

Afghanistan's Business Environment: *Huge Potential for Investment in an Uncertain Place.*

¹Abdul Kabir Karimi, Associate Professor, Kabul University.

Corresponding Author*

Abdul Kabir Karimi

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Abstract: The article aims to present Afghanistan's business environment and elaborates on the huge potential for investment in an uncertain place. A number of literatures has been reviewed from different international and government-related institutions and also quoted government high-level officials to identify these potentials and uncertainties. The review of the studies and research by international institutions suggests that the government of Afghanistan is actively working to prepare a business-friendly environment for domestic and foreign investors. However, political instability, lack of electricity, crime, theft and disorder, access to land and corruption still remains as the major constraints of doing business in Afghanistan. It is a fact that reviving Afghanistan's business environment in this critical situation of conflict, declining international aid, and ongoing political chaos can be extremely difficult. However, reviving its business environment and utilizing the opportunities cannot wait for the end of the ongoing conflict and current political uncertainty.

What Afghanistan needs to do is think creatively to recognize what can be done in the time of conflict and political uncertainty to take advantage from those opportunities. Although the extension of the article analysis requires more evidence to judge, the analysis challenges the general understanding of the business environment and points to important new avenues of research.

Keywords: market economy principles, socio-economic development, Gross Domestic Product, economic growth, investment, Foreign Direct Investment (FDI), FDI flow, Doing Business, business-friendly environment, governance, foreign and domestic investment.

Introduction

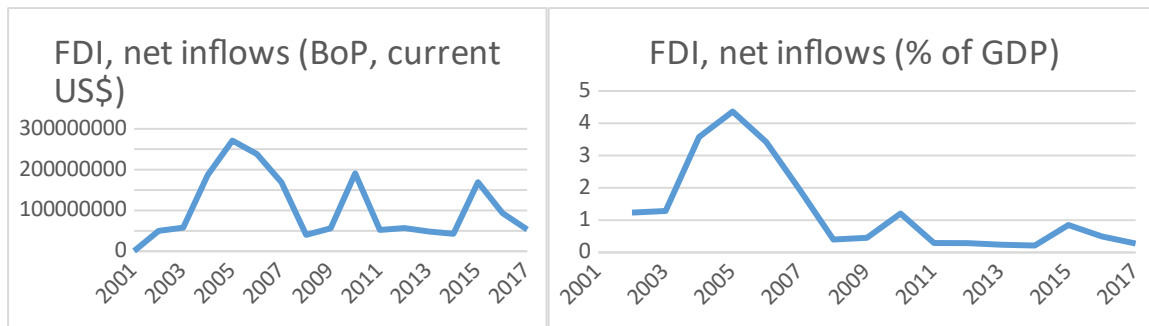
After the fall of the Taliban regime in Afghanistan, people of Afghanistan adopted democratic values and the market economy principles for the socio-economic development of the country. Afghanistan is a landlocked and "least developed economy" in the region. "Three decades of conflict devastated Afghanistan's economy and drove more than 2.5 million Afghans away from their homes and livelihoods. Since that time, the Afghan economy has grown dramatically, with Gross Domestic Product rising to more than \$20 billion— five times higher than in 2002."

Real GDP and sector growth trend of the country shows that from the year 2003 till 2015 there has been positive economic growth in the services and industry sectors of the economy, except for the

agricultural sector which has been vulnerable in these years. The agriculture sector is the second-largest contributor to the GDP of the country and it almost makes a quarter of the GDP.

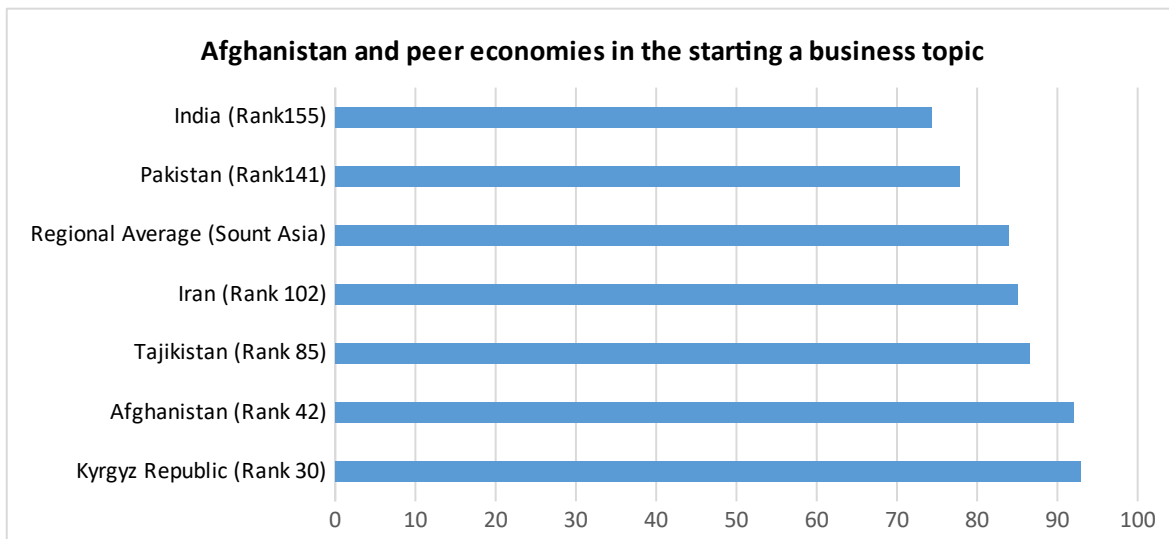
The deteriorating security situation and political uncertainty in recent days greatly affected the economy and confidence of the private sector of the country. According to World Bank, its economic growth increased marginally from 1.3% in 2014 to 1.4% in 2015 with no significant sign of pick up in private consumption and investment accompanied by weak demand in the market of the country. Drop in the consumer prices from 4.5% in 2014 to – 1.5% in 2015, a decline in the number of new firms’ registration in 2015 in comparison to 2013 and 2012 shows that the economy of the country is not performing well.

For its economic development and improvement in the welfare of Afghans, it is very important for the country to attract foreign and domestic investment. Foreign Direct Investment (FDI) has been volatile between 2002 and 2014. The UNCTAD 2012 World Investment Report estimates FDI flow into Afghanistan in 2011 at \$ 83 million and total FDI stocks at \$ 1.48 billion, representing 8.1% of GDP. According to the Afghanistan Investment Support Agency (AISA), the top FDI destination sectors in Afghanistan are services and construction.



Source: World Bank

“Situated strategically at the heart of Asia, Afghanistan is a land bridge connecting South Asia with Central Asia, Eurasia, and the Middle East. Afghanistan is also a key transit route for oil and gas of Central Asia to reach the major seaports and markets of South Asia and overseas.”⁵ World Bank’s annual report on international trade and investments says that Afghanistan is one of the best countries to invest with high returns on investment. The report ranks Afghanistan 23rd among 183 countries and recognizes its business environment suitable for domestic and foreign investors.



Source: Doing Business Report 2017

Being an emerging market, Afghanistan offers many business opportunities for foreign investors. In the years 2015 and 2016, over one billion US dollars have been invested by the private sector, which indicates the existence of huge potential for investment in the country.⁶ According to data collected by Doing Business, Starting a Business in Afghanistan requires 4 procedures, takes 8 days, costs 19.9% of income per capita and does not requires paid-in minimum capital.

Indicators of Afghanistan and Peer Economies in the Starting a Business Topic

DB Topic	Afghanista n	India	Iran	Kyrgyzsta n	Pakista n	Tajikista n	Regional Average
Starting a Business (rank)	42	155	102	30	141	85	108*
Procedure (number)	4	12.9	9	4	12	5	8.2
Time (days)	8	26	16	10	18	22	15.6
Cost (% of income per capita)	19.9	13.8	1.1	2	12.4	16.8	13.4
Minimum capital (% of income per capita)	0	0	0	0	0	0	0.2

Source: Doing Business Report 2017, Reformatics Report Estimates, MoCI

The country has rich mineral resources, it is estimated that its natural deposits have over \$ 3 trillion of worth. Responsible and effective use of these resources can play a significant role in the economic development of the country and can be a guaranteed source of wealth and income for generations to come. In terms of investment, Afghanistan “already has several state-owned and private companies from China, India, the UK, Canada, Turkey, the UAE, and other countries in addition to Afghan companies investing billions of dollars in copper, iron ore, gold, oil, and gas”⁷ all over the mining sector of the country to extract the resources and create opportunities. Prior to mining sector, agriculture, agro business and food processing, telecommunication, transport and logistics, energy and labor intensive manufacturing industry are other sectors that can attract investment and create businesses for domestic and foreign investors.

The government of Afghanistan is actively working to prepare a business friendly environment for domestic and foreign investors through reducing costs and time required to transport products by developing alternate transit routes such as Chabahar Port, Afghan China Railway Transit, Lapis Lazuli Corridor and Air Corridors to the world’s markets.



The country has also adopted a liberal trade regime and made significant progress toward becoming an important part of the global and regional trade community. Afghanistan has become the 164th member of the WTO on 29 July 2016. The negotiations to join the multilateral trading system

have been highly demanding for Afghanistan. “The WTO accession required focused efforts on the part of both executive and legislative bodies that resulted in the enactment of 27 laws and regulations.”⁸ However, the legal framework for better improvement of the business environment is still outdated and needs effective reform. The institutional framework of the government still relies on the command-and-control style of the pre-war governments. It makes policymaking fractionalized and creates major obstacles for effective reforms of the business environment.

To further strengthen the business environment in Afghanistan and modernize Afghanistan’s businesses to world standard and further encourage the domestic and foreign investors, on 15 June 2016 Afghanistan became a member of the International Chamber of Commerce (ICC). According to ICC Afghanistan, the membership will give Afghanistan’s business societies the opportunity to participate in the work of ICC’s commissions and special working groups to discuss government initiatives affecting their subject areas.

In terms of challenges World Bank’s report in 2009 lists political instability, lack of electricity, crime, theft and disorder, access to land and corruption as the major constraints of doing business in Afghanistan. Moreover, governance, laws and regulations, financial services and infrastructure are other most important areas where businesses face constraints and it affects building enabling the business environment for the private sector.

It is a fact that reviving Afghanistan’s business environment in this critical situation of conflict, declining international aid, and ongoing political chaos can be extremely difficult. However, reviving its business environment and utilizing the opportunities cannot wait for the end of the ongoing conflict and current political uncertainty. What Afghanistan needs to do is think creatively to recognize what can be done in the time of conflict and political uncertainty to take advantage from those opportunities. If Afghanistan truly learn from its mistakes and implement reforms step by step and wisely, it has chances for further development of its business environment.

References:

- ¹ Three decades of conflict devastated Afghanistan’s economy and drove more than 2.5 million Afghans away from their homes and livelihoods; reported \$590.3 GDP per capita in 2015 by the World Bank and \$20.537 billion GDP in 2012.
- ² USAID, “Economic Growth of Afghanistan” available at: <http://bit.ly/2eKa6lh>.
- ³ World Bank, “Afghanistan Overview” available at: <http://bit.ly/1ifMSk1>
- ⁴ Note that comprehensive foreign direct investment (FDI) facts and figures are not available for Afghanistan. And available figures are not reliable due to inconsistencies in data collection.
- ⁵ Why Invest in Afghanistan, available at: <http://bit.ly/2n9obQt>
- ⁶ RaswHumayoon, “Minister of Commerce and Industries of the Islam Republic of Afghanistan” Exhibition Afghanistan, Dubai, 6-7 December, 2016
- ⁷ Karzai Hamid, “President of The Islamic Republic of Afghanistan” 2013 World Economic Forum, London United Kingdom
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