SPECIAL REPORT

ABOUT THE REPORT
Based largely on interviews carried out in Kabul and Mazar-e-Sharif in 2015 and 2010, this report assesses the market economy in Afghanistan today in light of the country’s history, culture, and ideology. Respondents included government officials, diplomats, international aid agency officials, traders, businessmen, business associations, shopkeepers, think tanks, academic institutions, and journalists. Funded by the United States Institute of Peace (USIP), the report is part of a broader examination of economics, peacebuilding, and competing ideologies.

ABOUT THE AUTHORS
Paul Fishstein is an independent consultant who first worked in Afghanistan in 1977. In addition to project implementation, he has conducted research on the economy, rural livelihoods, and aid and stabilization. From 2005 to 2008, he served as director of the Afghanistan Research and Evaluation Unit. Murtaza Edries Amiryar is an economist with a degree from Lawrence University as a Fulbright Scholar and specializes in private sector development, economic growth, and program management. He has led various national research projects in economic development, has spoken on entrepreneurship at TEDx Kabul, and is currently a Chevening Scholar in the UK.

Paul Fishstein and Murtaza Edries Amiryar

Afghan Economic Policy, Institutions, and Society Since 2001

Summary

- In 2001, Afghanistan shifted to a market economy, but the move remains controversial among its citizens, in part because of dissatisfaction with social conditions and because of an association with Western values.
- The younger generation is somewhat more in favor of a market economy that rewards initiative and merit. At the same time, desire for the government to exert greater control is widespread.
- The post-2001 government has been blamed for failing to create jobs and adequately enable the private sector. Some believe that this failure is an abdication of social responsibilities that reinforces Taliban propaganda about a corrupt state in thrall to foreigners.
- Sectors such as telecommunications and higher education, however, have seen considerable growth and helped improve the lives of many Afghans. This success is attributed not only to substantial consumer demand but also to appropriate government policy.
- Supporters and skeptics alike believe that support for the market economy was undermined by hasty implementation when the political, institutional, and legal environment was not ready for it. The privatization of state-owned enterprises was especially unpopular because many were sold to associates of high officials in a nontransparent way.
- The ambivalence of government officials, which is due to a combination of ideology and self-interest, has delayed, suppressed, or hijacked implementation of liberalization policies.
- Free trade is considered to have been harmful to Afghanistan because predatory neighbors and the lack of government protection are seen to have led to the destruction of the country’s few industries. Conspiracy theories abound, and some have merit.
- Desire is quite strong among Afghans for self-reliance, especially in wheat and in electricity, which could be generated by the country’s water resources. A mix of nationalism and distrust informs the attitude toward exploitation of mineral resources.
About the Institute

The United States Institute of Peace is an independent, nonpartisan institution established and funded by Congress. Its goals are to help prevent and resolve violent conflicts, promote postconflict peacebuilding, and increase conflict management tools, capacity, and intellectual capital worldwide. The Institute does this by empowering others with knowledge, skills, and resources, as well as by its direct involvement in conflict zones around the globe.

Board of Directors

Stephen J. Hadley, (Chair), Principal, RiceHadleyGates, LLC, Washington, DC • George E. Moose (Vice Chair), Adjunct Professor of Practice, The George Washington University, Washington, DC • Judy Ansley, Former Assistant to the President and Deputy National Security Advisor under George W. Bush, Washington, DC • Eric Edelman, Hertog Distinguished Practitioner in Residence, Johns Hopkins School of Advanced International Studies, Washington, DC • Joseph Eldridge, University Chaplain, Stanford University, Palo Alto, CA • Kerry Kennedy, Professor of Practice, The George Washington University, Washington, DC • Nancy Lindborg, President, Leadership Conference on Civil and Human Rights, Washington, DC • Ilkram U. Khan, President, Quality Care Consultants, LLC., Las Vegas, NV • Stephen D. Krasner, Graham H. Stuart Professor of International Relations at Stanford University, Palo Alto, CA • John A. Lancaster, Former Executive Director, International Council on Independent Living, Potsdam, NY • Jeremy A. Rabkin, Professor of Law, George Mason University, Fairfax, VA • J. Robinson West, Chairman, PFC Energy, Washington, DC • Nancy Zirkin, Executive Vice President, Leadership Conference on Civil and Human Rights, Washington, DC

Members Ex Officio

John Kerry, Secretary of State • Ashton Carter, Secretary of Defense • Gregg F. Martin, Major General, U.S. Army; President, National Defense University • Nancy Lindborg, President, United States Institute of Peace (nonvoting)

About the Institute

The views expressed in this report do not necessarily reflect the views of the United States Institute of Peace, which does not advocate specific policy positions.

To request permission to photocopy or reprint materials, e-mail: permissions@usip.org

- There are indications that the more technocratic, reformist national unity government is attempting to improve the climate for private sector economic activity, but this is a long-term process that will require persistence, stability, and support from the international community.

Competing Ideologies

What is often overlooked in Afghanistan’s impressive but highly uneven economic progress over the fourteen years since 2001 is the profound parallel ideological transition. The general expectation after the fall of the Taliban, at least among Afghans, was that the state, equipped with financial resources and technical assistance from the international community, would once again take the lead in the economic sphere. Instead, Afghanistan adopted a market economy in which the private sector was to be the driver of growth and the government was to create the enabling environment in which the private sector could thrive. This was a new policy—if not imposed at least inspired by Western donors—that reflected in part the profound changes in the global environment that had unfolded over the previous two decades. Economic progress has been mixed—high aggregate growth but concentrated in unsustainable donor-driven sectors that have not delivered adequate employment or reduction in poverty—and society is still divided on the practical and ethical implications of the ideological shift.

Afghanistan’s Economic System

Since its initial steps toward modernization in the early twentieth century, Afghanistan has had what is called a mixed guided economic system rather than a Soviet one. The majority of the economy consisted of informal agriculture and small-scale private sector trade and services. Larger enterprises, symbols of the government’s modernization push, were either completely state owned and managed by the various line ministries (shares belonging to the Ministry of Finance and the relevant ministries) or organized under the shirkat (share) system, under which 40 to 45 percent of stock was under direct government control and the rest in private hands. These private hands were usually either government officials or members or associates of the royal family (often one and the same), which conveniently guaranteed both personal profit and support from the state. Critics of the system say that granting the government an easy source of extracted income discouraged other enterprises and created an extensive shadow economy that largely bypassed state control.

Lurches in policy, from statist to private to nationalization, have been developments perhaps as much as the often-stifling government control. According to one observer, “Interference in the private sector...has had an extremely damaging effect not only by making legitimate profit hard to earn but also by increasing uncertainty in what was already an uncertain environment.” In fact, the overwhelming informality of the economy over the years has been attributed in large part to entrepreneurs’ fear of becoming too visible, lest the state or its agents decide to tax an enterprise or even appropriate it. Afghan entrepreneurs’ preference for short-term trade over long-term investment in production has been attributed to this overall uncertainty, not just during the years of conflict but throughout Afghanistan’s modern history as well.

Historically, Afghanistan’s primary source of government revenue has been foreign assistance. Kabul managed a competitive coexistence between the United States and the Soviet Union during the Cold War, when each was in a generous mood in an attempt to win friends and influence nations. By the time the People’s Democratic Party of Afghanistan (PDPA) took
power in a coup in April 1978, Afghanistan was the Soviet Union's third largest recipient of development aid. Thereafter, the PDPA strengthened the role of the state based on a socialist ideology of class struggle, the goal of which was for rural peasants to leave a backward and exploitative agriculture and join the industrial working class—despite the country's weak industrial sector. The PDPA, many of whose members were part of an aspiring middle class that resented having been shut out by the ruling class, was hostile to those it labeled feudals and capitalists, many of whom were hounded into hiding or out of the country or were killed. To curry favor in the urban areas under its control, the state expanded social services and subsidies on consumer goods. The most visible example of subsidies was the very popular coupon system, in which the state supplied wheat, cooking oil, and other essential commodities to public-sector employees. According to one enthusiastic respondent, “They even provided razor blades.” Because eligibility was rather loosely defined, estimates are that by the late 1980s such subsidies were being provided to 340,000 families.5

Although enclaves were maintained within the primary cities, propped up by Soviet subsidies and technical support, the Afghan economy contracted significantly between 1978 and 2001.6 In 1986, as part of his National Reconciliation Program intended to increase support for the government, President Mohammad Najibullah moved to liberalize the economy and encourage the growth of the private sector, although ongoing conflict discouraged most anything more ambitious than short-term trade. After the fall of Najibullah's government in 1992, to the extent that the mujahideen and the Taliban can be said to have had an economic policy, it continued with the historical mixed orientation—although the reality is better characterized as loot and plunder under the mujahideen and neglect under the Taliban. During this period, institutions and infrastructure continued to decay or be stripped for sale in Pakistan.

In 2002, the new government adopted a market economy. The government’s first strategy document (the 2002 National Development Framework, which was never officially translated into local languages) included, as one of its three pillars, private sector development and inclusive growth. The 2004 constitution dictates that “the state shall encourage, protect as well as ensure the safety of capital investment and private enterprises in accordance with the provisions of the law and market economy.”7 The 1976 constitution, by way of comparison, had stipulated that “private investments and enterprises in the field of intermediate, small and cottage industries shall be encouraged, protected and guided in accordance with the provisions of the law,” but only after noting that

resources such as mine, forests and energy, large industries, communications, important air and surface transport establishments, ports, banks, insurance important food procurement establishments, and archaeological and historical objects are part of the national property and their administration shall belong to the state, in accordance with the provisions of the law.8

The long list of resources considered national property suggests the reluctance of the state to yield control to the private sector. The 2008 Afghanistan National Development Strategy further elaborated that the government’s aim was “development of an enabling environment that encourages the private sector to play a central role in the economic development of the country,” and in which “government is the policy maker and regulator of the economy, not its competitor.” In President Hamid Karzai’s words, “The state will enter into a direct managerial role only when social justice demands its presence.”9
The Market and Its Discontents

The consequences of the market economy have been heavily debated in both intellectual and popular Afghan discourse. Supporters point to the obvious achievements (mobile phones, air travel, construction boom, media, consumer goods) and note the positive role competition plays in lowering prices, motivating people to improve their lives, raising the standard of living, and making a greater range of goods available. They also note that the private sector was more flexible and nimble than the government. As one respondent put it,

It is from the blessings and abundance of this free market that today in all houses there is telephone, along with radio, television, and computer. People have access to the Internet. The government is not able to do this sort of thing. Today, several television stations are broadcasting. Journalistic information has become very advanced. People in the shortest amount of time are informed of everything that happens. All of this is the result of the free market.

Skeptics, on the other hand, believe that the unprecedented foreign military and development spending created the wealth. The market economy, detractors claim, is responsible for the country’s current adverse economic and social conditions. They stress a number of major themes: lack of justice and equity, an increasing division of society into the minority rich and the majority poor, the state’s abdication of its responsibility to ensure social welfare by creating employment, the capture of benefits by a small set of corrupt individuals with ties to commanders and other powerholders, the rule of the economic realm by mafias and oligopolists who have suppressed fair competition, and fallout from an open trade regime that has swamped Afghanistan with imports. The themes are often succinctly summarized as “high prices, low quality, and anyone can do whatever they want.” The disagreements are summed up in the pundits’ play on the Dari phrase bazar-e azad ya bazar-e azar (free market or market of torment).

Despite official policy, the lack of commitment to the market economy among officials, including the all-important rank-and-file office workers (mamurin), is widely noted. As one academic put it, “Most from top to bottom don’t believe in the new system—even if they were responsible for implementing it.” As a result, policy initiatives such as privatization have been actively resisted:

People who are working in key positions, they don’t believe in the market. It’s either because of lack of knowledge or due to a lack of commitment….When leaders believe in such ways, then obviously they will create big obstacles for trade, they don’t believe in the system and they won’t take time to implement it.

Officials’ motivations are a mix of ideological and personal. Many officials benefited from the old system through links with the business community and had to respond to political and social pressure for khedmat (services, but often rather narrowly defined as patronage benefits to individuals or groups). Knowledgeable sources connected with the Ministry of Commerce and Industries said that officials had even come close to revitalizing the coupon system, and some have seen evidence of lingering influence in the government’s recent creation of state-owned Salam Telecommunication as sister to Afghan Telecom, despite evidence that the telecommunications market is already saturated. Similarly, the Ministry of Agriculture, Irrigation, and Livestock continues to plan the construction of cold storage and slaughterhouses, despite the involvement of the private sector in both of these activities.

To some extent, attitudes are divided along generational lines, older Afghans steeped in the idea of a welfare state that had its origins as far back as the 1930s being more skeptical. Skepticism is in fact prevalent among the mamurin and even office heads educated before
2001. Many Afghans recall, however imperfectly, the pre-1978 era, when the country was at peace and the state built factories, infrastructure, and other job-creating modern assets and distributed coupons to government workers. (The costs were largely borne by foreign aid.) This nostalgia is not limited, however, to people who were alive at that time, because stories and attitudes are handed down through the generations.

The younger generation—many of whom have been educated either abroad in Pakistan, Iran, or elsewhere or at home since 2001—is generally more open to the values of the market economy. As the CEO and managing partner of a Kabul business group explained, “The new generation believes in competition and gaining the fruits of one’s own labor—more merit based. In the past, we didn’t complain, but now people have higher expectations. They know their rights, while before it was just like sheep and cattle.” To some extent, this more entrepreneurial view reflects the upending of the social order during the war, and that certain groups have improved their relative position and are no longer restricted to the bottom rungs of the economic ladder. Supporters of the market economy believe that views are evolving in their direction in large part because widespread corruption has undermined government credibility.

Attitudes are not precisely correlated with age, however: Kabul and other public university graduates are seen to have more of the past mentality of graduating into a government job, a mentality attributed in part to the tenure of the older faculty, who largely use pre-2001 curriculum. In addition, the perceived failures of the current economic system have boosted the popularity of economists trained years ago in the German Democratic Republic and other Eastern bloc countries, as well as those who were trained at the Polytechnic. These economists appear frequently on television debates to blame the market economy for the country’s adverse economic situation. A certain expectation is also prevalent, informed in part by Islamic notions of equity and the role of the state, that a government should ensure the general welfare of its population.

Regional differences in attitudes based on history are also evident. For instance, many in and around Mazār-e Sharif in the north, the location of a number of significant prewar Soviet-built factories that provided a generous array of social services, are more pro-state involvement than those in Jalalabad in the east, which has long had a freewheeling trading relationship with Peshawar in Pakistan. Partly because of the presence of Soviet projects and companies working in northern Afghanistan, but also through Soviet radio and even television, citizens of Mazār-e Sharif were aware of the factories and advanced agriculture across the border to the north in what was then the Uzbek Soviet Socialist Republic. Commodity barter trade between the two countries was extensive and some sister-city agreements were in place between administrative units in the Soviet Union and towns in northern Afghanistan. Some of the trading relationships still exist, operated by Afghans in Russia. Many in Mazār-e Sharif see the adoption or imposition of the market economy through the lens of the Cold War: Because the United States defeated the Soviets, the free market rather than socialism has become the dominant system.

**Corruption and State Capture**

The most pervasive complaint about the market economy in Afghanistan is that it has led to the capture of benefits by a small group of well-connected individuals and groups and to the creation of mafias, especially in the profitable industries, such as oil, gas, and transport. One counterexample, which may be the exception that proves the rule, is telecommunications. Some attribute the greater external investment in telecommunications to the relatively strong institutions put in place in that sector. Otherwise, the narrative of winners and losers in the new economy is closely intertwined with that of corruption and power. Even aside
from the spectacular cases such as the Kabul Bank collapse, belief is widespread that those who have been most successful have been so because of wasita (personal connections, often used to obtain a favor or advantage): “If you are an expert but don’t have links with the powerful, you can’t get ahead in business.” According to one analyst, “liberalization of the economy according to simplistic Western models, and not taking into account the political economy and conflict dimensions, has effectively been taken advantage of by a select group of individuals, families, and networks that originally gained power and earned money from the war.” Toward the end of the Karzai era, a popular meme referred cynically to the government as a shirkat-e sahami, or stakeholder company.

Many of the big economic players were formerly regional warlords and commanders who either reestablished themselves after 2001 or became entrenched in part by aligning themselves with the international military, who often acquiesced in noncompetitive behavior in exchange for support and “stability.” Counterinsurgency doctrine and, more broadly, the assumed role of economic activity in discouraging conflict meant spending money in the local economy through contracts and purchases of goods and services. Although this helped boost parts of the economy, the extent to which the lion’s share of the funds went to warlords and commanders to the exclusion of others is well documented.

Rather than being regulator as intended, state institutions, especially the courts and police, are seen as instruments of personal enrichment, such as when officials seek rents in the name of enforcing laws and regulations. Unclear and conflicting laws and regulations, as well as undefined roles for various government institutions, increase the opportunity for corruption and rent seeking. Hence there has been competition between the Ministry of Commerce and Industries and the Afghanistan Chamber of Commerce and Industries over who is responsible for thirteen procedures required for exports, such as country of origin certification and hygienic quality. It has been claimed that during the negotiations within the parliament on the Value Added Tax, the majority of exemptions (which totaled 60 percent of imports) were related to goods that members of parliament (MPs) were trading themselves. In fact, given the links between officials, the business community, and powerful individuals, it is sometimes difficult to distinguish between government and private sector. Many have observed that the Afghan economy shows characteristics of “limited access orders,” in which “political elites divide up control of the economy, each getting some share of the rents.”

This may help explain why many of the institutional reforms have been resisted and had so little uptake. It appears that the state has often adopted the forms of these institutions but not their substance. According to one analysis, “the existence of unstable institutions has meant effectively a dual transition process: (i) a bureaucratic facade of transition; and, (ii) a ‘real’ transition which has allowed existing power holders to gain control over new institutions.” For example, disposition of the assets of the state-owned enterprises (SOEs) followed an ostensibly transparent process. In reality, however, government officials sold off equipment, land, and other assets to their associates rather than revitalizing the entities to create jobs. The 2006 lease of the Ghori cement factory in Pul-i Khumri to a group with close connections to the most senior government officials is seen as one of the most egregious examples of a process which was widely seen as “looting” the SOEs for the benefit of the well-connected.

In sum, corruption and the capture of state institutions for the private interests of powerholders has helped discredit the market economy. Although corruption has always been present in Afghanistan, more resources have been in play since 2001, and the market economy has been blamed for the consequences. Corruption, as discussed in the following section, is often framed as an issue of social justice.
Azadi and Liberal Democracy

Most Afghans see the market economy as part of the set of Western, liberal values and institutions transplanted (“cut and paste”) into Afghanistan since 2001. Rhetorically, the United States and other Western donors tied the market economy to the narrative of freedom (azadi) from both Taliban oppression and the dead hand of socialist history. The triumphalist rhetoric of individual freedom and ideology colored thinking about the market economy, “imbued with the assumption that there is a connection between economic growth, free markets, and peace and security.”

Yet within Afghan society the association with unlimited personal freedom is not an unmitigated positive. Some believe that the rhetoric of azadi was either poorly understood or else taken too literally to mean a lack of limits. Some analysts believe that the new, individualistic values are somewhat at odds with the way in which Afghans traditionally drew their identity from family. In fact, for many, personal freedom had negative connotations: a lack of responsibility and the state’s inability or unwillingness to hold commanders and other powerholders to account. Popular discussions on the suitability of the market economy for Afghanistan are strikingly similar to those on “democracy”—mainly questioning whether either was suited for Afghanistan, at least at the present time and state of development.

As one respondent put it, “Free market may be good in Europe, but for us it has not been so fruitful. …we don’t need European democracy or free market.” Rightly or wrongly, both have become associated with impunity and neither controls nor limits. According to another, the free market has been converted to a bad word: sell what you want at whatever price you want. This is a new word for us….The free market has come to mean “do whatever you want”…If you tell people to respect the law, people say that you are crazy, because everyone else is just taking for himself.

As a consequence of the associations with license, impunity, and secularism, in many quarters both the free market and democracy have acquired pejorative connotations. Interestingly, some of the critiques echo the 1960s and the 1970s, when strikes and demonstrations took on an anti-Western color because of perceived inequities in society and the broader international discourse on the left about anti-imperialism.

Social Justice

Many of the complaints about the market economy center on the alleged lack of social justice. The government is described as unable or unwilling to control and manage economic activity partly because it is technically incapable, but more importantly because, as noted earlier, powerful figures have captured large parts of the economy. The belief that the state has abdicated its responsibility for social welfare is fueled in part by nostalgia for a state distribution system and a well-being that probably looks better in retrospect than it did at the time.

The belief that the state should be a moral force somehow endures—despite anger over historic levels of corruption. For example, in a survey of the mortgage market in Afghanistan’s five major cities, 70 percent of respondents said that they preferred to take a loan from state banks rather than from private sources or family. In a similar vein, though not precisely the market economy, the Ministry of Public Health’s decision in 2002 to contract services to nongovernmental organizations and to allow or even encourage private sector hospitals was viewed skeptically by many who equated the private sector with dirty behavior. Many find it hard to reconcile contracting out services with the ideal of the state looking after its citizens (“doctors are just making money”). Even some in senior management who supported the decision viewed it as a temporary expedient until the government was again strong enough to stand on its own feet and resume its rightful role as provider.
Discontent about perceived unjust economic outcomes due to a corrupt state may reinforce Taliban propaganda about the un-Islamic state that is in thrall to the foreigners and that practices zulm (oppression or cruelty) and fasad (corruption). Some mullahs in the Wolesi Jirga (lower house of Parliament) have explicitly associated the market economy with imperialism and with “democracy” (unlimited freedom and chaos). This was reinforced where new laws drafted by foreign advisers dealt with sharia in only a perfunctory manner and ignored Afghan moral, religious, and sociological factors. Some analysts believe that the Banking Law has been languishing in Parliament for two and a half years because of MPs’ reluctance to allow international best practices in banking that may not align with sharia guidelines.

Afghan views on what Islam says about the economy are consistent, if general: honesty, not selling at high prices, and, above all else, not practicing zulm. Many distinguish between practices that are halal, including what is called just competition (raqabat-e salem), a reasonable level of profit, and humane interaction, from those that are haram, especially collecting interest on a loan (sudh or riba), but also hoarding with the intention of manipulating prices and selling at a high profit, especially necessities such as food, fuel, and water. The overall theme, however, is that Islam requires fairness, equity, and social harmony.

Some educated respondents argue that Islam provides a middle way between capitalism and socialism. Capitalism provides individuals with motivation and preserves desirable rights of ownership and liberty but produces undesirable inequality and socioeconomic imbalance, which are harmful to social harmony. Socialism, on the other hand, preserves desirable social equity but has undesirable restrictions on ownership and individual liberty. This is consistent with the scholarly view presented by other Islamic theorists: “Ownership in Islam tends to avoid the excesses of the two systems and seeks to strike a middle ground, which recognizes private ownership as a basic right, yet also incorporates within its fabric a structure of distribution and legal restrictions that aim to realize social justice.” Despite apparent strong public sympathies for incorporating Islamic principles into the economy, understanding of how that would apply in practice is limited.

Too Much, Too Fast, Too Soon?

Supporters note that the market economy per se was not problematic, but rather its rushed implementation was. Institutions were not ready, and the resulting abuses then undermined the population’s support for both the market economy and the state. As a former high-level government official put it, “We don’t have any problem with the market economy, but its implementation needs the right time…The government has not been able to establish good conditions, which has led to the concept of market economy getting a bad reputation.” Many donors did not understand what had existed before 2001 and therefore the extent to which the new system would be a sharp break with tradition. Donors were often dismissive of the past and referred to any objections as being leftover Soviet-style attitudes. Supporters do not dispute the objective conditions and outcomes but say that Afghanistan has not really experienced the market economy—only warlord and crony capitalism.

Many believe that it would have been better to have an evolution or slow transition through a mixed system and point out that the Western free market had gone through improvements and reforms over decades, whereas Afghanistan was being forced through that evolution too quickly. Others noted that because no public debate on the economic system had been held, even educated Afghans little understood how a market economy functions and what role the state should play.

One significant example of haste was the plan to privatize SOEs. A number of major donor projects have had some element of privatization, and the January 2006 Afghanistan
Compact included a commitment to complete divestiture by the end of 2009. Yet, of the forty-six SOEs listed by the Ministry of Finance, only a few were truly privatized, and assets were, as noted earlier, often acquired by well-connected individuals or companies in a highly opaque process. Because the agenda was so rushed, inadequate consideration was given to a number of serious issues, such as what the term privatization really meant in practice, the lack of clear ownership of many of the SOEs, and the lack of sequencing with other public goods elements of economic restructuring. What the privatization process was intended to achieve—namely, efficiency at all costs or continued public services and employment—was also fundamentally unclear. Even those who supported SOE reform believe that they should not have been “killed off” until the country had found a way to employ their workers. Most of the firms that were privatized were closed.

**Desire for Control**

It is not surprising that government officials favor more control, given that throughout its history the Afghan state has feared too much independence in the private sector and among citizens in general. Yet the desire for greater state control is expressed even by those who favor a market economy. Regardless of ideology, the widespread belief that the system has changed too fast, that institutions have been captured by the **zohmand** (powerful), and that azadi is too abundant has fed the desire for greater state control. In this case, the characteristics of the state and the market economy are conflated. In many cases, the level of control desired is either unrealistic or inconsistent.

*First, the government is faulted for not ensuring a level playing field or just competition that would have limited the dominance of warlords and mafias and discouraged the “law of the jungle.” A shopkeeper who attributed many of the recent material benefits to the “blessings” of the market nevertheless noted that “if the state exercises legal control, everyone benefits. Everyone tries to improve the quality of their own goods and justly compete. In the absence of that, it is the mafia who benefit.”*  

Another area seen to be lacking control is the quality of both imported and domestically produced goods. The freedom of the market economy along with lack of purchasing power meant that people bought the cheapest products, which were often inferior or even dangerous ones that entered the country through government incompetence or indifference (corruption), or were smuggled across porous borders. Afghans have been setting up pharmaceutical factories in the border areas of Pakistan, and traders tell stories of purchasing medicines in India, where they are steered to cheaper (and lower-quality) products made explicitly for Afghanistan. The most consistently cited examples were medicines, cooking gas cylinders, fuel, food products (especially edible oil), and almost anything Chinese. As one business leader put it, “We are being drowned in low-quality goods. Foreigners came to give lectures and workshops on the free market and took away millions of dollars. We need norms and standards.”

*Another area seen to be lacking control is the quality of both imported and domestically produced goods. The freedom of the market economy along with lack of purchasing power meant that people bought the cheapest products, which were often inferior or even dangerous ones that entered the country through government incompetence or indifference (corruption), or were smuggled across porous borders. Afghans have been setting up pharmaceutical factories in the border areas of Pakistan, and traders tell stories of purchasing medicines in India, where they are steered to cheaper (and lower-quality) products made explicitly for Afghanistan. The most consistently cited examples were medicines, cooking gas cylinders, fuel, food products (especially edible oil), and almost anything Chinese. As one business leader put it, “We are being drowned in low-quality goods. Foreigners came to give lectures and workshops on the free market and took away millions of dollars. We need norms and standards.”*

A third area is an almost fetishistic preoccupation with what are seen to be uncontrolled prices, which are emblematic of the government’s perceived lack of control. Here again, unfavorable comparisons are made with the prewar era, despite recollections that are certain to be inaccurate. Ironically in a society where negotiation is so much a part of everyday life, the belief is surprisingly widespread that there should be one price and that it should be stable over time: “Fuel, today it’s 40, tomorrow it’s 45—the government doesn’t control.” As one trader said, “The government should review businessmen’s balance sheets and should fix prices...asking why the fixed price of meat is 250 but you are selling at 270.” The rise of prices at Eid and other holidays and fuel during winter, a natural outcome of markets that respond to price signals, is seen as especially problematic.
Factories, Jobs, and Symbols of Modernization

Surveys and research conducted since 2001 suggest that Afghans put livelihoods and jobs second only to physical security as a priority for their state. Within several years, the Karzai government was criticized by both market supporters and skeptics. On the one hand, those who believe in the state’s traditional role blamed the government for not taking the lead in directly creating jobs. The liquidation of the long-established Agricultural Development Bank per the 2005 International Monetary Fund program, the privatization (more accurately, liquidation) of SOEs, and the reduction in direct services by state institutions (such as provision of seeds and agricultural extension services) are all seen by Western donors as indicators of progress. Afghans, however, see them as failures because it means that their government is incapable. Even some donor-funded analysis has concluded that the state should have placed stronger focus on economic development and job creation.46 On the other hand, those who support the market economy blame the state for failing to create the enabling environment in which the private sector can thrive.

Although Afghanistan’s public sector was small compared with other countries, including low-income developing ones, it assumed a significant role in national discourse that might have been out of proportion to its contribution to GDP and employment. Past large economic ventures, such as the Spinzar Company (cotton), Afghan Nassaji (textile), Ariana Afghan Airlines, Jangalak (vehicle repair and metal goods), Baghlan Sugar Enterprise, Khana Sazi (prefabricated housing), Shiberghan gas fields, and the “silos” (large-scale flour mills and bakeries), in the primary cities were associated with the state as a source of employment and symbols of modernization and progress. As one respondent put it, “It is too bad that the money goes to the private sector and leaves the country. Why not, like in the past, have Qawa-e Kar [Labor Corps]? That would be something that is our own. I was very happy to see television ads for National Boot factory, and that boots are going to the army. We should produce more of our own needs.”47

Compared with the major projects of the prewar era, most post-2001 projects are smaller, and focus less on production than on often intangible outcomes, such as human capital development and capacity building. These types of projects receive decidedly mixed reactions. A typical view is that “We could have used the money for building generating capacity but instead used it for capacity building” or “If the president asked, I would outlaw workshops; workshops cost $20,000, the price of one machine.” A dam or a factory, which produces tangible output, is more easily seen as the backbone of the economy than an office, which is supposed to yield more abstract outcomes, such as establishing an enabling environment. To some extent, this view is informed by the desire for large, symbolic projects once financed by the United States and the Soviet Union—factories, mines, and irrigation projects that could create mass employment and were symbols of modernization. As one elder in Helmand complained, “We want projects like the Americans used to make.”48 As stated in a 2006 op-ed in the Kabul Weekly,

The people will not be satisfied with small projects, such as cleaning a canal or rehabilitation of a road or school. The international community has to invest in long-term projects and the country’s infrastructure. The people regard the exploitation of mines, the launch of big factories and other infrastructure projects to be the priority.49

The lack of such initiatives is even seen by some as an indicator of a conspiracy by the West to keep Afghanistan from developing. As one author concludes,
Soviet aid and development have influenced Afghan notions of what modernity and modernization look like, and hence also Afghans' attitudes to current economic development in their country… Soviet development projects were much more linked to physical objects, works or establishments, as suggested by the word “ob’ekt”… Development projects in today’s Afghanistan… aim to deliver a different type of development, often based on ambitious plans for structural change of Afghan political and economic institutions, or on a range of small interventions in local economies, and no longer quite so fixated on the building of “objects”.50

The decline in what were considered symbols of modernization (such as the defunct Bagrami textile mill that formerly employed thousands of Afghans and is currently being used as a car wash) is a sore point with many Afghans, young and old.

Nationalism and Self-Reliance

The notion of progress is also tied up with the ideal of national self-reliance. Even those who acknowledge that Afghanistan cannot produce everything it needs believe that it should produce some things, such as the staple wheat and, even more, electric power. Energy is considered the foundation of industrialization, and thus the high cost and unreliability of power a significant contributor to Afghanistan’s lack of competitiveness. A dominant view is that water is one of the country’s few resources and that its utilization could have allowed self-sufficiency in energy. The lack of hydro dams is laid in part at the door of donors for their reluctance to fund projects with cross-border riparian and political implications and in part at the door of the state for kowtowing to its neighbors on the sensitive question of water. Part of the narrative of self-reliance reflects not only a lack of understanding of comparative advantage but also a deep-seated distrust of other nations. Respondents explained that importing electricity from the Central Asian states not only detracts from self-reliance but also puts the country at risk of being cut off in the event of a political problem between the nations.51

A mix of nationalism and distrust feeds the belief that the country’s mineral resources are something to be kept for Afghan exploitation alone. As one official noted, “Some want to sit on resources for three hundred years, and God forbid any foreigner tries to come and develop them.”52 According to a Ministry of Finance official, the Wolesi Jirga’s failure to act on the minerals law has cost the country $100 million so far. MPs speak against privatization of mines and mineral resources out of both ideology and self-interest, using the rhetoric of nationalism and economic growth to steer contracts to certain companies. According to one analyst, “This rhetoric, however, may just pave the way for the capture of resources by Afghan elites and their cronies, preventing more responsible exploitation by companies that have greater technical expertise and are subject to more stringent financial, environmental, and labor regulations in their home countries.”53 Much of the population retains something of a mercantilist attitude: “We don’t even have enough for own use, so how can we export?” As one trader noted, “There is a perception that if we send four trucks of onions and coal, Pakistan has taken our goods.”54

Free Trade: New Silk Road, Lapis Lazuli Corridor, or a One-Way Open Door?

Some of the most serious discontent concerning the market economy centers on free trade. Although Afghans have enjoyed the flood of consumer and other goods, the massive trade imbalance is seen as the consequence of a laissez-faire system unfairly stacked against them. The open door and the lack of protection against predatory regional competition is blamed on a combination of the market economy and state weakness.

The dominance of foreign products in the market has generated various conspiracy theories alleging low-quality copycat versions of Afghan products and even industrial sabo-
tage.\textsuperscript{55} Still, indicators of predatory economic practices, such as dumping and obstruction of trade, are both significant and credible. In Herat, numerous media reports have identified factories being closed as a result of predatory pricing by Iranian businesses producing a range of goods (cookies, tomato paste, batteries) similar to those of Afghan companies.\textsuperscript{56} A businessman cited the blockage of palm oil imports in transit from Pakistan that destroyed a soap factory in Jalalabad, and others pointed to changes in tariffs and taxes by neighbors that have killed some Afghan industries. Pakistan’s granting ex ante credits (equivalent to a loan) to carpet producers in Pakistan is seen as a predatory response to Turkey’s granting direct market access to Afghan carpet weavers.

Recognition is widespread that low-skilled and expensive labor, weak power and other infrastructure, and inability to produce at scale leaves Afghanistan unable to compete in producing most goods on the global market or even the domestic one.\textsuperscript{57} Much of the responsibility is laid at the door of the government, which is seen as allowing predatory practices to continue and not allowing compensatory subsidies. As one official noted, “We should have protected industries. We need at least five years to be competitive, but instead we forced them to compete with Iran and Pakistan.”\textsuperscript{58} Many believe that the open door was a mistake, that it turned the country into \textit{bazar masrafi} (consumer market) for the products of their neighbors: “We had factories in the past, but now Torkham has an open door in one direction.”\textsuperscript{59} Studies have shown that Afghanistan can compete with central Asian flour but not with subsidized Pakistani flour. One often-cited “success story” is the imposition of tariffs of up to 40 percent on imported nonalcoholic beverages, such as Coca-Cola, other similar drinks, and mineral water (compared with 1 percent on most raw materials), which is seen to have allowed Afghan bottlers to establish themselves.

As with other areas, such as prices, the professed desire for the government to exert control is often inconsistent or unrealistic, or reflects limited understanding of the government’s role. As a poultry cooperative official in Mazar-e Sharif noted, the “market economy should have a framework of control...government should increase tariffs and also exert quality control....It’s a free market, so the government should increase advertising rates for Iranian and Pakistan companies.” Alternatively, he suggested “a quota on imports” or that the government should ban exports of raw materials in favor of ensuring that value was added through processing within Afghanistan. The “biggest problem is [the] market,” he continued. The “market is good as long as government exerts control. We asked for restrictions on poultry imports: One chicken should not be imported because we can produce our own.”\textsuperscript{60}

Not surprisingly, Afghanistan’s planned accession to the World Trade Organization (WTO) is hugely controversial. Liberal trade policy is seen as the cause of the massive negative trade balance and the destruction of Afghanistan’s few productive industries. Many believe that the move toward accession was done to show Afghanistan’s progressiveness, capability, and engagement with the world, but that to actually go beyond observer status would be suicide. Pakistan’s lack of cooperation in implementing the Afghanistan-Pakistan Transit Trade Agreement has not increased appetite for the WTO.\textsuperscript{61} Even among government officials, it is hard to find anyone who favors immediate accession, despite its being part of the Tokyo Mutual Accountability Framework; most say that it is too early. Some cite donor objections to model mining contracts with a local content clause as evidence that Afghanistan would be hurt or constrained by the WTO.\textsuperscript{62} Although regional neighbors are keen to improve economic relations with Afghanistan, many Afghans are wary that greater economic integration would simply mean a market for their neighbors’ goods.\textsuperscript{63} In some cases, it is hard to separate the economic from the geopolitical, the commonly held belief being that Afghanistan’s neighbors “don’t want Afghanistan to thrive.”
Conclusion

Afghanistan’s turn to the market economy remains controversial among its citizens, in part because it is often conflated with the effects of the corrupt state and with the entire package of Western liberal policies introduced after 2001 and because despite high aggregate growth rates and creation of immense wealth, the failure to create enough long-term sustainable jobs to reduce the number of unemployed and meet the expectations created after 2001 has bred dissatisfaction that has attached itself to the market economy. During the 2014 presidential election, both of the leading candidates said that the government had not adequately regulated economic actors.

Many, including some who are sympathetic to a market economy, believe that the market economy ideology is at least partially at odds with Afghanistan’s situation—noncompetitive production, surrounded by hostile neighbors—and was imposed by the West on a weak and vulnerable government. Others note that the dissatisfaction is not with the market economy per se but with the way it has been rolled out. Despite, or perhaps because of, the profound social changes since 2001, a widespread belief remains in a more significant role for the state in creating factories and employment and in exerting control over the economy, even if what is proposed is often inconsistent or unrealistic.

This report in no way suggests that the way forward is a state-run economy. The state simply does not have adequate capacity, and in some ways a state-run economy would exacerbate many of the issues (such as corruption and inequality) about which Afghans feel so strongly. The report does, however, note that the types of serious market imperfections prevalent in Afghanistan suggest that markets need intervention of the right sort. As one Western aid official noted, “This is no time for market fundamentalism.” It also notes that the international community has underestimated the pull of old attitudes that cannot simply be dismissed as Soviet, if only because segments of the population are nostalgic for the economic activities the Soviets supported and financed. Especially with a contracting economy and increasing unemployment in the wake of the 2014 transition, the government is under political pressure to do something—that is, create jobs.

Recommendations

This report does not take on specific economic policies, but does make certain recommendations.

• Most challenging of these recommendations is to begin to change the objective conditions that have led to alienation, especially corruption. Improving the capacity and mandate of government institutions to serve without corruption, rent seeking, and nontransparent approaches would reduce uncertainty and fear of the state that discourages economic activity and encourages informality and evasion. Indications are that Afghanistan’s national unity government is attempting to make strides in this respect, but the initiative is a long-term, multigenerational one.

• Investing in formulation and—even more importantly—implementation and enforcement of government laws, regulations, and policies meant to encourage and support domestic economic activity will be critical. Relatedly, focusing on depth and quality of economic policy rather than on breadth and the number of policies developed is especially important, as are clarifying the understanding of and increasing the support for the government’s vision for the economy.

Improving the capacity and mandate of government institutions to serve without corruption, rent seeking, and nontransparent approaches would reduce uncertainty and fear of the state that discourages economic activity and encourages informality and evasion.
• Recognizing the need for ample time to implement economic policies and institutional reforms, rather than periodically revising the policies before they can produce results, will also be critical. Constant revision of policies has led “from clusters to pillars and back again.”

• Acknowledging the profound transformation that the country is undergoing, attention and energy need to be given to educating the population about the government’s role in the market economy, while recognizing and giving credence to the historical and social basis for the misgivings that people have about the new economic system.

• The historic mistrust between the government and the private sector is formidable. Creating venues in which to try to reduce it could be productive.

• Afghanistan’s legitimate current and long-term problems of competitiveness need to be acknowledged, as do its legitimate complaints about product dumping and other practices of its regional neighbors. Flexible and pragmatic are often used as code words for dispensing special favors, but instruments should be found that modestly protect Afghan markets from competing goods and enable Afghan businesses to compete in domestic and regional markets without undue distortions and protection. This would complement more activist policies to support the development of higher-value, labor intensive crops.

• Last but scarcely least of the challenges for Afghanistan’s national unity government is to safeguard and increase the opportunities for the younger generation to create businesses to engage with the world.

Notes
1. Although the pre-2001 economic system has carelessly been called Soviet, in fact some scope was allowed for the private sector, mainly in trading and small-scale manufacturing of basic household and consumer goods.
4. Ibid., especially chapter 3.
6. Calculations in constant international dollars suggest that GDP was only 3 percent higher in 2001 than in 1978, and per capita GDP was 28 percent lower. See the Maddison Project, www.ggdc.net/maddison/maddison-project/home.htm, 2013 version. However, these figures show that the economy did not decline until 1987 and that it grew, albeit modestly, between 1994 and 2001, which casts doubts on their realism. In fact, calculation of growth rates after 1979 is extremely tricky in the absence of national accounts data, artificial exchange rates, multiple and contradictory data series, political nature of the Central Statistics Office, insecurity of large areas of the country, lack of price deflator, price volatility, and use of alternate currencies. See Stephane Guimbert, “Structure and Performance of the Afghan Economy,” SASPR Working paper no. 30861 (Washington, DC: World Bank, May 2004), 2.
10. This debate is largely an urban phenomenon. Rural economic activity, such as agricultural production and trading, takes place under largely free-market conditions and the state is little involved.
11. Interview with computer dealer, Mazar-e Sharif.
12. Interview with Afghan academic, Kabul.
15. Established in 1963 with Soviet support, the Polytechnical University of Kabul focused on practical disciplines, such as engineering and geology, and held classes in Russian. In the context of the Cold War, it was seen as a counterpoint and ideological competitor to Kabul University, which was supported by the United States and held classes in English.


18. Interview with Afghan staff member of international contractor, Mazur-e Sharif.


25. Ironically, during the years of Western support to the mujahideen against the PDPA government, rhetoric stressed resistance against godless communism, yet both free-market liberalism and communism-socialism may look similarly alien to conservative or disaffected elements.


32. In Islamic discourse there has been much discussion on what constitutes “interest” and whether the prohibition is on “excessive” interest. See Mohammad Nejatullah Siddiqi, Riba, Bank Interest and the Rationale of its Prohibition (Jeddah: Islamic Development Bank, Islamic Research and Training Institute, 2004), www.ieaoi.ir/files/site1/pages/ketab/english_book/205.pdf.


34. Interview with former minister, Kabul.

35. Of course, these values are sometimes honored in the breach. After complaining about how merchants were entering into the pomegranate business with great enthusiasm, a proud orchard owner in Khulm in Balkh Province created artificial scarcity in order to drive up prices, a prominent orchard owner in Khulm in Balkh Province


40. Public attitudes on the economy and the role of corruption are on display in the joint BBC and Radio Television Afghanistan town hall meeting on the economy. See "Open Jirga 2 on economy," June 9, 2013, www.youtube.com/watch?v=ZAGN9sWY7T.


42. In reality, Afghanistan’s SOE “problem” was small compared with other countries whose extensive public enterprises were a major drain on public financial and human resources. A conclusion was that the “SOEs are neither helping nor significantly harming state revenues.” Ibid, 11.
41. Some have attributed the lack of independent private sector development to “fear-oriented inertia in the government.” See Dupree, Afghanistan.

42. Interview with computer dealer, Mazar-e-Sharif.

43. Interview with official of business association, Mazar-e-Sharif.

44. Interview with government employee, Khulm, Balkh Province.

45. Interview with trader, Khulm District.


47. Interview with water technician and former NGO worker, Khulm District. Although the initial boot contract was greeted with enthusiasm, the follow-on contract was given to a Chinese company.


50. Paterson, “Common and Contested Ground,” 112, 113, 164. Russia has not been reluctant to use this lingering positive capital to score propaganda points and reinforce the narrative of the failure of U.S.-led reconstruction, claiming that 40 percent of Afghanistan’s current economy is derived from prewar Soviet projects.

51. During last winter’s extended power outages in Kabul, television reporters did stand-up reporting next to the stricken Salang power pylons that bring electricity from Uzbekistan, saying, “Our country has abundant water resources, yet still has a need for imported electricity.” ToloNews.com, 6:00PM Dari news bulletin, March 11, 2015, www.tolonews.com/en/video?start=114.

52. Interview with official of Ministry of Mines and Petroleum, Kabul.


54. Interview with owner of cold storage facility, Mazar-e-Sharif.

55. A pervasive story is that in part due to lack of cold storage in Afghanistan, fruits and vegetables are exported to Pakistan at harvest time, stored, then reimported over the following months at what are called exploitative prices. Most analysts believe that for most low-value commodities (such as cucumbers) the transport costs would exceed the sale price, so it makes no economic sense.


57. In Mazar-e-Sharif, located in the province that is Afghanistan’s fourth largest almond producer, respondents noted that California almonds were selling at a price roughly one-third less than a number of locally produced competing varieties. Some respondents noted Afghan consumer preferences for almonds packed neatly in plastic bags.

58. Interview with CEO and managing partner of business group.

59. Interview with Afghan government official. In another survey, nearly half of respondents expressed concern that increased imports would hurt farmers and small-scale producers. When asked why increased trade does not create more jobs, wealth, and economic opportunities, 63 percent of traders stated that too many low quality and dangerous goods would enter Afghan markets and that only businesses with government connections (wasita) would thrive. TAPA, “Knowledge, Attitude and Practice Survey,” 7.

60. Interview with poultry cooperative official, Mazar-e-Sharif.

61. Recent suggestions by Pakistan to include Tajikistan in the agreement are interpreted by Afghans as allowing Pakistan access to Central Asia, and they have countered by suggesting that India be formally brought into the agreement as well. Syed Tanq Majid, “APTTA Becomes Hostage to Political Issues: Indian Ambassador,” Tolo News, April 13, 2015, www.tolonews.com/en/afghanistan/19046-appta-becomes-hostage-to-political-issues-indian-ambassador.


63. In a televised debate on economic integration between the two countries, the respective enthusiasm and wariness of the Pakistani and Afghan sides was palpable. “Af-Pak Debate Across the Border II,” Tolo News, March 26, 2013, www.youtube.com/watch?v=FDrwkIrr05I.

Of Related Interest

- **Managing Conflict in a World Adrift** edited by Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (USIP Press, 2015)

- **Building a Sustainable Afghanistan: Lessons and Opportunities from the Tokyo Mutual Accountability Framework** by Trent Ruder (Special Report, September 2015)

- **The Future of Afghanistan-Pakistan Trade Relations by Ishaq Husain and Muhammad Ather Elahi (Peace Brief, August 2015)**

- **Afghanistan’s Continuing Fiscal Crisis: No End In Sight by William A. Byrd (Peace Brief, May 2015)**