Prospects for Afghanistan’s economy

ROBIN and MICHELLE POULTON

An analysis of available economic indicators suggests that the stability of the Afghan-Soviet frontier is being ensured through a long-term strategy of economic integration between Soviet Central Asia and Northern Afghanistan.

Classified as one of the ‘least-developed’ countries, landlocked Afghanistan has always been overshadowed by its giant northern neighbour. The Russians have been the most important suppliers of technical assistance, and since 1953 the economic plans have always been drawn up with the help of Soviet advisers. The Afghan army has never known other than Soviet equipment and Soviet military aid. Afghanistan’s most important trading partner has long been the Soviet Union; and in times of border conflict with Pakistan or Iran, the land-route through Russia served for nearly all of Afghanistan’s imports and exports.

Since the Revolution of 1978, these economic links have been strengthened. Within days of Noor Mohammad Taraki coming to power, he had signed 25 economic agreements with governments of the Communist bloc. As the internal Afghan crisis deepened under the bloody regime of Hafizullah Amin, economic activity in the country slowly ran down and the increase of armed resistance brought many sectors of the economy to a standstill. In 1979, the total non-agricultural activity in the country consisted of some 130 projects financed by the Soviet Union. In general, 1979 was a year of regression in all but the agricultural sector.

Eighty-five per cent of the Afghan population lives from rural activities: tilling the land, rearing livestock, or working in rural handicrafts and commerce. The subsistence economy provides Afghanistan with its livelihood and with its strength. Except in time of drought, the country can produce its own food, despite the fact that only 12 per cent of the surface is cultivable. The nature of the economy makes statistical calculations unreliable, but the Ministry of Planning estimated the Gross Domestic Product in 1976–7 at 115 billion Afghanis (8.200 Afghanis, or US$174 approximately, per head of population).

President Babrak Karmal’s government, which was installed with Soviet support on 27 December 1979, is now trying to relaunch the country’s economic development. In August 1980, a new Committee for Economic Consultation (CFC) was set up, whose mission is to co-ordinate sectoral programmes, and to stimulate the stagnant economy. The Committee has as members (in order of precedence) the Prime Minister (Babrak Karmal), the Minister of Planning

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and Deputy Prime Minister (Sultan Ali Kheshtmand), the Minister of Commerce (Mohammad Khan Jallal), the Ministers of Finance and of Transport, representatives of Public Corporations and private industry, artisans and economists.

President Karmal clearly intends the composition of the CEC to be a sign that he is not a dogmatic Marxist. While state industrial activity will certainly dominate, the CEC is expected to encourage all industrial investment, including the private sector. The government continues to seek broader support from all segments of Afghan society, and the word is 'moderation'. Agricultural reform will continue, but without the forced pace which proved disastrous under Amin. Co-operatives and state farms will be encouraged, but without disturbing the country's agricultural production. Foreign trade will no longer be a state monopoly. Such are the stated objectives of this government which is seeking ways to break its isolation from the rest of the country, and to gain recognition as the unifying force of the nation. One of President Karmal's problems, however, is his association in the public mind with the Russians.

Foreign assistance and the 1359 Plan

Although the Soviet Union was always the major supplier of external assistance, recent political events have brought its participation to a place of dominance. For the Government the situation is necessary, but highly embarrassing. Ministers would like to be freer. In the past, the Afghans were very skilled at playing off one great power against another, and thereby they succeeded in counterbalancing the weight of their great northern neighbour. During the 1960s, the United States was the second aid-giver after the Soviet Union. The return of Mohammad Daoud in 1973 coincided with the rise of Opec, and huge sums from several Islamic states also promised to reduce the proportional weight of the Russian bear. All that is in the past, for the Afghans are forced to rely almost exclusively on Soviet financial support in 1981.

As a curtain-raiser to a full Five-Year Plan, the Babruk Karmal government issued an Economic and Social Plan for the Afghan year 1359 (21 March 1980 to 20 March 1981). In his introduction to the Plan, Sultan Ali Kheshtmand emphasized the shortfall of planned investments during the previous year 1358 (1979-80). Investments due to be financed from domestic resources were slightly down: 81.4 per cent were actually spent, or 5.7 billion afghans. The equivalent figure for foreign assistance was only 57 per cent of planned investments.

"Furthermore the sum of 232.6 million dollars featured in the investment plan for the year 1358, which we expected to receive from friendly countries and International Agencies. Of this total amount, only $152 millions (or 57 per cent) were actually used.
The reason for this low rate of utilization of external resources is that certain countries, in spite of their earlier promises, refused their assistance and suspended their aid. This also had a negative effect in the private sector."
It is thus clear that foreign assistance during the current year will depend heavily on the Soviet Union and its allies. Seventy-two per cent of external resources in the Plan will come from the Communist bloc, and of the rest, 60 per cent will be provided by the United Nations (UNDP, the World Bank and other agencies). The Islamic nations and the West have dropped Afghanistan from their lists.

In addition to its heavy political and military commitments in Afghanistan, the Soviet Union is also making considerable economic investments. A detailed study of the sectoral and geographical distribution of economic investments, outlined in the Economic and Social Plan for 1359 suggests that they are based upon a long-term strategy for the economy of the region.

The priorities set out by the Afghan government for the year ending 20 March 1981 are indicated in the Table below, which is reproduced from the Plan. The immediate reaction is to notice the high importance accorded to the sector Mines, Industries and Energy, which accounts for nearly half of planned development expenditures. Second in importance, in this overwhelmingly agricultural economy, is agricultural development with 23 per cent of planned expenditure. A closer study of the Plan, and of other economic documents from the Kabul government, brings to light two particularly significant aspects of these planned targets. First, there is great emphasis on the development of the country's natural resources, notably for export to the Soviet Union—a pattern which resembles the economic development of many colonies in the past. The second aspect concerns the geographical distribution of the Russian-financed projects.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Local expenditure (Afghans '000)</th>
<th>Foreign assistance (US '000)</th>
<th>Total (Afghans '000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Irrigation</td>
<td>1,681,900</td>
<td>37,343</td>
<td>3,362,535</td>
<td>23.1</td>
</tr>
<tr>
<td>Mines, Industries and Energy</td>
<td>2,535,336</td>
<td>101,210</td>
<td>6,792,846</td>
<td>46.7</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>840,360</td>
<td>28,592</td>
<td>2,127,440</td>
<td>14.4</td>
</tr>
<tr>
<td>Education and Health</td>
<td>1,134,644</td>
<td>22,708</td>
<td>2,155,724</td>
<td>14.8</td>
</tr>
<tr>
<td>Health</td>
<td>107,740</td>
<td></td>
<td>107,740</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,000,300</td>
<td>189,913</td>
<td>14,546,085</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: 1359 Economic and Social Plan. $1 = Af. 45.

Most of the important Soviet development programmes are situated in the north of the country, in the regions bordering Afghanistan’s frontier with the Soviet Union. This is a terrain less favourable to guerrilla fighting than the other regions of Afghanistan. Here the Red Army is able to control the population more easily than in the mountains of the centre and the east. There seems to be a greater interest in the economic development of Afghan Turkestan than in that of other regions.

expected funds. Immediately after the 1978 Saur Revolution there were few international reactions; President Taraki even persuaded the Americans to continue their aid programme of some $15 million. United States assistance to Afghanistan was stopped after the US Ambassador, Adolf Dubs, was killed in a kidnap attempt in February 1979.
It is true that the Russians are financing projects elsewhere: for example, there will be concrete blocks of flats built in Kabul (4,230 apartments are planned); electrical transmission to Jalalabad will be improved; and colossal sums are forecast for developing the copper deposits discovered at Aïnak, in the Kabul region, which could become the biggest single project of the 1980s. Nevertheless, the majority of Soviet-planned investment in the short term is concentrated in the provinces lying north of the Hindu Kush, the great mountain barrier which separates Kabul from Turkestan. We will quote only the most important examples.

Natural Gas

Since reserves of natural gas were first discovered by Soviet geologists, at the end of the 1960s, in the area around Shiberghan, natural gas has become a major export earner for Afghanistan. The Iranian Revolution increased dramatically the importance for the Soviet Union of these Afghan reserves, for a dispute over price led to Iran turning off the gas-taps late in 1979, and the winter of 1979–80 was bitterly cold for thousands of Soviet citizens deprived of their heating supply.

Gas exploitation has become the major priority for the northern Afghan economy since then. Despite the intentions of former governments, Afghanistan is no longer using its own gas to generate electricity and to manufacture fertilizers. Virtually 100 per cent of the gas is currently exported to the Soviet Union. The fertilizer and electricity factory built by the Russians at Mazar-i-Sharif is now having to run on coal, while frequent strikes among mine-workers have led to the Mazar factory having to shut down for short periods.

The 1359 Plan forecasts an increase in the thermal capacity of the Mazar installations; but this seems difficult to reconcile in the short term with the project to build a new gas pipeline into the Soviet Union—unless the intention is that coal should replace gas on a permanent basis for the gas-starved Afghans.

Petrol

The next priority after gas, is petrol exploration. The French searched for petrol in the south, and found nothing. There are, however, petrol reserves discovered by the Russians in the north (just as there are in neighbouring Uzbekistan, in the Soviet Union). The petroleum obviously increases considerably the economic potential of this region, and exploration is continuing apace. It is planned to build a petrol refinery near the Soviet frontier in Afghanistan.¹

Energy

There are to be improvements to the electrical generating stations in Mazar-i-Sharif and Pul-i-Khumri, north of the Hindu Kush. Another project of greater significance aims to develop the Qanduz river with a series of hydro-electric dams. This proposal should be of great benefit to the economy of the region, where energy resources are lacking.

¹ According to some American analysts, the Soviet Union may become a net importer of petrol during the 1980s. This makes any new source of energy interesting, especially when it is inexpensive, and bought on better terms.
The northern plain of Afghanistan is thus being developed with Soviet assistance to export gas and petrol to the Soviet Union, while at the same time improving local capacity for industrial production. The list of other projects, read together, gives a very clear impression of a progressive integration of the regional economy with that of Soviet Central Asia. There would seem to be a strategy for the economic development of Afghan Turkestan which is based on Russian experience with the republics of Soviet Central Asia, and which will make this region interdependent with the rest of the Soviet economy.

A similar trend is observable in the energy sector: it is planned to build an electrical transmission system linking the Afghan and Soviet grids, so that energy can be exchanged. Thus the Afghans could export energy from the Qunduz river dams to the advantage of the Soviet economy and of Afghan exports. On the other hand, the integration of the grids also means the partial integration of the two economies.

Agriculture

Several important projects are scheduled for the agricultural development of northern Afghanistan. In 1979 it was announced that a vast irrigation canal scheme would be built, carrying water from the Kolcha river near Qunduz, across the steppes beyond Shibergan. Original plans allowed for additional water to be brought into the system from the Amu Darya (the Oxus of the Greeks). This great river forms part of the Afghan-Soviet frontier, before flowing northwards to provide irrigation water for the cotton-growing plains of Uzbekistan; any agreement concerning the use of its water on a significant scale in Afghanistan must have considerable political and economic impact. The construction of such an irrigation scheme could be carried out only by the Soviet Union, which has succeeded in transforming the economy of the Central Asian deserts by ambitious and skilful irrigation. The investment will, however, be enormous, and the project represents a long-term commitment to develop the region.

This development is intended to increase cotton production—once more for export to the Soviet Union. The Soviet model seems to have changed little over the years. State mechanized farms are to be set up, and the sites for the first four are again geographically significant: Balkh, Qunduz and Bughlan in the north, and Herat in the west. The drive to increase cotton production began during the 1980 planting season. Afghan farmers are to produce only cotton, while the Soviet Union undertakes to supply the wheat which is needed to replace traditional subsistence production. As they did in Uzbekistan and Tajikistan between the wars, the Russians are creating a situation of economic interdependence, so as to control food supplies in large regions of the Central Asian plains. The reactions of Afghan farmers also recall the bloody confrontations of the 1930s in the Qunduz area, all travel was suspended during the summer of 1980 because of violent armed clashes between farmers and the authorities in charge of cotton promotion.

Communications

The infrastructure of Afghanistan is weak in rural areas. There is, however, a magnificent system of trunk-roads which allows fast transport all the year round
between the three frontiers of the Soviet Union, Pakistan and Iran, the hub of the system being Kabul, the capital. The Russians built the road down to Kabul from the north; the Americans built the southern road.

Communications with the Soviet Union are being further improved by the construction of bridges over the Amu Darya; and the Plan provides for major improvements to the river ports of Tor Ghund, Hayratan, and Chirkar Bandar. Economic exchanges with the neighbouring Soviet republics will become easier and more frequent.

Officially, more than 60 per cent of trade is with the Soviet Union, and it was reported by Tass (on 30 July 1980) that more than 400 co-operatives, banks and commercial organizations in Afghanistan have agreements with Soviet foreign-trade corporations. Since the political situation has reduced dramatically the proportion of foreign trade which crosses the Afghan frontiers with Pakistan and Iran, presumably some 90 per cent of foreign dealings now pass through the border posts with the Soviet Union.

The building of permanent bridges across the Amu is symbolic for the future development of very close economic co-operation between Afghanistan and the Soviet Union, based in the first instance upon the development of the north. By design or by inevitability, the Soviet Union has come to control all the major levers of the northern economy.

Conclusion

The declared economic intentions of the government are moderate, seeking political unity and economic independence for Afghanistan. Internal strife, allied to the need for Soviet economic assistance, has nevertheless greatly restricted the government’s freedom of action. In the south, the economy is paralysed by fighting. In the north, a Soviet-style programme of development seems to have begun, which may well lead to the partial integration of the economy with those of the neighbouring Soviet republics.

Afghanistan was consolidated in the nineteenth century as a buffer state between the British and Russian Empires. The disappearance of the British Empire removed the stability from this country of disparate ethnic groups scattered around the mountain mass of the Hindu Kush and Koh-i Baba. The unity of the nation rested upon the Mohammadzai royal family, and with their exile, the country’s regions have little to hold them together. The revival of Afghanistan may indeed be a pipe-dream of the Pathan tribes, for the de facto frontier of the Soviet Union may already be the Hindu Kush.