). According to World Bank data, gross domestic investment rose at a rate of about 11 percent a year during the period 1970-77, whereas in the preceding decade it actually fell (Table 1, above). It seems that large public investments in the infrastructure, including communications, transportation (especially the road system), education, health services, and irrigation, under the series of five-year plans from 1956 to 1969 were bearing fruit.

In addition, improvements in the terms of trade during the same period contributed to the sustained increase in real national income. Both exports and imports experienced double-digit growth rates during the period 1970-77, compared with only single-digit growth rates during the preceding decade (Table 3). Increases in exports and export prices were greater than those in imports and import prices, however, resulting in a significant increase in foreign-exchange reserves and an increase of more than 4 percent in the annual index of terms of trade for the entire period 1970-77. Furthermore, by 1977 the rates of growth of exports and imports were accelerating—to 39.6 percent for exports in 1977 and to 25.7 percent for imports. Another significant area of change was education, including a rising literacy rate and, for the first time in 1975, enrollment of 1 percent of the adult population in higher education (Table 4; see EDUCATION xxvii). Employment opportunities in manufacturing, service industries, and growing educational facilities also drew a rising proportion of the population to urban areas.

There were also other reasons why the Afghan economy reached a developmental threshold in the 1970s. As prime minister between 1953 and 1963, Moḥammad Dāwūd Khan had become aware of criticisms that the country was too dependent upon Soviet assistance and that private investment was not strongly encouraged. As president of the republic (July 1973-April 1978) he took these sentiments into account in making policy. The first seven-year plan (Wezārat-e pelan, 1976), for the period 1976-83, was designed to promote national self-sufficiency through a broad policy of finding substitutes for imports and foreign financing. The enactment of the Foreign and domestic private investment law (Qawānīn-e sarmāya-goḏārī-e šaḵṣī-e dāḵel wa ḵārejī) in 1974 was intended to encourage private investment; it was followed by a series of laws aimed at instituting other significant reforms (Wezārat-e pelan, 1976, I). They included the Land- reform Law (Qānūn-e eṣlāḥāt-e arżī), the Statistical law (Qānūn-e eṣlāḥāt-e eḥṣāʾīya), and the Banking law (Qānūn-e bānk-dārī), all enacted in 1975, and the Graduated land-tax law (Maḥṣūlāt-e tadrījī-e zamīn-dārī) of 1976 (Brunner, Kerr, and Noorzoy). The seven-year plan also encompassed the most detailed and ambitious projects in the history of Afghan planning, including construction of 1,801 km of railroads, the first in the country, to connect Kabul with border towns in Persia and Pakistan through Herat and Qandahār. This project was to have been financed largely through a loan from Persia. Another objective was the establishment of heavy industry (steel, copper, chemicals, petroleum refining) based on the natural resources of Afghanistan (Noorzoy, 1987; Shroder and Assifi).

Despite extensive Soviet involvement in the planning process itself, a major policy objective of Moḥammad Dāwūd's seven-year plan was to shift the basis of financial support for Afghan economic development away from the Soviet Union to Middle Eastern countries, principally Persia, Kuwait, and Saudi Arabia. For implementation of programs requiring a total investment of $2,796.2 million, $1,291 million was expected from Persia, $115.2 million from

Kuwait, and $71.5 million from Saudi Arabia, accounting for 52.8 percent of the total. Funding from the former Soviet Union was projected at $640.5 million, or 22.9 percent, and the remaining 24.3 percent was to come from other countries (World Bank, 1978, II, p. 97). The Soviet Union had been the largest single source of assistance for implementation of all the five-year plans since 1956, and this shift in economic policy is seen by most Afghans as an important reason for Soviet support of the 1978 coup d'état against Moḥammad Dāwūd's government.

Economic impact of the civil war and the Soviet invasion. At the time of the July 1973 coup, when the monarchy was abolished and the republican regime installed under Moḥammad Dāwūd, the Afghan economy had just begun to manifest the first signs of expansion after years of careful planning and large public investment, yet they were still barely visible to the public. In 1978 the communist coalition regime nullified the laws of the republic and attempted instead to govern by decree. The 1978 decrees no. 6, dealing mainly with cancellation of the debt obligations of the landless and mortgage payments of peasants, and no. 8, intended to confiscate and redistribute private landholdings among the peasants, led to strong rural and urban unrest and to resistance across the country. Because of spreading civil war and the ensuing Soviet invasion in 1979, the seven-year plan was only partially implemented. The communist regime also abandoned this plan, announcing in its place another five-year plan, for the years 1979-83 (Noorzoy, 1983, pp. 43-44).

Moreover, the civil war and the Soviet invasion brought an abrupt end to economic growth and peaceful progress in the country, provoking massive economic dislocations. Most notably, a large part of the population was forced to emigrate, and the spread of war destroyed the economic infrastructure, as well as the productive and service sectors. There were 400,000 Afghan migrant workers in Persia, who were prevented by the civil war from returning home in the foreseeable future, and by the end of 1979 they had been joined by approximately 200,000 Afghan refugees (United Nations [U.N.] General Assembly, 41st session, document A/41/778, 10 January 1987; U.N. General Assembly, 42nd session, document A/42/667, 23 October 1987; U.N., 1987; U.N. General Assembly, document A/401/843, 5 November 1985). The number of Afghan refugees in Pakistan had risen to 400,000 by the end of 1979. By 1987 Afghan refugees totaled about 3.5 million in Pakistan and 2.25 million in Persia (see DIASPORA ix-x). An estimated 100,000 Afghans were scattered throughout the Middle East, Europe, and North America. As many as 1.5-2 million Afghans were also displaced internally. Thus, as much as 50 percent of the country's estimated population of 15.55 million in 1979 had been uprooted by 1987 (Noorzoy, 1988b, chap. 7). The broad impact, as well as specific effects, of the civil war and invasion on the Afghan population and economy will become clearer as more information becomes available. The United Nations (1991, p. 96) estimated that during the war 2 million Afghans were disabled physically, mentally, or both (cf. *Newsweek*, 26 December 1988, p. 36; U.N., 1993b). Although there are no official international estimates of population loss caused by the war, unofficial calculations put it at 9-10 percent for the years 1978-87 (Sliwinski, p. 12; Noorzoy, 1988c, p. 9).

Economic conditions since the fall of the communist regime. On 27 April 1992 a coalition of factions of the Mojāhedīn (freedom fighters) took over the government in Kabul; Ṣebḡat-Allāh Mojaddedī and Borhān-al-Dīn Rabbānī served successively as acting president for two and four months respectively. According to the Peshawar agreement of April 1992, Rabbānī was to prepare for general elections. Instead he and Aḥmadšāh Masʿūd, the minister of defense, were accused of attempting to form a government excluding the other groups, and Rabbānī continued in power. This conflict led to a new civil war. The Kabul government was thwarted politically and militarily by a coalition of forces led by Golb-al-Dīn Ḥekmatyār. Having established its control over only parts of the capital and lacking any authority in most areas of Afghanistan, the government appeared unable to collect taxes or to prevent further disintegration of the economy. In attempts to finance current expenditures and to influence the political process, the government repeatedly resorted to printing money, which resulted in hyperinflation and great hardship for the general population. As the economy lay in ruins, the use of fiat money printed in Russia in support of the Kabul regime had great adverse effects on prices, the exchange rate in the private markets, income redistribution, economic production, and the welfare of consumers. More than 600,000 refugees fled Kabul in 1992-94, and those already in Persia and Pakistan could not be repatriated. The former, who had lost both their material assets and income and who received little or no assistance from the world community, were especially vulnerable. The value of the afghani continued to fall, and in October 1994, after the announcement in Kabul that notes in denominations of 5,000 and 10,000 afghanis were being introduced, the exchange rate against the dollar dropped from 3,700 to 4,500 afghanis in the Kabul money market. In late 1995 it plummeted further, to 8,000 afghanis to the dollar. Official data on the supply of money circulating in Afghanistan were not available, even from the International Monetary Fund.

Early in 1995 a new and well-organized force, the Ṭālebān, emerged and began a sweep of the eastern and southern parts of the country, moving toward Kabul. Although the identities of its leaders remained obscure, it was clear that most were former Mojāhedīn commanders. The Ṭālebān seemed to enjoy public support inside the country, disavowing both sides in the civil war and seeking to establish a new Islamic government in Kabul.

The public and private sectors. As a result of the series of official five- and seven-year plans involving large investments in infrastructure and production capacity between 1957 and 1977, it has been widely believed that the greater part of Afghan GDP was generated by the public sector. This belief was strengthened after the 1978 communist takeover. It was expected that the Soviet type of planning would transform the Afghan economy into a system largely under public ownership and control. Attempts in this direction were, in fact, made under the new five-year plan (*Kabul Times*, 15 August 1978), with the goal of raising the public share of national income through increased public investments in agriculture, mining, and manufacturing. Decrees nos. 6 and 8 (see above) were aimed at further centralizing economic activity and policy. Although mining companies in Afghanistan have always been owned and operated exclusively by the state, most newly established large manufacturing enterprises were semiprivately owned and operated and gaining momentum in the 1970s. Manufacturing industries entirely under private ownership had been established mainly during the period 1930-50 with the assistance of Bānk-e-mellī (see below).

Bānk-e mellī and the only other private bank, the Industrial development bank of Afghanistan (Bānk-e ṣanʿatī-e Afḡānestān), had been nationalized under Moḥammad Dāwūd in 1975. The state also held monopolies of the importation of such essential commodities as oil and sugar. By 1989 it controlled 45 percent of Afghan international trade, largely owing to barter agreements and the shift from multilateral markets to bilateral trade with the Soviet Union and eastern European countries (Table 5 and Table 6).

More recently, however, the disintegration of the Soviet Union and the opening of free markets have resulted in the emergence of private trading as the more dominant form of commerce. Moreover, as the Kabul government has had little control over business activity, it has lost its share of international trade to the private sector. Although the state controls such social services as education and health, in 1989 99.8 percent of the output of the largest economic sector, agriculture (see Table 7), was generated by the private sector (U.N., 1989b, p. 14).

According to Table 7, in 1989, even after years of government planning and investment in modernization, agriculture and forestry accounted for 52.6 of GDP (U.N., 1989b, p. 14: 57.4 percent). Based on figures provided by the United Nations Development Program (1989b), the private shares of industry and trade were 55.9 and 86.9 percent respectively; the remainder was held by a mix of public and private owners. Only in construction was the private share smaller than the mixed private and public share: 25 percent versus 75 percent.

These proportions suggest that, despite the Afghan government's massive intervention in the economy since 1950, the private sector is by far the dominant source of output (income) in the economy. Therefore, the relative positions of the public and private economic sectors are not expected to change significantly in the foreseeable future. Nonetheless, given the massive dislocations and widespread destruction over the past sixteen years, the new government is expected to take the lead in planning reconstruction projects and allocating international aid.

Private-sector initiatives. In the history of Afghan economic development the 1930s were the era of private entrepreneurship. At that time the Afghan economy experienced a dramatic expansion of private investment, including dozens of new industrial establishments. The Bānk-e mellī was at the center of this expansion, part of a government-sponsored reform of finance, until then totally controlled by moneylenders (*ṣarrāf*s) in the *bāzār*s. The bank owed its rapid success to government cooperation; beside the grant of a financial monopoly, it benefited when the government subscribed to a stock issue, intended to circumvent Islamic objections to interest payments (*rebā*). Together the bank and the government produced the Overall economic development plan (Pelan-e ʿomūmī-e enkešāfāt-e eqteṣādī) in 1932, the first attempt at providing a framework for the development of the Afghan economy (Hakimi, p. 47). The bank's initial capital of 10 million afghanis in 1932 had increased more than fifty-five times by 1947, when it totaled 553 million afghanis, 4.12 percent of GNP in that year (Fry, p. 47). Under the leadership of the bank president, ʿAbd-al-Majīd Zā-bolī, who later became governor of the D'Afḡānestān bānk and minister of the economy, Bānk-e mellī rapidly expanded its investment services, including domestic and foreign branches, though not without some government reservations and restraints (Fry, pp.

86-90). Between 1933 and 1946 the bank invested in fifty trading and manufacturing firms (Gregorian, p. 363), and in its first ten years, with the help of the government, it organized and financed 100 companies (Franck, p. 431). The bank also issued currency, until 1938, when the D'Afḡānestān bānk was established as the central bank; Bānk-e mellī remained private until it was nationalized in 1975.

Requirements for reconstruction. The problems of social and economic reconstruction and determination of the required resources are complicated by several major constraints. First, there is little available information on the extent of destruction and damage to the physical and social infrastructure and the productive sectors resulting from the war of resistance against the former Soviet Union and the civil war that began in 1992. A survey by the Swedish Committee for Afghanistan (May 1988, pp. 5, 37), for example, shows that there has been extensive damage to irrigation networks, including the system of underground aqueducts (*qanāt*). Table 8 and Table 9 give some idea of the massive destruction in the decade after the 1978 coup, and further losses and destruction occurred during the civil war of 1992-94.

Afghan parties involved in the reconstruction of the country agree on the crucial importance of political stability, a government acceptable to all. Although the scale of reconstruction seems to call for government action, general economic recovery and long-term growth will require significant private initiatives and investment.

In early 1995 the Ṭālebān re-established security in southern and eastern Afghanistan, and trade routes were reopened. The immediate results were a drop in commodity prices and a rise in the currency-exchange rate in the *bāzār*s, from 4,500 to 2,900 afghanis to the dollar. In 1995 the Afghan economy was in need of broad planning programs to meet short-term requirements for social rehabilitation, especially of refugees and the disabled, and to provide for reconstruction of the infrastructure, particularly the irrigation and road systems and health and educational services, and private and public production. Table 10 shows United Nations estimates of the massive reconstruction efforts needed in Afghanistan, though they are probably too low (Noorzoy, 1989).

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