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## **ECONOMY OF AFGHANISTAN AND PROSPECTS OF ITS DEVELOPMENT**

### **Abstract**

The article considers the current state of the economy of Afghanistan and determines the prospects for its development as an integral part of Central Asia. In terms of its geographical location, Afghanistan acts as a cost-effective transit corridor between the countries of Central and South Asia. Afghanistan can join regional and international trade and economic relations and export its goods and services. There is an acute shortage of domestic sources of investment in the country; therefore, foreign economic cooperation and assistance from other countries are today the most critical factors in modernizing the country's economy. In the economy of Afghanistan, it is necessary to restore those priority sectors that in the recent past were a source of revenue, as well as create new sectors that can supply resources to the foreign market. Afghanistan has great potential to attract the interest of foreign investors. Central Asian countries are interested in a long-term settlement and peace in Afghanistan, which affects their development prospects in the future. They can begin a new phase of the rediscovery of frozen, postponed opportunities and hidden prospects of Afghanistan. The similarity of Afghanistan with the countries and peoples of Central Asia is determined not only by ethnic, religious unity and similarity but most importantly, the shared values and goals of peaceful, sustainable development of the region. There will be no chance for the peaceful, long-term development of Afghanistan if there are no historical neighbours like Uzbekistan, Tajikistan and Kazakhstan participating in this process.

Key words: economy, foreign trade, investment, prospects, export, cooperation, modernization, market, sustainable development.

The contemporary situation of Afghanistan is the result of not only internal processes but also the policies and actions of world powers that have made Afghanistan a territory of the struggle for their spheres of influence, wars and struggle for geopolitical influence in the region. Afghanistan has always been an integral part of Great Central Asia, which means that this country should be returned to normal life not so much for major international players, but primarily for its historical, cultural, religious, and ethnic neighbours.

The historical, ethnic, civilizational connection and unity of the countries of Central Asia and Afghanistan are confirmed at the UN level. Therefore, Central Asia is recognized as a significant factor in the long-term and sustainable development of Afghanistan in the future. All countries of Central Asia are landlocked, and this determines their historical, economic, humanitarian interconnection and interdependence as part of a single whole region.

The geopolitical struggle of the Russian and the British empires of the 19th and 20th centuries separated Afghanistan from its traditional neighbours who could not withstand the military, political expansion, the strength of the armed forces of the world powers of that time to maintain, keep humanitarian and economic ties with people of Afghanistan.

Modern Afghanistan is the result and reflection of military intervention, geopolitical interests, conflicts between world powers. In order to gain a foothold in the territory of Afghanistan, world and regional powers inevitably split the country, supporting certain ethnic, religious groups as allies or temporary conductors, using historical differences and conflicts of local ethnic and religious groups [1].

The Soviet period of rule in Central Asia was the most destructive for the traditional historical, economic, humanitarian relations of the countries of the region that have lost contact with Afghanistan. Afghanistan was cut off from Kazakhstan and the countries of Central Asia by closed borders, which were established by imperial methods of separation and rule. The gap between traditional ties of the peoples of Central Asia from Afghanistan has become one of the most destructive and harmful results and consequences of the imperial policy of Soviet Russia for the whole region. It caused the

appearance of a large gap between peoples, which is to be overcome and re-restored in the foreseeable future.

The defeat in the war in Afghanistan and the collapse of the Soviet Union allowed the countries of Central Asia to gain independence and begin the process of reopening and rediscovering neighbouring Afghanistan.

Afghanistan at current has undergone a significantly unprecedented change, a change long due for the country. Leaving the shadows of the past behind, Afghanistan has donned on a demeanour, one that is focused on enhancing trade and investment. It is starkly conspicuous by the way the air of mercantilism that has swept all over the country.

In 2002, the total GDP of Afghanistan amounted to only \$2,2 Billion, whereas in 2017, the total GDP of the country was recorded at \$19,4 Billion. This significant increase is proof that Afghanistan committed to the spirit of mercantilism.

In terms of Protecting Minority Investors, Afghanistan holds the 26th rank, moving 163 ranks higher than the previous year's ranking which stood at 189th. It is because Afghanistan strengthened minority investor protections by requiring greater disclosure of transactions with interested parties. Also, easing shareholder suits by extending access to documents and evidence during the trial, increasing shareholders' rights and role in major corporate decisions, clarifying ownership and control structures and requiring greater corporate transparency.

Afghanistan also holds the 49th rank in Ease of Starting a business, which witnessed an improvement of 58 ranks. It happened because Afghanistan made starting a business less costly by reducing the fees for business incorporation.

Afghanistan made resolving insolvency easier by improving the continuation of the debtor's business during insolvency proceedings, introducing the reorganization procedure and granting creditors greater participation in the proceedings [2]. It resulted in making Afghanistan gaining the 74th rank in Resolving Insolvency, which was the recipient of improvement of 87 ranks in comparison to 2018.

Afghanistan strengthened access to credit by enacting a new insolvency law. Secured creditors are now given absolute priority over other claims within insolvency proceedings [3]. Therefore, in Getting Credit, Afghanistan at current is holding the 99th rank, moving up six ranks higher than 2018. Due to the simplification of procedures, one could now register a firm in Afghanistan in approximately 8–9 days.

The reason behind such unprecedented scores is the new commercial trends that have come into effect. Afghanistan today is counted amongst the top reforming countries in the world. Its Ease of Doing Business Score was the most significant improvement across all 190 economies, ranked № 1 in reformer as per World Bank Report of Ease of Doing Business indicator report 2019. Afghanistan carried out a record number of business reforms in the past year [4]. Afghanistan also has already implemented additional reforms to improve the rankings for the next year's rankings. The government of Afghanistan has placed extreme focus in establishing policies to prosper trade and investment in the country; as a result, making it a trade and investment-friendly country.

In order to attract foreign investment, business-friendly policies were established in order to benefit foreign investors the most. At current, foreign investors have the right to own 100% of their businesses; this means 100% FDI is allowed in Afghanistan. Import duty on raw materials for manufacturing purposes has been reduced to only 1% in order to increase the number of industries. The import duty on machinery which is imported for manufacturing has now been entirely abolished, and corporate tax has been lowered to only 20% to make the policies more trade and investment-friendly. The per Square meter price of land at Afghanistan's Industrial Parks is only 50 Afghani (0,67\$ Per Sqm). Commercial land is leasable for 50 years, and if the need arises, could be further extended as well. Also, there exists no sort of restrictions for foreign investors in the repatriation of the profits earned. With the abundant supply of both skilled and unskilled labour, Afghanistan at present is the most favourable haven for foreign businesses to bloom and boom.

The actual investment of Afghanistan since 2003 amounts to approximately \$30 billion, out of which, sectors such as that of Construction, Services, Energy and Water and Manufacturing, enjoy the largest of shares.

At present, investment in the sectors is deemed the most fruitful as a population of the country is expected to face an increase shortly. So are the demands of people from these sectors.

Construction is need of the hour as the population of the country is like to reach 42 million by the year 2025. Construction of new houses has deemed a necessity if the increasing population is to be given a place of abode. Reduced cost of raw materials and the availability of abundant labour is the reason why this industry is likely to boom in the country.

The Agricultural Sector contributes to about a quarter of the country's GDP. As 90% of the population, in rural areas, is engaged in the agriculture sector and plays a vital role in the livelihood of the 76% of the total population, rural economic development is among the highest priorities of the Afghan govt.

As a result, there exists a high emphasis on investment in agro-business and agro-processing.

Some of the opportunities for investment in the agricultural sector of the company are as follows.

1. Processing dry fruits and nuts.
2. Manufacturing of jams, juices, sauces.
3. Flour mills and sugar mills.
4. Fresh and dry fruit boxes/packages.
5. Jars, lids and tins.
6. Market identification services.
7. Trade partnership building services.

The array of investment opportunities available in the Transportation Sector include but are limited to the following.

1. Public Transportation Services for Inter-cities.
2. Public Transportation Services for Inter-Provinces.
3. Airfreight and cargo services.
4. Warehousing.
5. Cold cargo and perishable storage.
6. Packages and Postal Services.
7. Procurement and supply services.
8. Customs Facilitation.
9. Standard vehicle maintenance services.

Investment in the mining sector has enormous potential as according to the U.S. Geographical Survey, the value of minerals found in Afghanistan amount to \$1 trillion. The sources of minerals identified are globally significant with known deposits of a wide variety of minerals from copper, iron, and sulfur to bauxite, lithium and other rare-elements.

Afghanistan is also home to 60 known deposits of dimensional stones, and it is estimated that there are as many as 40 varieties in 34 colours of marble. A resource reserve of the country also has at least two hydrocarbon basins: the modest Amu Darya Basin and the potentially much larger Afghan-Tajik Basin [5].

The potential for expansion in the banking sector is high as rural people are forgoing old systems like the Saraf System and are moving towards commercial banks. Commercial Banks can benefit from investing in Afghanistan by simplifying their banking system like the traditional systems such as the Saraf System which provide loans on fewer conditions, guaranties and deposit history of a customer.

The Telecommunication Sector was unprecedented and can be deemed as one of the country's success stories. Private firm investments in the sector amounted to \$2 billion. In the year 2014–2015, the total number of subscribers had reached 24 million, covering about 90% of the total population.

However, the market is not entirely yet developed, and there exists a wide gap for expansion through new private sector investments. Connecting Central Asia, China and India with Afghanistan through Fiber – Optics, Transforming Afghanistan into an IT hub with innovative and creative approaches, call centres for domestic and, multinational companies are some of the opportunities that could be explored well by foreign investors.

The energy sector of the country could also be deemed a good point of investment as 54% of the total power generation is hydropower based, whereas the remaining percentage relies on thermal sources. At current, Afghanistan produces 600 million watts of hydropower electricity but has the potential to produce up to 23,000 MW. The demand for electricity is increasing day by day. It is estimated that by 2020, Afghanistan would require 3,000 MW of electricity to suffice its needs. Apart from that, Afghanistan also can export electricity to its neighbouring countries.

The health service of the public sector has improved, and the private sector has also forayed into hospitals, laboratories and pharmaceutical industries. However, the current investment is unable to meet local health service needs and medical demand. More than \$300 million flows out of Afghanistan in pursuit of medical treatments annually. Moreover, more than \$800 million worth of pharmaceuticals are imported annually. These massive capital outflows from the country are vocalizing the demands for health services.

Kazakhstan makes various investments and investments in modern development and the future of Afghanistan. At the highest level in Kazakhstan, the importance of developing and maintaining economic, trade, and political ties between Kazakhstan and Afghanistan is affirmed. The President, members of the Government of Kazakhstan, confirm the importance of Afghanistan as trading, economic partner, where Kazakhstan has only peaceful and mutually beneficial interests of economic development and regional security.

The current example of humanitarian assistance of Kazakhstan is an intergovernmental decision on the implementation of training for students, government officials, and military personnel from Afghanistan in educational institutions of Kazakhstan. The positive outcomes and training results of students from Afghanistan at Kazakhstani universities were confirmed by officials of Kabul and received great project support. The humanitarian contribution of Kazakhstan will be a decisive factor in the future development of Afghanistan and will strengthen the status of Kazakhstan as a country supporting Afghanistan at different levels of relations.

The Islamic Republic of Afghanistan occupies the 26th place in the trade turnover of Kazakhstan among the rest of the world with a share of 0,6%. By the end of 2018, the trade turnover amounted to 520,6 million US dollars, including export – 516,4 million US dollars, import – 4,2 million USA dollars.

For Afghanistan, Kazakhstan is one of the key trading partners (4th place, after Iran, Pakistan, and China), and the share of Kazakhstan products in Afghanistan imports is 7,90%.

A significant part of Kazakhstan's agricultural products is exported to Afghanistan.

The main volume of Kazakhstan's exports to Afghanistan is formed by the sale of flour, wheat, and liquefied gas. At the same time, in comparison with 2017, the volume of flour and LPG exports has significantly decreased, with a slight increase in wheat exports.

On July 17–18, 2018, a trade and economic mission to Kabul took place as part of the state program of support for exporters, in which 10 Kazakhstani companies and more than 40 entrepreneurs from the Afghan side took part. Kazakhstani companies were represented in such industries as food, metallurgy, energy. As part of this event, agreements were signed on the supply of chicken eggs, transformers and heat-strengthened railway rails for a total amount of over 290 million USA dollars.

On the Official visit of President of the Islamic Republic of Afghanistan Mohammad Ashraf Ghani with President of the Republic Kazakhstan, Astana and Kabul agreed on cooperation in the field of emergencies and civil defence. The agreement was reached during President Ashraf Ghani's visit to Kazakhstan. The agreement on cooperation in civil defence, prevention and liquidation of emergencies was signed between the governments of Kazakhstan and Afghanistan. The sides have also signed an intergovernmental agreement on cooperation in the field of culture.

In a joint press conference with President Ghani, Nursultan Nazarbayev said that Kazakhstan will send more than 600 thousand tons of wheat to Afghanistan [6].

“We talked about multilateral cooperation and, of course, our economic relations. Kazakhstan will direct more than 600 thousand tons of wheat to Afghanistan,” Nursultan Nazarbayev said. Since Afghanistan is going through tough times, we are providing humanitarian assistance. We will continue to assist Afghanistan. Kazakhstan provides humanitarian assistance to Afghanistan annually, he added.

The Kazakh President also added that during the talks, the sides discussed issues of transportation of wheat.

Despite political contacts, trade, the existence of reciprocal agreements and partnership between the countries in 2019 between Kazakhstan and Afghanistan, there was no agreement on strategic partnership. It can be expected that such an agreement can be adopted shortly, assessing the prospects and mutual interest of cooperation between the two countries, as well as the existence of such an agreement on strategic partnership between Afghanistan and Uzbekistan and Turkmenistan.

Kazakhstan uses various mechanisms to assist in the peaceful development of Afghanistan.

Kazakhstan's membership in the UN Security Council in 2018 allowed the use of the resources of the international community.

On January 13–15, 2018, the UN Security Council representation made its first visit to Afghanistan since 2010. The Permanent Representative of Kazakhstan to the UN-led the mission, which included all members of the UN Security Council. The mission did not accept legal agreements or commitments, did not implement specific political, economic projects. The mission became Kazakhstan's geopolitical step to designate its strategic interests in Afghanistan as an essential element of national security and economic development [7].

Public-private dialogue meeting between representatives of the IRA and the RK held on August 3, 2018, in Astana chaired and signed by Minister of Industry and Commerce of IRA Rasaw H. and Acting Minister for Investments and Development Kabikenov A. highlighted that there are many initiatives to develop trading and investments. Agreement also highlighted some shortcomings and disagreements between countries. Kazakhstan promised to assist in the construction of a trade hub in the form of an "Afghan bazaar" for centralizing supplies, representation and advertising of goods from Afghanistan. In turn, Afghanistan promised to assist in the construction and the emergence of a transit hub for Kazakhstani goods in Afghanistan [8]. These promises are waiting for their implementation, support from the leaders of countries, investments from the business.

The peaceful development of Afghanistan will allow Kazakhstan to diversify the transport routes of the current exports, and develop foreign trade, bypassing Russia and new areas of foreign trade, exporting traditional goods. Also, the new route will allow considering the construction of a new gas and oil pipeline through the territory of Afghanistan to Iran, Pakistan and India. Already, the Iranian port of Chabahar, which helps Afghanistan's foreign trade bypassing the conflict, the unstable border area with Pakistan, has begun to work. It is important to note that the economic payback and efficiency of such ports in Pakistan as Gwadar and Iranian Chabahar depend on increasing trade with the countries of Central Asia. It is evident that the new ports of India and Pakistan are competing with each other and are interested in partnership with the countries of Central Asia [9].

Modern Afghanistan receives significant assistance from the international community in the form of direct transfers to the budget, humanitarian aid from the UN, and intergovernmental agreements. However, in the foreseeable future, it can be argued about the prospects for reducing the volume and types of humanitarian, financial assistance to Afghanistan. In these conditions, it is necessary to find promising areas of the economy that can provide fast and long-term growth of new jobs, a field of activity for small and medium-sized businesses and entrepreneurship in Afghanistan. World Bank experts rightly believe that the use of Afghanistan's transit, logistics and transport capabilities may be a promising and reliable area [10].

The manufacturing sector is one of the most probable industries to flourish in the country. Afghanistan is keen on establishing a light and low-end manufacturing sector, which will absorb many unemployed Afghans. The chances of success seem bright as currently, the big players such as China and India are now moving a step forward toward more sophisticated industries.

The increased number of imports proves that the fact that such a sector has a potential market in the country. Moreover, in order to encourage manufacturing within the country, The National Procurement Authority gives 25% preference to domestic manufacturing over the procurement of goods of foreign origin. Also, merits such as low cost of raw materials and abundance of labour are likely to most likely to invest in this sector a success.

Afghanistan is changing, a permanent change, a change for the better. Long gone are the dark days of the past. Today, we face an Afghanistan committed to nothing but progress, trade and cooperation.

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#### **Андатпа**

Мақалада Ауғанстан экономикасының қазіргі жай-күйі қарастырылады және оның Орталық Азияның ажырамас бөлігі ретінде даму перспективалары айқындалады. Өзінің географиялық жағдайы бойынша Ауғанстан Орталық және Оңтүстік Азия елдері арасындағы экономикалық тиімді транзиттік дәліз болып табылады. Ауғанстан аймақтық және халықаралық сауда-экономикалық қатынастарға қосыла алады және өз тауарлары мен қызметтерін экспорттай алады. Мемлекетте ішкі инвестиция көздерінің жетіспеушілігі байқалады, сондықтан сыртқы экономикалық ынтымақтастық және басқа елдердің көмегі бүгінде ел экономикасын жаңғыртудың аса маңызды факторлары болып табылады. Ауғанстан экономикасында өткен жақын арада табыс көзі болған басым салаларды қалпына келтіру, сондай-ақ сыртқы нарыққа ресурстар жеткізе алатын жаңа секторлар құру қажет. Ауғанстанның шетел инвесторларды тарту үшін үлкен потенциалы бар. Орталық Азия елдері Ауғанстандағы ұзақ мерзімді реттеуге және бейбітшілікке мүдделі, бұл болашақта олардың даму перспективасына әсер етеді. Олар Ауғанстанның мұздатылған, кейінге қалдырылған мүмкіндіктері мен жасырын перспективаларын қайта ашудың жаңа фазасын бастай алады. Ауғанстанның Орталық Азия елдерімен және халықтарымен ұқсастығы тек этникалық, діни бірлік пен ұқсастықпен ғана емес, аймақтың бейбіт, тұрақты дамуының ортақ құндылықтары мен мақсаттарымен айқындалады. Егер бұл процеске Өзбекстан, Тәжікстан және Қазақстан сияқты тарихи көршілер қатыспаса, Ауғанстанның бейбіт және ұзақ мерзімді дамуына ешқандай мүмкіндік болмайды.

Тірек сөздер: экономика, сыртқы сауда, инвестициялар, перспективалар, экспорт, ынтымақтастық, жаңғырту, нарық, тұрақты даму.

#### **Аннотация**

В статье рассматривается современное состояние экономики Афганистана и определяются перспективы ее развития как неотъемлемой части Центральной Азии. По своему географическому положению Афганистан выступает экономически эффективным транзитным коридором между странами Центральной и Южной Азии. Афганистан может присоединиться к региональным и международным торгово-экономическим отношениям и экспортировать свои товары и услуги. В стране ощущается острая нехватка внутренних источников инвестиций, поэтому внешнеэкономическое сотрудничество и помощь других стран сегодня являются наиболее важными факторами модернизации экономики страны. В экономике Афганистана необходимо восстановить те приоритетные отрасли, которые в недавнем прошлом были источником доходов, а также создать новые секторы, которые могут поставлять ресурсы на внешний рынок. Афганистан имеет большой потенциал для привлечения интереса иностранных инвесторов. Страны Центральной Азии заинтересованы в долгосрочном урегулировании и мире в Афганистане, что влияет на перспективы их развития в будущем. Они могут начать новую фазу повторного открытия замороженных, отложенных возможностей и скрытых перспектив Афганистана. Сходство Афганистана со странами и народами Центральной Азии определяется не только этническим, религиозным единством и сходством, но, что наиболее важно, общими ценностями и целями мирного, устойчивого развития региона. У мирного и долгосрочного развития Афганистана не будет никаких шансов, если в этом процессе не будут участвовать исторические соседи, такие, как Узбекистан, Таджикистан и Казахстан.

Ключевые слова: экономика, внешняя торговля, инвестиции, перспективы, экспорт, сотрудничество, модернизация, рынок, устойчивое развитие.