Brief Overview of Afghanistan’s Economy

1. Afghanistan’s economy is in a state of collapse. The three-year drought and resulting famine, the ban on opium production, the choking of trade via Pakistan and the massive displacement of population have exhausted what coping capacity was left among families and civil society. The key economic institutions of State—a central bank, treasury, tax collection and customs, statistics, civil service, law and order, judicial system—are extremely week or simply missing. Basic infrastructure—roads, bridges, irrigation, canals, telecommunications, electricity, markets—have been destroyed. Afghanistan, which has always been at bottom of the poverty and social indicator rankings of countries, must now be considered the poorest, most miserable state in the world.

2. There is little reliable up to date data on Afghanistan’s economy. There has never been an accurate Census or other precise data on Afghanistan’s population. In 1979 the total population of Afghanistan was estimated at 14 million, whereas at present the population in-country (not including refugees in Pakistan and Iran) is estimated at 18-20 million. Before the war about 85% of the people lived in rural areas, including 1.5 million nomads. The bulk of the total labor force was engaged in agriculture, livestock, and livestock-based handicrafts. Even before the war Afghanistan was one of the world’s least developed countries. The past 20 years of conflict have exacerbated poverty, deprivation, and suffering.

3. Afghanistan’s pre-war economy was mainly based on agriculture and animal husbandry. The country has a low population density due to difficult topographical and climatic conditions (high mountains covering most of the country, extremes of temperatures, and arid to semi-arid climate). In 1978—the last year of peace—Afghanistan was largely self-sufficient in food and was a significant exporter of agricultural products. Agriculture was largely concentrated in narrow river valleys and plains where irrigation water from snowmelt was available. Manufacturing industry was largely undeveloped, with only a few plants established (in textiles, medicines, cement, etc.). Afghanistan’s strategic position during the Cold War period made it a large recipient of foreign aid, which funded the running of a centralized but relatively weak state without substantial domestic taxation. Also largely as a result of foreign aid, the country had a relatively good major road network, as well as some other infrastructure including major irrigation and hydroelectric facilities. This modern infrastructure, however, did not extend beyond the main arteries and urban centers. Social and other services (such as education and health) were largely limited to the relatively small urban sector.

4. The long drawn-out war of Soviet occupation and subsequent internecine conflict severely damaged Afghanistan’s economy. By the mid-1990s, most of the country’s limited modern infrastructure was destroyed, and traditional irrigation systems greatly suffered from destruction and lack of maintenance. Even more important than the physical damage was the increasing breakdown of the state over time and the progressive erosion of institutions—both modern and traditional—which had governed the pre-war
economy and society. Government-provided social services, which had never had a strong outreach into the rural areas, atrophied and to a large extent stopped functioning. Inflation wiped out the value of the Afghan currency in the 1990s. Agricultural output came down sharply, livestock herds were depleted, and large-scale industries almost ceased functioning. Millions of Afghans became refugees in neighboring Pakistan and Iran, and to a lesser extent elsewhere. This diaspora played an important role, however, in supporting Afghanistan’s economy through remittances. And finally, land and infrastructure were widely and indiscriminately sown with landmines, causing enormous human and economic losses.

5. There was a modest economic recovery in the mid-1990s in areas that became largely free of conflict. Agricultural production increased; livestock herds sharply rose in numbers, taking advantage of widely available unutilized grazing lands; and horticultural production also grew based on restoration and expansion of orchards and vineyards. Substantial numbers of refugees returned to their home with international assistance. The economic recovery was concentrated in areas of the country taken over relatively early by the Taliban (who now control about 90% of the country); they removed barriers to trade and restored a certain degree of order. However, the deterioration in social services (particularly education) was aggravated by the Taliban’s social policies, which largely excluded women from work and girls from school.

6. The introduction of a certain degree of stability in large parts of the country also facilitated the growth of various kinds of unofficial economic activities, most notably long-distance trade (particularly re-exports to Pakistan) and opium poppy cultivation. Although these activities had always been present, they underwent unprecedented expansion in the 1990s. Unofficial exports to Pakistan are roughly estimated to have exceeded $2 billion in 1996, and by the late 1990s Afghanistan had become the largest producer of opium poppy in the world. Also falling in this category of economic activities is uncontrolled exploitation of natural resources—timber, gems, marble and granite, etc.—which have resulted in extensive deforestation and environmental degradation, among other problems.

7. Most recently, Afghanistan has been hit by a severe, protracted drought, which started in 1999 and has lasted until the present. Crop production has been halved and livestock herds heavily depleted, more than erasing the modest gains of the early and mid-1990s. Large and increasing numbers of people have lost their means of livelihood and have become displaced, either internally or to neighboring countries. Malnutrition has significantly worsened, and starvation deaths have been reported. The impact of the drought, which would have been serious under any circumstances, has been aggravated by the continuing conflict in parts of the country (particularly in northeastern and central Afghanistan), and by the run-down condition of irrigation systems and other agricultural infrastructure.

8. In sum, Afghanistan’s economic structure has been gravely weakened, distorted, and made more vulnerable through two decades of conflict. Agriculture (including livestock), the most important licit economic activity, is highly vulnerable to natural conditions as is demonstrated by the current drought. Trade activities are vulnerable to the policies of neighboring countries, most notably Pakistan—in fact, there appears to
have been a substantial decline in Afghanistan’s unofficial re-exports to Pakistan in the recent past, probably reflecting changing policies and stronger enforcement behaviour in Pakistan. The post September 11 closing of the Afghan transit trade through the Karachi port is a major example of this vulnerability. Remittances, another major source of income, tend to be more stable, but nevertheless they are vulnerable to changes in economic conditions in the source countries. The Taliban’s recent complete ban on opium poppy cultivation, which was a positive move and has been largely effective, has sharply reduced the incomes of those small farmers and rural wage laborers who were dependent on poppy cultivation and related work. Foreign aid, another important albeit smaller source of income, has increased sharply in the wake of the drought but also is subject to fluctuations and severe logistical constraints.

9. Afghanistan’s economic situation has significant regional spill-over effects—through unofficial trade, narcotics, terrorism and extremism, financial flows, and movement of people. These spill-over effects tend to undermine revenue collection, governance, and the effectiveness of economic policies in neighboring countries, particularly Pakistan. The long drawn-out conflict situation, without an effectively functioning state most of the time, has led to a situation where conflict-related or conflict-enabled economic activities and structures have become entrenched, and there are significant groups who are benefiting from the current situation and therefore have a vested interest in its continuation.