

The Afghan Economy

THE Durand Line has brought Afghanistan into the limelight and the future of the Pathans, who call themselves Pakhtoons, in their own language, engages the attention of many, in India and abroad. But little is known about that land which lies beyond Khyber Pass. Though Afghanistan is a member of the UNO none of the UNO publications contain any information about the economic life of the country nor has it figured so far in any of the special agencies set up by the UNO for economic aid to undeveloped countries. India and Pakistan are represented on the ECAFE. The United Nations Economic Survey Commission for the Middle East covers Palestine, Egypt, Jordan, Lebanon and Syria. Iraq might come under some of them but Afghanistan seems to have left out from both. Afghans themselves may prefer this isolation, but there is little reason why we should know so little about a country that used to be our next-door neighbour and which even today is not very far from our frontiers.

The Pathans number about 15 millions; they are of the same racial origin as the Afghans and are spread out in the North-Western Frontier Province, part of Afghanistan to the South of Hindukush and in the tribal belt and the part of Baluchistan between Quetta in the South and Gomo in the North including the Zhoh Valley, in about equal proportions. They speak a common language Pushtu.

Through an accident of history the Pathans got separated into different States. It began with the reign of Maharaja Ranjit Singh who occupied the area between the Indus and the foot of the mountains which had earlier formed the eastern boundary of Afghanistan. When the British occupied the Punjab, Pathan lands beyond the Indus came under their sway. Subsequently Baluchistan, a maritime province of Afghanistan, was annexed and Afghanistan lost its access to the sea and became a land-locked country.

It was only in 1893, after the consolidation of this process of British occupation of Afghan territory, that the Amir of Afghanistan could

be made to accept the Durand Line as the boundary on the assurance that the tribal belt would in practice remain independent and the British would never try to enforce their rule on that part of Afghanistan. The stability of the regime in Afghanistan, however, as recently pointed out by the correspondent of *The Times*, depends largely upon the continued support of all the Pathans. That is why the present king Zahir Shah and his advisors are concerned with strengthening the ties that bind them and their blood-brothers.

While most of the population live in the fertile valleys, the mountainous portions are inhabited by wandering nomadic tribes. The Durrani have been the dominant tribe for 200 years, the Tajiks are cultivators and traders. The Pathans in the Eastern frontier have always been independent, a war-like and unquarrelled people receiving government subsidies first from the British and later from the Pakistan and Afghan Governments, in exchange for safe passage of goods through the Khyber Pass. The language of the Pathans being Pushtu, the border area is known to Afghans as Pushtoonistan. An extraction of the old Persian is still predominant in the city of Kabul and among educated people. Western languages among which French seems to predominate is confined to the Government officials and a few of the top classes.

Motoring down the saucer-like valley, the tourist to Afghanistan is reminded more of Sangrilla than of anything else outside the screen. Surrounding Kabul are high mountains, over 15,000 feet high and some of the peaks reach as high as 25,000 within a distance of 150 miles. The dirt road which leads to the capital is the same trade route along which caravans have passed for centuries from Peshawar through the Khyber Pass—a distance of approximately 200 miles. This route passes through the Tata Bahn pass at an altitude of 10,000 feet, the highest and most dangerous portion of the road to the Pakistan border.

With an area of approximately 250,000 square miles and an esti-

mated population of 12 millions, Afghanistan is very sparsely populated. Habitation is concentrated on the three great river basins—the Oxus and the Kabul in the north-east and the Helmand running south-west through the centre of the country. Whatever little agriculture is there is concentrated in these basins which are fertile. The rest of the country is mountainous and arid and can support only sheep and goats and the nomadic tribes.

Afghanistan is supposed to be rich in natural minerals but the minerals have not been properly prospected and hardly any of them have been developed so far. So till now it remains exclusively agricultural and pastoral and grows with the aid of irrigation works of ancient origin fruits, cereals and vegetables. Wool and skins are the main articles of export together with fruits, nuts and ghee.

The imports are cotton, textiles, metals and hardware, leathers, goods, tea and sugar.

Communications are extremely primitive, for, motor traffic is confined to the few roads which link Kabul with Peshawar and Kandahar and the other, more recently built, linking Kandahar to the railway terminus at Chaman on the Pakistan border.

Even a pastoral economy has its ups and downs, and one that is virtually dependent on a single item of exports as Afghanistan is on wool and skins, offers much of interest to the economic theorist, particularly when controls on exports and imports, and exchange regulations of some complexity are imposed on such a primitive economy.

The Afghan Soviet rate of exchange has always fluctuated pretty closely with the fluctuations in the price of wool. On this, however, not much information is available. That between the Afghan—the national currency of the country and dollars or sterling or rupees has a controlled rate as well as a black market rate. During the war, the demand for Karakul wool and skins went up so much, and they fetched such a good price, that Afghanistan could build up a tidy dollar balance in the same way as India built up her sterling balances, that is by un-

requited exports. For imports, never very considerable, were further restricted during the war. But these dollar balances had to be drawn upon to meet the country's food deficits, and not for paying for imports of capital goods on a considerable scale as Afghanistan too had planned in her own way. The following statistics of US exports and imports to and from Afghanistan published by the US Department of Commerce, would be found interesting:

Year	Exports	Imports	Balance
1943	\$ 97,000	\$10,091,000	\$+ 9,994,000
1944	416,000	20,709,000	+20,293,000
1945	843,000	33,412,000	+32,569,000
1946	3,940,000	35,538,000	- 31,598,000
	\$5,296,000	\$99,750,000	\$ 94,454,000

Wheat had to be imported from the USA via Karachi to meet the acute shortage created by the failure of crops subsequent to 1946. This cost considerable amounts in dollars, with the result that the balances were greatly depleted.

On this primitive pastoral economy has been super-imposed a structure of State trading and investment corporations. There is also an Afghan Central Bank to deal in foreign exchanges and Government accounts, and a Commercial Bank, the Banke Mille de Afghanistan, to arrange import-export finance. And there are a number of corporations largely under State control but with some participation of private capital known as "Shirkates" which are semi-trading-industrial-financial institutions of the joint stock type.

Any incursion into the activities of these Shirkates, however, would be like putting the cart before the horse, without saying something about the development projects that have either been taken on hand, or are under active contemplation.

As has been mentioned before, cultivation as well as population are largely concentrated in the three river valleys. These had some irrigation works of ancient origin. Power development is the only in-

dustrial enterprise of any magnitude that has so far engaged the attention of the Afghan Government, though a textile mill and a few other minor enterprises have also been in operation, depending on electric power. Kabul has an installed capacity of 4800 k.w. in two stations both hydro-electric, erected in 1911 and 1937. Kandahar, Herat, Mazar-i-Shariif and Jalalabad have also generating stations, but with very low output. The Government development plans include a number of generating sta-

tions, all hydro-electric. The Ministry of International Economy has given priority to three schemes, the first two are the Sarobi and Girishk, with the Panjshir River development listed as third after the above two are under way.

Sarobi is a town on the Kabul river, approximately 75 miles east of Kabul and on the eastern side of the Lata Bahn Pass on the road to Peshawar. Girishk is a town on the Helmand river about 75 miles west of Kandahar. A dam has already been constructed across this river as well as an irrigation canal. It is contemplated to set up hydro-electric plants on this riverhead in order to distribute power to Girishk, Kandahar and possibly further upstream.

Panjshir river feeds the Kabul river upstream from Sarobi. The level of water in this river is maintained throughout the year as the river is fed by rain as well as melting snow from the peaks nearby.

Three generating sets are contemplated in this scheme but not much progress has been made with it as it has been given the third priority.

Before the war, both German and British engineering firms had been interested in such projects but lately an American Engineering concern seems to have established itself and executed some preliminary works such as building dams, laying roads and making designs.

Bottlenecks are many: the only foreign exchange that can be earned are from the current export surplus which has been greatly reduced or turned into a deficit by the decrease in price and quantity of exports of wool and skins and decrease in earnings from dried fruits. The figures given at the bottom of the page amply sum up the position.

Further, import costs have gone up since Pakistan started interfering with Afghan trade. This has also caused loss in foreign exchange. Dollars had to be spent for textile imports which formerly used to come from India.

If finance can be arranged, transport presents the next hurdle. All imports come *via* the port of Karachi and except consignments intended for the Kandahar area, which are transported *via* Chaman, the railway terminus in Pakistan, the rest have to go through Peshawar by rail and from there by trucks. The Banke Millie looks after such consignments, but it usually takes the Bank 6 to 9 months to clear the consignments through the Karachi customs, but if private expeditors are stationed in Karachi, the consignments can be cleared in a shorter time. Further limitations are imposed by the rail-road clearances on the North-West Frontier Railway from Karachi to Peshawar and by the truck capacity through Afghanistan.

(In '000 Afghanis)			
Year	Exports	Imports	Balance
1945-46	780,000	627,000	+153,000
1946-47	765,000	689,000	+ 76,000
1947-48	900,000	698,000	+202,000
1948-49	692,000	733,000	- 41,000

Another handicap, needless to mention, is shortage of technical personnel and skilled labour of any sort.

Though Afghanistan has not floated any foreign loans and the foreign assets of the Afghan Central Bank, judging from its published returns, hardly look impressive. She managed however, to get a loan from the US Export-Import Bank for agricultural development in the Helmand river valley for approximately \$21 millions. The application originally was for a loan of \$100 millions to include petroleum and mineral survey, textile mills, irrigation and power development.

But no idea can be formed about the possibilities of these schemes materialising eventually without looking into the political and administrative set up. The Afghan Government has a Ministry of National Economy. Shirkates have also been mentioned which were originally formed before the war to oust Indian traders with three-sided participation — government, bank and private capital. These Shirkates control textiles, coal, petroleum, imports and exports on Government account and also industries, the principal one being power production. Whenever it is necessary to expand an industry, the Government may supply the additional capital and the industry then becomes nationalised. Private capital for the Shirkates comes largely from a small section.

The Ministry of National Economy has got under it several divisions—Public Works, Trade and Commerce (including all imports, mostly handled by the Shirkates), the Treasury, including banks and foreign exchange, Interior, Industries, Agriculture, etc. The Shirkates, when not under the Commerce Department, come under the control of the Ministry of National Economy for he must approve all investments.

There seems to be complete State control in foreign trade so far as imports are concerned. There is an Afghan-American Trading Company which undertakes to secure goods for importers who place an order with it. This control may be relaxed now that the Indian traders have lost their hold, unless the Ministry of National Economy fears that the trade agreements now be-

ing negotiated with Iran and India may bring back Indian traders again into the market, because competition from Afghan firms is still lacking.

Custom duties are collected on both exports and imports. The tariff schedule never changes from year to year. Import duties range from 1% on gold and jewellery to 50% on tobacco, perfumes, etc., 30% to 40% on foodstuffs and household goods. All duties are *ad valorem*. Export duties range from 5% on home-made textiles to 80% on timber which in acute shortage. Foodstuffs usually have to pay 15 to 25%. Export tariffs are also *ad valorem*.

The foreign exchange regulations work somewhat as follows:

From July 1943, all foreign currency transactions have been strictly controlled by the Central Bank of Afghanistan (Da Afghanistan Banque). Formerly, that is up to the end of June 1947, 80 per cent, of the sale proceeds of Karakul wool and skins had to be surrendered to the Bank at the official exchange rate. Against the remaining 20 per cent, or the foreign exchange obtained from the sale of other items, the exporters were allowed to import goods on their own account, or to sell their foreign currency to the Bank which sold it to other importers. Owing to scarcity of imports, the Bank had relaxed the exchange regulations regarding the disposal of foreign currency obtained from the sale of goods other than lamb skin. But subsequently, from August 1949, owing to the scarcity of foreign exchanges arising from food and textile imports from the US, due to failure of crops and non-availability of textile imports from India, the entire sale proceeds of Karakul wool and skins had to be surrendered to the Central Bank.

All the customs houses maintain an exchange control office, and no exporter is allowed to send goods out until he has registered the quantity and nature of his export goods, and feigned a form that he has complied with the regulations for disposal of foreign currency. He has to furnish complete accounts, and if he fails to satisfy the exchange office that he has used the foreign currency for importation of goods, his export trade is suspended, and steps are taken to recover the foreign currency. Imports are not allowed

to leave the customs house until the importer has registered the particulars and submitted invoices to the exchange control office.

It is difficult to be sure how far the present tension with Pakistan has affected Afghanistan. Trade does pass through Pakistan territory but hold-ups and delay in transit have been so very common. They may be caused as much by slackness and inefficiency as by deliberate obstruction. There is no doubt, however, that India and Afghanistan have been drawing closer in their diplomatic and trade relations of late and as Pakistan appears to both as an obstacle in the path to free commerce, some Afghans are in favour of using this alliance as a threat to Pakistan, believing that the latter possibly cannot risk a war on both fronts. The tension with Pakistan however, also encourages closer relationship with Russia, though to a smaller extent.

For economic reasons also, particularly with Pakistan's interference in trade and America's reduced demand for skins and wool, Afghanistan has recently entered into closer trade relations with Russia and a larger volume of both exports and imports can be expected with that country. The difficulties of transit through Pakistan is at the moment forcing Afghanistan to get some of her supplies, from the western in preference to the eastern frontiers though the trade routes through the west can only be negotiated by pack-horses, mules or camels. She has been getting her supplies of petrol in this way.

In the present political atmosphere, India has immense possibilities of improving her entrepot trade with Afghanistan and to regain the position she lost when Shirkates were started to keep Indian traders out. There is also considerable scope of supplying Afghanistan with technical personnel which she so badly lacks for however fitful the progress may be, there is no reason to doubt that the Afghan Government does intend to push on with the development schemes, not only for power generation, but for irrigation and agriculture as well as for setting up small industries for all of which India can supply, without much stint, a number of trained technicians.