Chapter I

Introduction

1.1 General overview

Afghanistan’s economy has seen widespread destruction over the past two decades of war. Most of the major formal social, administrative and economic institutions of the country have fallen apart due to the Soviet occupation, population displacement, and continued fighting among various factions resulting from outside interference in 1992. The nation’s transportation and communication systems, heavy and small-scale industries, education and agricultural infrastructure are among the most seriously damaged sectors that need a tremendous amount of investment when peace and stability return to the country. At present, however, it would be difficult to expect significant improvement in the economic situation of the country.¹

This economic decline has exacerbated the level of poverty and economic hardship throughout the country. Largely dependent on subsistence agriculture, the country has witnessed diminishing income levels, declining food security, reduced access to urgently needed services and an increasing population.²

A wide range of disparities exists between different regions and within each region. While Herat, Jalalabad and Kandahar have largely benefited from cross-border trading with neighboring countries, the northern provinces, in particular the isolated and chronic food deficit provinces of Badakhshan and Bamyan, have been badly affected by natural

disasters and heavy fighting that took place in August and September 1998. The Taliban authorities reportedly blockaded the provinces of Parwan and Kapisa, which has caused a tremendous increase in prices of essential items.  

Previously, the Government of Afghanistan controlled the economy and major investments were made in the public sector. The private sector was active in agriculture and trade activities. During the course of the past two decades, the reduced role of the central government has encouraged the private sector to play a prime role in the nation’s traditional economic activities. The potential for further improvement of the private sector is still high and a large number of Afghan businessmen and traders might be interested in investing in small-scale industries provided that security and stability exist. However, this depends on the decision of the future governments its economic.

The Afghan economy has always remained vulnerable to policy decisions adopted by its neighboring countries. In the past, even when peace and stability were in place, the country’s economy depended on economic relations with the former USSR. In recent years, the country has become vulnerable to policy decisions made in Pakistan. An obvious example of such a change can be seen in the markets: an increase in prices of essential commodities in Pakistan led to further increase in prices in Kabul, Jalalabad and Kandahar. Also, the unofficial devaluation of the Pakistani currency during 1998 further reduced the value of the Afghan currency.

http://www.afghan-web.com/aop/today.html

http://www.afghan-web.com/aop/today.html

http://www.afghan-web.com/aop/today.html
At present, no reliable information is available on economic indicators such as national income, the government budget, foreign trade, inflation rate, income distribution, employment, and current level of GDP, GNP, or balance.\(^5\)

Thus, despite continued destruction, blockades of some of the supply routes and fighting in various parts of the country, trade and agriculture remained active. A more elaborate study of Afghan trade potential in the past and review of literature and background of mineral explorations in Afghanistan are discussed below.

1.2 Objectives:

The overall objective of this research was to measure the level of knowledge of Malaysian investors about Afghanistan’s potential economic resources and trade potentials.

A secondary objective was to examine the perception of Malaysian Entrepreneurs about the usefulness of the economic resources of Afghanistan to Malaysian economy.

The study also aims to find the factors responsible the Malaysian investors’ absence from the development activities in Afghanistan.

1.3 Research Questions:

This study examines whether Malaysian entrepreneurs are informed about the economic

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\(^5\) http://www.afghan-web.com/aop/today.html
potentials of Afghanistan. It will also try to establish if these economic potentials are useful to Malaysian economy. The research questions are:

a. Are Malaysian investors aware of mineral resources, trade potential and the significance of Afghanistan’s location?
b. What are the perceptions of Malaysian investors about the usefulness of Afghanistan’s mineral resources to Malaysian economy?
c. Do Malaysian Investors prefer investment in Afghanistan?
d. Why Malaysian investors are not involved in the economic development of Afghanistan?

1.4 Hypothesis:

1. Afghanistan’s huge natural resources and trade potentials presents excellent opportunities to Malaysia’s international investors.
2. Malaysian Investors lack appropriate knowledge about the economic potentials of Afghanistan.
3. Malaysian investors do not prefer to be involved in the economic development of Afghanistan.

1.5 Research Methodology:

It appears that there is no previous research and exploration in economic potentials of Afghanistan and the perception of International investors, particularly that of the investors in Malaysia as described in chapter one. Many researches about the exploration
of resources have been conducted under the sponsorship the Organization for Economic Co-operation and Development, United Nations. However, researches such as the perception of foreign investors about the resources of Afghanistan have rarely been conducted.

Thus, the research conducted the interviews in the Chambers of Commerce and Industry Malaysia, so as to visualize the realities on the ground and form the base for the research. The Chamber’s suggestions and recommendations in this direction proved very useful in the due course research.

1.6 General Method:

Two methods were generally used in this research. First, reaching the population by mailing questionnaires, second, direct meetings and interviews with the leadership of the chambers of commerce and industries in Kuala Lumpur. In some of the chambers, the research departments were involved in selecting the samples and distribution of questionnaires, which had experience of researches of this nature being conducted in the fields similar to this. The meetings were set through pre-arranged appointments in which after a brief introduction on the aims and objectives of the study, related questions were put to them and their answers were recorded. The issue of coordination with the research officers in these chambers and the distribution of questionnaire to their respective members were also discussed and coordinated.
Some of the chambers presented a long list of their members without much detail about each one of them, which made it difficult to know as to which of them were local or international entrepreneurs. This problem was partly resolved when these chambers accepted to make the random selection based on their research office's information and experience. Criteria highlighted for the selection, were the nature and field of operation of companies.

To ensure the proper selection and a good rate of return, all three chambers agreed to administer the questionnaires either through mail or during the meeting of their council members.

The aim of this study was to gather information from the respondents and their insight on topic of the research by exposing them to specific and open-ended questions. In both cases, questionnaire and the direct interviews proved to be efficient means of getting the required result that will be discussed in detail latter in this chapter.

1.7 The Population.

1.7.1 General

Initially, it was decided to conduct the research on the Malaysian entrepreneurs through the department of international trade and business in the Ministry of International Trade and Commerce. In view of Malaysian Chambers of Commerce and Industry being another viable channel of communication, it was decided to reach Malaysian entrepreneurs through the respective chambers of commerce, most of them stationed in Kuala Lumpur.
The population was the entrepreneurs in the three Chambers of Commerce:

1. Malay Chamber of Commerce Malaysia (MCCM)
2. Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)
3. Malaysian Associated Indian Chambers of Commerce and Industry (MAICCI)

1.7.2 Sampling.

With the difficult task of reaching the whole population in each chamber having thousands of members, it was decided to choose samples from the respective list of each chamber in random order and sector wise. According to the percentage of the population in each chamber a sample of 200 hundred were selected in the Malay Chamber of commerce and Industry, 150 in the Chinese Chamber of Commerce and 100 in the Indian Chamber of commerce and Industry.

To ensure the representative ness of sample it was further decided to choose the companies for the Federal Territory and the States Branches. Further the population included:

1. International Entrepreneurs,
2. Local Entrepreneurs.

The number of the samples for each Chamber was as follow:

<table>
<thead>
<tr>
<th>CHAMBERS OF COMMERCE</th>
<th>NO. OF SAMPLES IN EACH CHAMBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malay Chamber of Commerce Malaysia (MCCM)</td>
<td>200</td>
</tr>
<tr>
<td>Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)</td>
<td>150</td>
</tr>
<tr>
<td>Malaysian Associated Indian Chambers of Commerce and Industry (MAICCI)</td>
<td>120</td>
</tr>
</tbody>
</table>
1.8 The Collection of Data.

1.8.1 Scoring the questionnaire:
The percentage and frequencies were mainly used in the analysis of the responses. The answers were entered in the SPSS (computer software for data analysis) and through the cross-tabled of responses the questions were analyzed.

Most of the responses were cross-tabled to:

1. Membership of Chamber Commerce,
2. Types of Business (International Entrepreneurship),
3. Managerial Positions

As mentioned before the questionnaire was designed in five parts and each part was covering a particular aspect of the research question, the analysis of which will be discussed in chapter three.

1.9 The Instrument of measure:
The instruments for the collection of data were designed in two phases: an interview with the Executive Teams of those chambers included in the research, and the collection of data through the distribution of questionnaire.

1.9.1 Questionnaire Approach Supplemented With Interview Sessions.
The questionnaire approach was selected for this study with personal interviews conducted for selected Chambers of Commerce. Despite the interview sessions, a
questionnaire was designed to capture the data from the respondents. This approach was found to be useful as:

- The respondents were identifiable,
- The respondents were acquainted to English as English was the medium of communication in the research.
- The respondents had the option of filling the questionnaire at their own time without being forced to giving up some of their valuable time.
- The contact address was provided to make it easy for the respondents to approach the researcher for any possible clarification.
- Interviews were used as initial platform for the formation insight on the subject of the research and any possible modification of the questionnaire.

1.9.2 The Questionnaire Design

A combination of close and open-ended questions was used in this research. The close-ended questions are used with an aim to focus the respondent's attention on various dimensions of the research problem in which the investigator is interested (specific information about Afghanistan, its resources and their usefulness to Malaysia).

In order to acquire information about the respondent's own formulation on the issue, the frame of reference in which he/she perceives it, the factors that are salient, and the motivation that underlie his/her opinion, some open-ended questions were also incorporated in the questionnaire.
The questionnaire was designed in five parts. Part I of the questionnaire was specifically designed to find out personal profile of the respondents taking part in the research. The personal information, the respondents were asked to furnish included the type of business (International and local entrepreneurs), Management positions, and the membership of respective chambers of commerce.

Part II of the questionnaire is designed to evaluate the level of general information of the respondents and includes two questions, regarding the location and economic potentials of Afghanistan.

Part III of the questionnaire contained four questions measuring the level of information of the respondents mainly in relation to investment preference of the respondents and trade potentials of Afghanistan. Respondents were asked to indicate the famous Silk trade rout, shortest and economic trade rout from Southeast Asia to Central Asia, the investment preference of respondents in Afghanistan and the reasons for absence of Malaysian investors in Afghanistan.

Part IV of the questionnaire was drafted to measure the level of information of the respondents about the mineral resources and the usefulness of these resources to Malaysian Economy. The last question in this part contained a list of important mineral resources in Afghanistan and a grading scale for rating these resources.

Part V of the questionnaire was allotted to open-ended questions in which the respondents were asked to comment on the usefulness of mineral resources of
Afghanistan to Malaysian Economy and come up with any suggestion for Afghan
government in terms of policies and incentives for the promotion of foreign investment
and international trade.

1.9.3 Limitations of the Instrument of Measure.

Low information about Afghanistan greatly limited the construction of a comprehensive
questionnaire. As it was mentioned in the introduction, Malaysian entrepreneurs have not
been exposed to information about Afghanistan in the past. Absence of Afghan trade
offices and Afghan products in the trade exhibitions being held annually in Malaysia has
further increased this ignorance, therefore, only question thirteen that specifically asked
the respondents to rate the resources, rest of the questions had to be very general in
nature.

In the absence of any similar or closely related research in this field, it took the research quite
some times to study and organize an appropriate course of research. It is yet to be seen, how
appropriate the course of the study will be. The process of distribution and data collection, as
it was foreseen during the interview sessions was not smooth. In some cases, the researcher
had to contact the agencies and at times the particular respondents to answer the research
questionnaire and re-mail it. Out of 570 questionnaires sent out to members of various
chambers, only 183 of the questionnaires were filled and re-mailed. If it were not for the
cooperation and assistance of almost all the three chambers, it would have been impossible to
achieve the present level of responses.
1.10 Literature Review:

The scarcity of quantitative data on Afghanistan makes any attempt to survey economic development and related topics over a sixty years period (1920-1980) difficult and conclusions vague. The number of research and feasibility studies conducted on Afghanistan’s economic and developmental issues are very limited and outdated, some of which dates back to 1950’s up to 1970’s. Researches on the Economic Potentials of Afghanistan have mainly focused on the Natural Resources and their implications in the country’s economy.

Researches on the economic potentials of Afghanistan and the perception of foreign investors have either not been conducted in the past or the researcher was unable to trace such works in the literature of surveys and researches of Afghan Economy. The limited amount of information available on Afghanistan mainly emanates from many international organizations and academic research institutions with former involvement in Afghanistan. These institutions have considerable information and data on Afghanistan.

The absence of reliable data has always hindered the task of research and investigations. A country such as Afghanistan with shattered economy cannot be expected to invest heavily in its research capabilities; therefore, United Nations developmental agencies, international organizations, Non-governmental Organizations and individual researchers have mainly conducted study and researches on economic potentials of Afghanistan.

A major part of investigations and study on the economic potentials and in particular
mineral resources of Afghanistan have been carried out by the then Soviet Union. USSR as the major partner in the research works on Afghanistan’s economic potentials had its own agenda and never revealed the outcome of researches and investigations to the outside world.


In a closely related research by Maxwell J. Fry, 1974 on the “Foreign Sectors in Resource Mobilization” and “Importance of Foreign Trade Sector”, the enhancement of development potential of Afghanistan can be enhanced mainly through the expansion of export. He emphasizes that the removal of “critical constraint to economic development”, is a key factor to raise the development potential of Afghanistan. Maxwell refers to a comparative study by Adelman and Morris in 1968, published the results of a study of 73 countries designed to measure development potential. The study finds five indicators of development potential crucial for the development to begin in a given country.

“A. The degree of improvement in financial institution as measured by the growth in private savings flowing through the banking system and the growth in bank lending on medium and long term to the private sector;

B. The degree of improvement in physical overhead capital as measured by the improvement in transport systems;

C. The degree of improvement in agricultural productivity achieved through the application of "modern" inputs and techniques;

D. The degree of modernization of outlook measured in part by the extent to which development programs have gained support of both the rural and urban population;

E. The degree of commitment by the leadership to promoting economic development as measured by the existence of concerted efforts by heads of agencies involved in central guidance of the economy to promote economic growth; by whether the planning effort included serious attempts to alter institutional arrangements which clearly blocked the achievement of planning goals, and by the existence of a national plan or planning agency.  

The absence of any improvement in financial institutions in many instances is a major constraint in the financial development of a country. It is shown that financial development in Afghanistan has not occurred partly because Government activities and policies have impeded it, and partly because the banks themselves have not been interested in change. Further the external environment has not been conducive to the expansion of banking. The studies have shown that the private sector for the most the time has been squeezed as the Government acquired an increasing share of domestic credit to finance development expenditure.

In another research (The Economics of Competitive Coexistence: Afghanistan Between East and west, 1960) P. G. Franck highlights the importance of foreign trade

"that provided access road to the riches of the world without which no Afghan King or private investor could hope to increase the country's productive capacity. Because trade has been the traditional and most natural way of adding to the meager resources, it has assumed increasing importance as development efforts have become more intensive. Benefits from trade preceded any direct forms of international assistance from advance countries."

In a separate similar research (Role of Trade in Afghanistan's Development) A. Paul  

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from Asia Foundation Program Bulletin 1963, writes that

"Only by intensive efforts to increase the production of exportable raw materials and by solving the problems related to marketing agricultural products can a high rate growth in economic development of the country be maintained."

Maxwell in his study claims that despite a traditionally small foreign trade sector, absence of quota system and a floating exchange rate has contributed greatly to the growth of foreign trade at rate faster than Gross National Products (GNP). This was made possible under the implementation of liberal foreign trade policy, 1960’s.

Afghanistan started its economic development in 1920 and changes on several fronts over the post World War I, took place at a pace many times faster than that with which comparable changes took place in medieval Europe. Indeed, considerable change had already occurred during the (1920). It is interesting to note a passage in a report written in (1928) in which Afghanistan is described as follows:

"It is becoming a modern state. Its road communications have been trans-formed. There is a well-trained army. There are excellent schools. The metric system was recently adopted. In the center of Asia what is almost a new country is in process of birth-or, at least, the old country is being metamorphosed."  

It is astonishing for researchers to confront a situation in which a country with considerable reserves of natural resources, situated in a vantage point from the trade and

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10 The Afghan Economy, Money, Finance, and the Critical Constraints to Economic Development, By MAXWELL J. FRY, 1974, P 9
commerce point of view, and a very early history of economic development so often labeled as underdeveloped and stagnant compare to that of eighty years ago. Certainly, the political environment within and from outside has played a vital role in the creation of hostile situation for the development in the country, however, commitment on the part of the country's leadership has always been pointed to as the most important missing factor in giving direction and momentum to political stability and consequently the development of the country.

Kindleberger in his book *economic development* refers to a situation considered underdeveloped:

"Majority of people in Asia, Africa and Latin America live under conditions that are considered undesirable and referred to as underdeveloped."

The issue of underdevelopment, problems associated with and bringing about changes in those conditions are an enormous intellectual challenge to the people of these continents. Economic development encompassing multidimensional policies drafted as solutions, are perceived and interpreted in many deferent ways. Different regions have to address specific issues in drafting and executing development plans.

According to Kindleberger, development issues surrounding resource absence or scarcity need not be completely resolved. First, inadequate survey of natural resources is a common problem with a number of developed and underdeveloped countries. There are examples of new discoveries in Mexico, Egypt and Indonesia, and other parts of the world, where intensive explorations and new methods have been put in practice. The
possibilities of these new discoveries remain open in many poor and underdeveloped countries.

"While the era of geographical discoveries are in the final stages, the geological explorations have just started."\textsuperscript{12}

Afghanistan is no exception to it, for Afghanistan's potential resources have never been extensively surveyed and the results have not been transparent and in most cases kept confined to Soviets themselves, the recent of which dates back to 1978. Despite the old and obsolete Soviets system and technology used in the survey and investigation of Afghanistan mineral resources and other economic potentials, one can sense the great potentials and an excellent future economic prospect for the country and the investors.

Second, the application of capital, labor and entrepreneurship is carried out for the purpose of development of the country on the basis of available and known resources. In case of Afghanistan, though the geological survey and exploration is never carried out extensively, the known estimated of natural resources are fairly sizable to plan the development of the country.

There has been little support for Afghanistan's development programs and the commitment on the part of the country's leaders to economic development appears to have decreased over the decade (1960-1990). The lack of support has been due to the

\textsuperscript{11} Charles P. Kindleberger and Bruce Herick, Economic Development.  
\textsuperscript{12} Charles P. Kindleberger and Bruce Herick, Economic Development.
absence of any clear benefits to the majority of the population from development projects. The lack of commitment to economic development was seen in the unwillingness of Zahir Shah to make institutional changes repeatedly shown to be prerequisites for successful development, the demise of the economic plans and the low fiscal effort resulting in 80 per cent of the development expenditure being financed by foreign aid. The necessity on the donor’s part to hold out only extremely limited expectations of results under such circumstances has been expressed as follows:

"...achievement of a substantial and cumulative process of development depends essentially on efforts and conditions in the less-developed country itself if local conditions are unfavorable and local efforts are insufficient or misapplied, assistance can make only limited contributions to economic and social advance, if any."\(^{13}\)

It is not, therefore, surprising to find Afghanistan classified in the Low Prospect Group in the Adelman and Morris study.

A research conducted by the Development Assistance Directorate of the Organization for Economic Co-operation and Development 1970s has attempted to measure the stage of development in 82 underdeveloped countries. The index, which is produced, places Afghanistan at the sixty-eighth position with a per capita GNP equivalent of $160, compared to seventy third position with a World Bank estimated figure of $70. Of most

\(^{13}\) The Afghan Economy, Money, Finance, and the Critical Constraints to Economic Development, By MAXWELLI FRY, 1974
interest in the Development Assistance Directorate's study is the finding that the volume of investment is not strongly correlated with the stage of development. Furthermore, other cross-country comparisons also show that the relationship between the volume of investment and growth, although positive, is weak. The implication is important in that it suggests that Afghanistan's low stage of development by itself is no impediment to rapid economic growth. In other words, should the factors identified by Adelman and Morris as critical determinants of development potential be altered in appropriate respects, a high growth rate could be achieved despite the low stage of Afghanistan's development at the outset. Given that the efficiency of resource utilization is considerably more important than the amount of investment. Only the volume of investment, not its efficiency, is determined by the stage of development.

Whatsoever the reason, the Afghan development planning could not achieve its goal of economic development. The demise of Afghan King Zahir Shah came about as a result of failures of his economic and political policies. Daud proclaimed Afghanistan's republic in 1973 and initiated major economic changes and reforms. Once again the economic planning and reforms were based on unrealistic expectations and internal conditions were not taken into consideration in the development planning that were incomplete and in most parts visionary. The republic and its policies failed miserably and Marxist regime replaced it in 1978. Political tension erupted and Afghanistan became the center of major regional political conflict, contributing to further collapse of economic and development planning.
A study of development litterateur shows that Afghan economy is characterized as fragmented and least developed economy.\textsuperscript{14} Afghan economy witnessed much of its economic activity, both agricultural and industrial in 1920 initiated by a few industrialists. Abdul Majid Zabuli became minister of economy (1938-51) and adopted a policy of large-scale economic planning and development that was fundamentally capitalist in orientation. Western aid and advisers were sought from Europe (Germany in particular) and America, while Soviets were distrusted. Investment in small-scale industries started with the establishment of National Bank (Bank Millie) throughout the country. Widening scope of government and the expansion of trade and industrial concerns led to an increase in the urban educated elite. Admittedly small-scale new import substitution industries were created by newly emerging merchant class of entrepreneurs. Trade grew in volume internally and externally and much of the growth continued after Second World War into 1950s. Changes in the economic activities further accelerated, after Daud took the government in 1973. The Daud Era marks a turning point in the economy of Afghanistan. Prior to Daud’s administration, the Afghan economy was based on private sector and market mechanism. Daud’s etatist policies were based on the assumptions that the country lacked a development plan and that there was an eminent need to direct the national development and regulate the economy.\textsuperscript{15} Consequently the first five-year plan was certified in 1956. The main theme of first five-year plan (1956-1961) was to enhance agricultural and industrial growth. Building infrastructure, such as roads electric power stations, irrigation systems, schools and public health facilities were

\textsuperscript{14} Bank Millie, Report of the Board of Directors and Balance Sheet for the Year Ended 30\textsuperscript{th} Hoot 1336 (Kabul: Bank Millie, 1958)

main areas, this five year plan focused upon. Louis Dupree, in his book AFGHANISTAN explains the factors that caused the failure of this plan as follow:

"The major factor contributing to the ineffectiveness of this ambitious and largely unachieved plan was the inability of Soviet planners, who were responsible for the development of this plan, to understand the economic, political and social context in which they were planning. Secondly lack of technical and administrative capabilities in implementing the plan contributed to its lack of success. Afghanistan low level of fiscal efforts also weakened the development effort."\(^\text{16}\)

Absence of accurate and up-to-date data and ineffective tax system also contributed to the slowing of financial support to the plan. The tribal social structure of Afghanistan and the fear of tribal leaders to loose their assets were barriers to the implementation of national tax system. Hence the first five years plan and subsequent plans were mainly financed with foreign assistance. Estimates indicate that the foreign assistance to these five years plans from 1956 to 1972 reached U.S. $1.2 Billion.

Malaysia started its New Economic Policy much latter in 1971 and successfully attained its national ideals and economic goals. A brief review of Malaysian post independence developmental experience shall further contrast the mistakes, drawbacks of Afghanistan’s development planning.

\(^\text{16}\) Afghanistan, The Soviet Invasion in Perspective, Hoover Institution Press, Stanford, University, Stanford, California, ANTHONY ARNLĐ, 1982.
1.11 Background of Survey, Investigation and Exploitation of Afghanistan’s Natural Resources:

Our understanding of Afghanistan’s natural resources and the projects for the development of these resources will not be complete unless we review the historical background of survey, investigation and exploitation of these resources.

It is very complex and hard to understand that a country like Afghanistan possessing tremendously large resources and a long history of independence and self-rule still remains backward and underdeveloped. Nations like Malaysia with a very recent and short history of independence have strikingly been successful in developing their resources and attained advanced economic status.

Therefore, it is essential to trace the internal and external players in the evolution of Afghan economy and the development of its resources in brief. We shall review the planning, survey and development of resources in Afghanistan and the role and nature of international aid and their subsequent impact on the exploitation of these resources. In conjunction with the overall developmental trend, some of the most important resources, crucial for the development of the country and conducive for international investment will be discussed later.

The exploration of Afghan resources has been carried out mainly by Soviets. Though, limited, some American, French and Swedish geological survey teams also carried out surveys that would be discussed subsequently.
It took decades for Soviets to prepare for the exploitation of Afghanistan's many resources like highly valuable minerals to benefit Soviets economically. These exploitations were implemented through development aid, technical assistance, economic assistance and similar terms well suited to the sensibilities of third world countries. Moscow was the first to indicate its interest in the exploration of Afghan resources as early as 1927. But they practically began to influence the Afghan government after Second World War to let them search for and develop its resources. This coincides with the unfortunate and unsuccessful diplomatic, economic and failed resource exploration experience of Afghan government with the United States of America. Initially Afghans were reluctant to allow Soviets in. In this regard, the Afghan government asked the United Nations to assist them in the exploration of its oil resources, which was not fully welcomed by the US. Soviets, waiting for such an opportunity offered its assistance in 1950 to explore the oil resource of Afghanistan that was rejected, instead French were asked to explore and assist in the exploration of oil resources in north Afghanistan. Meanwhile, the Afghan government once again asked the United States for development aid, but almost all projects proposed to United States were rejected other than the Helmand Valley irrigation project. Moscow staying away and keeping a close eye, stepped in with offers to undertake almost all the proposed projects.¹⁷

During Daud’s era, 1953, Afghanistan became the first non-communist country to accept the Soviets economic and development aid. The Soviets offered an economic aid of

$100 million with 2 percent interest rate, part of which was earmarked for the exploration of hydrocarbon resources. This package gave Soviets a leading role in the Afghanistan's development policies.

This economic aid was aimed at projects jointly surveyed and determined by the Afghan-Soviet survey teams. Apparently, the terms of the loan allowed Afghan side to spend the money anywhere in the world market, but in practice all contracts were given to Soviets alone. The reason given by Afghan government was that these contracts were cheaper, however, they actually coasted more and could not compete in the world free market while an open international bidding is held. Finally Soviets managed to secure the contracts.

Efficiency and productivity were two crucial factors missing in Soviet technology for the exploration of gas and other natural resources. For instance "A Soviet drill bit used for hydrocarbon exploration could produce only one-fifth or even one-tenth of as much as an American, French, or other bit under the Same conditions". Furthermore, Soviets sold clumsy and very much-outmoded drilling rigs to Afghanistan under the economic assistance agreement. For any drilling operation that took American rigs a week, took Russian rigs a month.18

It is therefore, argued that in addition to the gross exploitation, seemingly low cost Soviet aid in reality cost Afghanistan more in return because of relatively lesser volume of

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services and production. Every project took more time than what was estimated in the initial stage, thus the ratio of credit to the value of the project was much higher.

Russians consistently tried to take over the entire Helmand Valley project from Americans by offering more promising terms. Though these offers were rejected, however, they were successful to take over construction of a power plant on the Kabul River initiated by the then West Germany.

Subsequently, the pressure from Moscow forced the Afghans to cancel the French Oil exploration contract. Despite the Soviets request to take over this project the Afghan government replaced French with Swedish company (Sweden being neutral, non-NATO). The Swedish company started its drilling in 1956.19 Soviets continued to exert pressure on Afghan Government’s use of economical assistance from any other source of aid exploration, even from U.N or other neutral country. It was in 1957 that Afghan Government was compelled to hand over the oil exploration to Czechoslovakia under $15 Million Loan. In this junction of time, Afghans approached Americans to assist them in drafting Petroleum Law that was meant to provide Background for legislation to help private business. Though it appears to be a difficult task in view of Soviets pressure and influence, however, the new law was never applied in contracts between the Soviets and Afghanistan Government.

19 Pohanmal Hamidullah Amin, A glance at Afghanistan’s Foreign Trade, Human Science and literature faculty, Kabul University, 1971.
The Oil strikes were reported in 1958 soon after the Czechs took over from Swedish. This prompted Russians to replace some of Czech Engineers and Technicians by personnel form Soviets Techs Exports, an engineering development organization with KGB involvement and intelligence capability. Rich oil finds were reported by 1960 around Sheberghan, north Afghanistan. Soviets provided an additional $200 million credit for further oil and gas exploration and Soviets won a final agreement for survey and exploration of other Afghan mineral resources in 1963.  

Thus one can confidently say that by 1963, Soviets had forced all other competitors out the country and they had taken over all means of resource acquisition and exploration, not only from outsiders, but from Afghans as well.

Increasing recognition of Afghanistan's resource potential, required high quality, large scale topographical maps to improve geological survey and mapping for development. Once again Afghans turned to United States for assistance. Americans responded positively and their topographers began flying all over the country. Russians as usual objected and took over the mapping of one third of north areas to keep Americans away from its southern borders. Despite ground surveys and careful aerial photography, the two sets of maps (north by Russians and south by Americans) were not compatible.

However a complete series of topographical maps were produced in 1960, with a narrow gap between incompatible maps of some areas in the north. After being in use for about ten years, Soviet Advisers to Afghanistan’s Cartographic Institute changed the status of

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these maps to state secret documents. This was done with an aim to prevent the spread of information about the resources and their potentials.

The increasing presence of Soviets in Afghanistan and their mischievous behavior convinced the Royal hierarchy to replace Daud Khan, a Pro-Russian Prime Minister with Dr. Yusuf, a German Educated and former Minister of Mines and Industries. He made strong attempts to implement free and democratic system in the governing of the country and through out his decade long tenure, he tried to reduce the Afghan dependency on the economic aids from USSR. United States tried in limited scale to keep track of Afghan resources during Dr. Yusuf’s government and subsequent government of Daud Khan from 1973-78). The State Department document in 1963 had suggested that an investigation should be made whether Afghanistan had resources of interest to the United States. The US Embassy requested for information from Afghan Government, but by then, Soviets control over the of Ministry of Mines and industry was in full swing to block the disclosure of any kind of information to US and frustrate any progress by Americans in resource assessment.

Daud staged a coup in 1973 that further tilted Afghanistan to the left. Many Western advisers were forced out of the country, in particular from the Ministry of Mine and industries and Institute of Cartography. Russians published a booklet on Soviet work regarding Afghan resources. The book was badly written with many mistakes, advocating the idea of inadequate and sparse resource base. In its turn, United Nations also sponsored a resource assessment project with two Canadian geologists to oversee the
process of exploration of resources. As usual every effort was made by Soviets to
impede their work. Nevertheless they reported favorably about potential resources but the
report was suppressed on the advise of Soviets by Afghan Government. Finally in 1977 a
resource survey in 419 pages was published under the United Nations Authorization.
Though, it was recognized as joint work of Soviets and Afghan geologists, translated into
English, Once again it was held highly confidential under the pressures from Soviet
advisors.

An important fact related to the information about Afghan resources is that all the way
Russians systematically tried to misinform the Afghan Government about its own
resource base. This information came into light when some Government officials
defected to the west in the wake of Soviets invasion of the country. It was revealed that
in many cases the result of geological investigations was not revealed to Afghan
Authorities. The dissemination of information from these geological investigations were
restricted to the scale that even Mr. Afzal who was the director of Afghanistan
Geological Survey, was not informed. In some cases the reports of surveys were prepared
in two sets, a pessimistic for the consumption of Afghan Authorities and a more accurate
for use in the Soviet Union. Soviets prepared important maps on geology, mineral
resources, crystal structure, metal-genesis, hydrology and mixture of rocks, in 1976, but
never released.21

Soviets' effectively resorted to political maneuvers to achieve further control of Afghan geological surveys and resource explorations. For instance according to Daud Government's deputy Foreign Minister, Daud Khan assigned the Ainak Copper deposit to Soviets for exploration when they threatened his Government on the issue of Afghan debt for economic and military assistance. He further revealed that there were more promising and higher tenders from other international quarters.

Later on in 1978's Communist coup, the economic aid and Russians involvement in Afghanistan increased and the number of Russian technicians reached to 4000, which is highest anywhere in the world. The number of Afghan student's sent outside the country in particular to Soviet Union and other Eastern European countries reached to 4550. These students were in some cases forced to follow the predetermined courses of study with an aim of introducing and enforcing communism studies and ideologies. Afghanistan occupied the fifth rank among underdeveloped countries, having higher number of Soviet technicians. It is also worth notice that the Soviets aid in duration of 23 years from 1954 to 1978 totaled to 1.3 billion.\(^22\)

For the first time in 1977 a copy of detailed and optimistic resource inventory, never revealed before, became available to outside soviet world. It is interesting to note that a World Bank report on the favorable economics of future Afghanistan's resource development was held back in 1978 after the communist coup. Keeping in mid the resource inventory release to out side Afghanistan in 1977 and the economic report by the World Bank, the new information presented a bright prospect for the future of
development in Afghanistan. Sadly, in the wake of political instability and Invasion of Afghanistan by Russians, the political realities changed so abruptly that this optimism never materialized.23

The coup, followed by Soviet Invasion reinvigorated a new spate of resource expedition in Afghanistan. The two governments of Afghanistan under Tarak, and Amin respectively showed their strong desire to exploit the natural resource potentials of the country. They earmarked northern petroliferous area as the principle industrial base for expansion. They further decided to implement a number of resource exploitation contracts, already negotiated by Daud's regimes. Some of them include the following projects.24

- 30 million of petroleum equipment
- 600 million for study and design of Ainak Copper smelter, which was built by Soviets and opened in 1971. This contract included the construction of natural gas fertilizer plant close to Mazar-e-Sharif (a major city in the north of the country).
- Detailed mapping of northern Afghanistan estimated cost of which was 22 million.
- The construction of first rail and vehicle bridge over Amu Darya (Oxus River). This bridge was to be built between Termiz in the then Soviets Uzbekistan and Hairatan in Afghanistan, estimated cost of which was US$50 million.

22 Jamiate Islami Afghanistan, Publication Department, Development In Afghanistan, 1979.
• Renovation of Sherkhan Bandar River port costing US$ 5 million.

All the above projects were designed to meet the Soviets preferences and not the Afghan
peritonitis:

It can be said safely that Taraki and Amin the two communist rulers had taken over
Afghanistan with newly recognized potential resources, however, an economy totally
penetrated and controlled by Soviets and an administration frustrated by its own
inadequacy and Soviets manipulation.

Soviets invaded Afghanistan in 1979 and the subsequent governments headed by Babrak
Karmal and Dr. Najib respectively and controlled by Soviet advisors continuously made
efforts to exploit mineral resources.

The country plunged into civil war and Afghan nation took up arms and bravely defended
the country, consequently shattered the dreams of Soviet Exploitation of Afghanistan’s
Resources.

1.12 Conclusion

Afghanistan’s economy has seen widespread destruction over the past two decades of
war. Most of the major formal social, administrative and economic institutions of the
country have fallen apart. This economic decline has exacerbated the level of poverty and
economic hardship throughout the country, promoting wide range of disparities between
different regions and within each region. The Afghan economy has always remained

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vulnerable to policy decisions adopted by its neighboring countries, Soviets in the past and Pakistan at present.

Afghanistan has been in the crossroads of Asia, connecting various conflicting cultures. Further development of trade routes is related to the silk trade route and Afghanistan had its prominent place along this famous historical Silk Route out of which benefited greatly

During 19th century when trade and economic movements development began worldwide, internal rivalries between Royal Princes and the interference of tow supper powers of their time in the internal affairs of Afghanistan, created political instability that resulted in economic breakdown affecting the economic development.

The scarcity of quantitative data on Afghanistan makes any attempt to survey economic development and related topics over a sixty years period (1920-1980) difficult and conclusions vague. The number of research and feasibility studies conducted on Afghanistan’s economic and developmental issues are very limited and outdated, some of which dates back to 1950’s up to 1970’s.

Researches on the economic potentials of Afghanistan and the perception of foreign investors have either not been conducted in the past or the researcher was unable to trace such works in the literature of surveys and researches of Afghan Economy. The limited amount of information available on Afghanistan mainly emanates from many international organizations and academic research institutions with former involvement
with the country that have considerable information and data on Afghanistan.

Soviets had monopoly of resource exploration in Afghanistan's. Resources have never been extensively surveyed and despite that the results have not been transparent and in most cases kept confidential to Soviets themselves, the most recent of which dates back to 1978.

There has been little support for Afghanistan's development programs and the commitment on the part of the country's leaders to economic development appears to have decreased over the decade (1960-1990). The lack of support has been due to the absence of any clear benefits to the majority of the population from developmental projects. The lack of commitment to economic development was seen in the unwillingness of Zahir Shah to make institutional which is prerequisite for successful development planning. The foreign aid from the West to the Afghan government virtually stopped after the Communist take-over in 1978.

Whatever the reason, the Afghan development planning could not achieve its goal of economic development. The demise of Afghan King Zahir Shah came about as a result of failures of these economic and political policies.

A study of development litterateur shows that Afghan economy is characterized as fragmented and least developed. The impact of foreign aid and economic planning has been limited on the economic development of Afghanistan because of the scarcity of
government resources, tribal and religious opposition to change and a cumbersome bureaucracy.

A brief review of Malaysian post independence developmental experience shall further contrast the mistakes, drawbacks of Afghanistan’s development planning. Malaysia started its New Economic Policy much latter in 1971 and successfully attained its national ideals and economic goals.

In view of its enormous economic potential and a long history of independence and self-rule, it is very complex and hard to understand that a country like Afghanistan remains backward and underdeveloped. Whereas many nations like Malaysia with a very recent and short history of independence have strikingly been successful in developing their resources and attained advanced economic status. Therefore, it is essential to understand and trace the internal and external players in the evolution of Afghan economy and the development of its resources.

Referring to the issue of information about the resource potentials of the country, for the first time in 1977 a copy of detailed and optimistic resource inventory, never revealed before, became available to outside soviet world that will be covered in coming chapter.

The Afghan history repeated itself once again with the start of regional and international instigations and involvement in the form of internal rivalries between former freedom fighters (Mujahideen). Through out the years of occupation and with the withdrawal of
Soviets forces and downfall of the last communist regime, the economy of the country had virtually collapsed. Afghan Mujahideen who put up an exemplary and brave resistance at the face of occupying force of the USSR, soon found themselves entangled in the internal bickering, causing the delay of the much expected reconstruction and economic revival of the country.
banking groups who received a license for an Islamic Bank to be opened in the some CIS Countries, has not yet been able to do so due to the absence of rules for the transfer of capital and profits (in convertible currency) and the absence of a clear legal status of such private ventures.

This issue is a very important factor in charting the future developmental strategy of any given country. For instance, the successive Afghan Government failed in persuading United States for economic cooperation, which further contributed to the increased reliance of Afghanistan on Soviet’s aids and economic hegemony that has played a major role in the failure of development planning and ultimate collapse of country’s economy.

Afghanistan is partly desert and partly mountainous country. Taken form Wakhan (The roof of the world) in Pamir Plateaus to Historical cities of Balkh, Heart, and Bamian are all great tourist attraction sites. Afghanistan could benefit form tourism greatly if tourism industry is given required attention. It is interesting to know that tourism industry and national income from this aspect constituted a large part of foreign currency income before the communism takeover (Dec 25, 1978). Afghanistan with thousands years of its history and spectacular landscape through out the four seasons of the year has great potentials for attraction of international tourists.
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