

Afghans Boost Trade and Investment

Economy and security are inseparable

For centuries, Afghanistan's relatively primitive economy has focused on local production for local needs: goat herding, brick making, hand weaving and subsistence agriculture. The big exception has been opium, a product whose illicit international success has been a source of woe.



A fruit seller packages some of Afghanistan's large apple crop for sale. In pursuit of foreign earnings, the country has approved a transit deal with Pakistan that promises to increase sales of agricultural produce to India and beyond.



AGENCE FRANCE-PRESSE

But even in the face of corruption and insecurity, the country is pressing forward with attempts to link itself productively to the international economy, playing off its strengths as an affordable source of agricultural produce, valuable minerals and semi-skilled labor.

The recently concluded Afghanistan-Pakistan Transit Trade Agreement allows landlocked Afghanistan to ship products through Pakistani and Indian ports largely closed to the nation previously. Trucks and airplanes carrying shipments of apples, pomegranates and pistachios have already crossed the border on their way to international buyers. Tentative free trade agreements being negotiated with the European Union and the United States would drop duties on mostly cotton textiles produced in economically depressed sections of Afghanistan and the borderlands of Pakistan. A fledgling banking system in the form of the Kabul Bank has expanded to 60 branches with more than 714 million euros (\$1 billion) in deposits. And in perhaps the largest deal of all, Afghanistan's prospective mineral wealth has enticed a Chinese company to start a multibillion-dollar copper mining and smelting operation south of Kabul.

No one is predicting overnight success for what is one of the world's poorest countries, but economists recognize Afghanistan's need for free market alternatives to opium poppy cultivation and foreign aid. Members of the International Security Assistance Force realize that a big attraction of the Taliban insurgency is the higher-than-average pay violent extremists offer their mostly impoverished recruits. "Everything is connected," NATO Secretary-General Anders Fogh Rasmussen said in an April 2010 speech outlining Afghanistan policy. "In

Afghanistan, there can be no development without security. But equally, there can be no lasting security without development."

Large-scale enterprises such as the copper mine complement the smaller-scale work of multinational Provincial Reconstruction Teams and other aid workers dedicated to rebuilding Afghan provinces wrecked by decades of war. Two successful enterprises that started small but promise to grow big are the Badam Bagh experimental farm and the Omaid Bahar fruit processing plant, both working to capture a market for pomegranate juice, which is in high demand internationally. Britain's

Independent newspaper dubbed Omaid Bahar a "beacon of hope" for as many as 50,000 Afghan farmers who could sell produce to the factory.

But without physical access to international markets — markets easier to reach thanks to the Pakistani transit agreement — some of the Afghan agricultural output might literally rot on the branch. Dr. Gulshan Sachdeva, an Indian professor who has assisted the Afghan Ministry of Foreign Affairs, called the Afghan-Pakistani trading agreement a "huge step forward for Afghan exporters." "India has been the number one export market for Afghan products since 2005. The main exports to India are edible fruits, nuts and asafetida. Obviously, this deal will for the first time provide an opportunity for Afghan producers of fruits, dry fruits, carpets and marble to ship their goods across Pakistani territory to the vast consumer market of India and beyond," Sachdeva wrote in a September 2010 report for the Central Asia-Caucasus Institute.

Free trade agreements that would cover Afghan-manufactured goods, expanding upon the well-established cotton-based



A Pakistani textile worker weaves cloth at a mill in Lahore in 2009. Pakistan and Afghanistan are lobbying the European Union to lower tariffs on textiles produced in their countries, including the creation of tax-free Reconstruction Opportunity Zones in economically distressed areas.

textile industry of neighboring Pakistan, have been under discussion since at least 2006. The creation of Reconstruction Opportunity Zones, or ROZs, would allow tariff-free importation of some Afghan and Pakistani textiles into the U.S. and possibly the EU. The EU relented in the case of Pakistan after devastating floods in 2010, but a commitment to Afghanistan remains elusive, the resistance due in part to opposition by European labor groups.

Infrastructure and security issues

Some critics of ROZs support the concept but object to placing these opportunity zones too far on the periphery, where security and infrastructure are scarce. In the rugged terrain of Afghanistan, it's often easier to bring labor to the factories than factories to the labor, they argue. "If gas, water, electricity, telephone and Internet are not provided, the ROZ will turn out to be nonstarter. And even if all of these are made available, projects like these would take a very long time to start producing and exporting," Aamir Butt, director with a large Pakistani textile company, told an Indian trade publication.

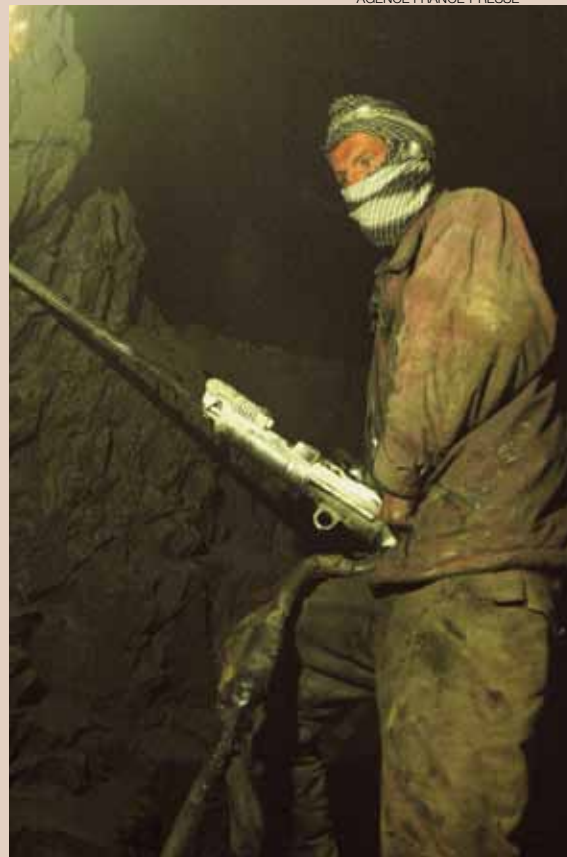
Infrastructure is also key to the success of the most highly praised of the country's economic development projects, the Aynak copper mines in Logar province. A

Chinese company won the right to mine what scientists say could be the second-largest accessible copper reserves in the world, after those at Mount Toromocho in Peru. At 2.1 billion euros (\$3 billion), the investment would be the largest in Afghanistan's history. The deal comes with a promise by the Chinese government to jump-start an Afghan national railroad by building a line from the border to the mines. Other contributions include a 358 million-euro (\$500 million) power plant, hospitals, schools and worker housing. The Afghan government predicts the copper mining operation will create at least 10,000 direct jobs and thousands more indirectly. "When you have men who don't have jobs, you can't bring peace," Abdel Rahman Ashraf, a geologist who serves as the country's top mining and energy advisor, told McClatchy Newspapers.

Not content with selling copper alone, the Afghan government is pressing ahead with plans to lease Afghanistan's Hagigak iron ore mines to international companies. The country is also richly endowed with lithium, a mineral that the world needs to make billions of rechargeable batteries. "When we have a little security here, this will be a paradise to come and mine," Ashraf told McClatchy. "We are near the markets. Those markets are China and India. The transportation is not difficult."



Traditional crafts such as brick making, shown here just outside Kabul, continue to dominate Afghanistan's economy, but foreign trade and investment are expected to improve the country's standard of living.



Afghan miners work at an emerald mine in the Panjshir Valley. Geologists say Afghanistan sits atop a vast wealth of minerals. One of the latest operations is a multibillion-dollar investment to excavate and process the Aynak copper reserves near Kabul.

Combating corruption

Corruption is another problem inseparable from doing business in Afghanistan. Although Kabul Bank has provided critical financial footing to a country that just a few years ago possessed not a single modern bank, accusations of cronyism and fraud have reduced confidence in the institution. In one case, bank executives improperly invested millions of euros in Dubai real estate that subsequently depreciated, harming the bank's balance sheets. Aid workers fear money intended for relief of the poor has also been secreted out of the country. "It is clear that much more money is making its way out of Afghanistan through Kabul's airport than is being officially declared and logged. For example, important politicians and businesspeople can often board planes from the airport's special VIP area without being searched," *Der Spiegel* reported in May 2010. The International Monetary Fund expressed willingness to help Afghanistan financially as long as the Afghan government resolves to fix its banking crisis. In early 2011, the Afghan finance ministry issued a statement recognizing unethical and fraudulent behavior among bank executives and failures of oversight from Da Afghanistan Bank, the country's central bank. But Afghan officials also tried to blame "ineffective international

technical assistance and supervision," Agence France-Presse said.

On the other hand, much of the financial corruption in an undeveloped country happens outside modern banking channels, in Afghanistan's case through a traditional Islamic lending network known as *hawala*. When it comes to security, even an imperfect bank with modern tracking methods marks an improvement over *hawala*. "For the recovery of this war-dominated land, a functioning banking sector is essential," *Der Spiegel* reported in September 2010, calling *hawala* "an informal exchange system that made business easier for drug traffickers and kept terrorists one step ahead of prosecution."

Despite the pains inherent in the country's growth phase, few doubt that international investment will bring benefits to a country whose illicit economy has long dwarfed its open economy. Agricultural exports, semi-skilled manufacturing and large-scale mining all provide building blocks toward greater national wealth. As Afghan diplomat M. Ashraf Haidari wrote in the *New York Daily News*: "If we are to emerge as a strong and independent democracy, the campaign for Afghanistan's economy must stand on equal footing with the counterinsurgency campaign. In fact, they are one and the same." □