Economy and Society of Afghanistan – a Special Case of the ‘Dutch Disease’
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Abstract

In the article the social and economic transformation of Afghanistan is examined in a historical perspective. The author notices that Afghanistan’s trajectory of development, since the modernization of the country began in the 19th century, has eventually produced the state of so-called ‘Dutch disease’, that is, a relationship between the increase in exploitation of natural resources and a demise of the manufacturing sector. In the Afghani case, the ‘natural resources’ responsible for halting industrialization are narcotics (opium), on the global exports of which the entire local economy became strictly dependent. The author names number of reasons behind such a direction of development, including political, economic, an cultural factors but remains skeptical about possible ways out of that developmental trap.

In economy the term ‘Dutch disease’ is understood as a recourse in the economy of said state caused by the discovery and intensive exploitation of a mineral resource of one kind, usually of the oil. It causes a large influx of a currency into such state, and in effect it strengthens the value of national currency of this state. This appreciation of national currency leads to the recession in certain sectors of economy, as they became less competitive both on internal and external markets. The further effect of ‘Dutch disease’ is a shift in allocation of goods toward this branch of economy which gives

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the largest returns of invested money. In effect the other sectors of economy become underfinanced (e.g. Dutch disease, Financial Times Lexicon; Ebrahim-zadeh 2003; Gierczyńska 2010; Gylfason 1999; Gylfason 2001; van Wijnbergen 1984). The ‘Dutch disease’ case may apply to the state of Afghan economy. But one should remember that this parallel is rather distant from the classic notion of ‘Dutch disease’. And the model is hereinafter only used to illustrate the changes in Afghan economy, in which opium monoculture generates problems similar to those which afflicted the Dutch economy in the past, as well as economies of some other countries.

Afghan economy as well as the entire country is lately perceived mostly in the context of the United States military intervention, the war on terrorism, or the death of Osama bin Laden. Media reports are dominated by the news about military engagements and operations, or military and civil casualties. Occasionally, the fact that Afghanistan is the largest opium producer in the World is brought up. Media are much less interested in the standard of living of the Afghans or in the economic condition of the country. And unsurprisingly those news are dominated by the reports of poverty, starvation and ruination of the country. It is, therefore, not difficult to overlook the periods of relative prosperity and stable development Afghanistan throughout its history.

The modernization of Afghanistan commenced during the rule of Abdur Rahman Khan. He introduced single, official currency in Afghanistan, and established a state mint. For the sake of achieving a stable revenue for the state, he created the tax office. The ruler supported development of modern industries, like shoemaking industry, soap industry, production of barn machinery or glass industry (Life of Abdur Rahman, Amir of Afghanistan 1900). Despite religion–related barriers, the emir also supported the development of vineyards, and production of alcoholic beverages. Liquor manufacturing was under state monopoly control, and wines, whisky and brandy were exported to India (Gray 1895: 372–373). Emir Abdur Rahman also started the process of the transport system development. The roads connecting main cities were modernized, the emir made local communities responsible for maintenance of the roads, as well as safety of travellers and goods transported. In this way he limited the scale of banditry. Abdur Rahman Khan cancelled all domestic duties in attempt to boost internal trade. He also introduced a uniform import/export duty of 2.5% for foreign goods, which was later rised (Hamilton 1910: 242, 247–248). At the same time

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1 This term was for the first time used in The Economist (1977) in article which analysed the effects discovery of the large gas deposits in Netherlands. See: ‘The Dutch Disease’ (1977), The Economist, November 26.
he curbed spatial mobility of the city population (the main source of revenues), by introducing special passes for travel outside immediate vicinity of the cities (Khan Munshi 1900: 68–69; Hamilton 1910: 225, 238).

Abdur Rahman’s successor, emir Habibullah Khan carried on the policy of modernisation. During his rule investments continued, Afghan government acquired modern equipment for tannery and shoe factory, and also built a modern weaving mill. One of the most important investments was construction (in 1910–1913) of a hydroelectric plant in Jabal-ul-Seraj. That project was vital for resolving one of the major problems of Afghanistan, that is a lack of electric energy for modern factories (Martin 1907). Habibullah continued the development of communication and transport systems. During his reign new roads were built, as well as the first in Afghanistan steel bridge. In order to expand trade Habibullah lowered import and export duties (Lyons 1910).

Already during the reign of Abdur Rahman Khan and Habibullah Khan certain structural development barriers became evident. Besides above-mentioned electric energy shortage, there was also deficiency in professional staff. Underdeveloped educational system could not provide state and economy with well educated professionals. Therefore, the state was forced to employ foreign specialists, which not only generated serious costs but also intensified a problem of loyalty, efficiency and corruption. At least some of those ‘specialists’ took advantage of opportunity to wangle from Afghan government considerable sums of money. What is even more important, the financial resources of Afghanistan were limited, and there was no banking system. As a result, foreign companies would transfer outside Afghanistan even as much as 60% of their profits (Thornton, Thornton 1910: 32, 391–395; Jewett 1948: 8).

Afghan ruler, who is seen as a major symbol of early modernisation, was named Amanullah Khan (1919–1929). His goal was to transform Afghanistan into a modern Islamic state (see Poullada 1973). But as one looks closer at his policies, they will find out, that the monarch in fact continued policy of his predecessors. He tried to introduce new technologies and further develop modern industry, but he was unable to resolve main problems, such the lack of well-educated technical staff. Therefore, many of his initiatives backfired and did not produce any significant progress. Amanullah Khan managed to regulate the system of duties (Trinkler 1928; Shah 1933). Eventually, his reforms caused such a strong discontent that he was deposed from the throne.

The Bacha-i-Saqao rule (January – October 1929), was a time of anarchy and the failure of state institutions. All trade agreements were broken (see Wild 1932;
Ali 1933; Fraser-Tytler 1953). Therefore the next ruler, Nadir Shah (1929–1933) was forced to start the whole process of modernization nearly anew. In 1930 he established an official bank, which in 1932 was officially named as the National Bank of Afghanistan (Bank-i-Milli). The bank opened its branches in Herat, Mazar-i-Sharif and Jalalabad, but also outside Afghanistan, in: Quetta, Pashawar, Karachi, New Delhi, Bombay, Calcutta, London, Paris and Berlin (Gregorian 1969: 314–316). Creation of that financial institution, although it was not state-controlled, was of a crucial importance for the Afghan economic development. It was a first step in creating a sound financial system, and it gave to investors bank services similar to those in other, better developed countries. Officially the bank was a joint-stock company. In this way orthodox groups Islamic clergy were assured that main source of income will be trade, not investments or borrowings. It also had meaningful share in introducing so-called Overall Economic Development Plan, which was introduced by Afghan government in 1932 (Gregorian 1969: 315).

Activities of Bank-i-Milli resulted in creation, in just two years (1932–1934) of over thirty of large joint-stock companies, which invested into an export of sheep hides, dried fruits (raisins) or fuel, and in the production of textiles or matches. Bank itself credited the development of small businesses like weaving mills or sugar plants (Gurevic 1963). Nadir Shah tried to regulate duties which were the main source of state income, and hoped to improve in this way the state finances (Shah 1939). During the rule of Nadir Shah we may observe a tendency in production and export preferences. Main export goods of the Afghan economy were karakul pelts and raisins. In 1960s and 1970s c. 60% of raisins on the world market came from Afghanistan (Lister, Brown, Karaev 2004).

Policy of his successor, Zahir Shah and consecutive Afghan government was a continuation of Nadir Shah policies. They concentrated their activities on both social and economic issues, which were interrelated. Consecutive Afghan governments invested in the modern education and a health services and supported economic growth and development. There were of course disturbances in this process like partial blockade of Indian border during the World War 2 or in the beginning of 1960s, when Pakistan closed its borders with Afghanistan, which was a blow to the Afghan trade. one should remember that this policy was carried in the Cold War rivalry between East and West, and Afghanistan was one of fields of competition for superpowers.

Despite failures and drawbacks of Afghan economic and social policy after the World War 2, one should stress the achievements in those fields. Stability of the 1950s and 1960s resulted in a steady growth and development. Afghanistan was gradually
transforming into more modern country, with more modern and quite diversified economy. Industry was slowly developing and new factories were built, as well as hydroelectric plants. The exploitation of mineral resources also progressed. At the same time technical staff was educated both at the Kabul Technical University and abroad in western and eastern technical schools and universities.

All those achievements were stricken out by the Soviet military intervention in December 1979, and the following war, which lasted until 1989. The intervention left its mark on each and every feature of social and economic life of Afghanistan. The volume of land tax collected is a prime example of the devastating impact of the war. In 1978–1979 tax year, the income from land taxes amounted to 280 million afghani, while three years later it was only 16 million afghani. Another important indicator is the emission of currency. In 1978 there was 18 billion afghani in circulation, when in 1987 there was 71 billion afghani in circulation. The official inflation rate was 30–50% a year, but unofficially it was estimated, that food prices rose five- or even tenfold (Rubin 1995a).

Those negative tendencies are understandable in light of the fact that during Soviet intervention at least 1/3 of all farms were abandoned, and prior to the outbreak of the war, in 1978, more than 87% of 15 millions Afghans had worked in agriculture (Noorzoy 1987). Fleeing the warzones, some moved to other parts of the country, while others migrated to neighbouring countries. According to various sources between a half and 2/3 of Afghan villages were bombed by Soviet forces trying to cut away mujahedin from resources. During the war 25–33% of the irrigation systems were destroyed. The number of farm stock fell by 70%. In 1988 agricultural production amounted to only 45% of what was produced before 1979 (United Nation Office for Drug Control and Crime Prevention 2001: 32).

Trade deficit rose nearly tenfold from 69 million USD in 1980 to 649 million USD in 1990. The same tendency was observed in the case of national debt. In 1980 national debt of Afghanistan amounted to 1.2 billion USD, and ten years later it grew to 5.1 billion USD (Marsen, Samman 2001: 39–41). That gloomy picture would be incomplete without mentioning demographic consequences of the war. It is estimated that between 1978 and 1987 some 877 thousand Afghans, that is 7% of the total population before the Soviet intervention, died in effect of the war (Khalidi 1991: 106). That horrible number combines with some 1,5 million handicapped and over 6 million refugees, who migrated not only to neighbouring countries (mostly Pakistan and Iran), but also to the United States, the United Kingdom, Australia or New Zealand (World Health Organization 1995, Colville 1997: 4–6).
Withdrawal of the Soviet troops did not bring peace. The conflict evolved into a civil war, initially against president Najibullah. In April 1992 Najibullah resigned from his post (see Rubin 1995; Goodson 1998; Rasul Bakhsh Rais 1994) but the conflict continued. Despite the consecutive peace agreements, first in Peshawar, then in Islamabad (Peshawar Accord; Afghan Peace Accord 1993), the struggle for power between several mujahedin groups continued (see Roy 1995; Goodson 2001).

In 1994 a new player, the Taleban, emerged on Afghan scene, where alliances shifted repeatedly (see Gohari 1999; Matinuddin 1999, Rashid 2002; Crews, Tarzi 2008). In 1996 the Taleban seized Kabul and introduced their own government. They established Islamist Republic, ruled in line with a literally interpreted and strictly enforced sharia law (see Brown 2001; Saigol 2002; Skaine 2002).

The lack of experience in state management, ideologically motivated priorities, and very limited contacts with other countries (most of the international community did not recognize Taleban rule), pushed economic policy to the bottom of the Taleban regime's agenda. Therefore, no actions were undertaken to rebuild Afghan economy after nearly twenty years of war. There were also objective reasons behind the lack of any improvement. In 2000 Afghanistan and neighbouring countries were struck by drought. Production of grain fell then by 45% in comparison to 1999, and by 53% in comparison to 1998. The United Nations Food and Agriculture Organization warned that Afghanistan faces a food crisis (Public Diplomacy Query).

According to different estimates, approximately 12 million Afghans were affected by the drought, and 3–4 million experienced its most severe effects, like starvation. Taleban authorities were unable to redistribute food from the areas with surplus of grain. Furthermore, they obstructed efforts of international agencies trying to help the starving population. Taleban regime accused those agencies of spreading Christianity and employing women in defiance of Sharia law (Aid Workers Fear Mass Starvation in Afghanistan 2000; Hopes Evaporate along with Water in Thirsty Afghanistan 2000; Afghanistan Drought 2000a; Afghanistan – Drought 2000b).

Taleban regime did nothing to rebuild industry. As a consequence, the production remained mostly in the hands of artisans producing cloth, soap, shoes and carpets. The rate of unemployment was exceedingly high reaching the level of around 85% (World Factbook 2000 – Afganistan). The conditions for trade were only slightly better. Internal peace on most of the territory meant that traveling became significantly safer. In theory, this should boost internal trade. But poor roads and shortage of fuel effectively prevented revival of domestic trade. In the case of external trade, it was even worse. The lack of export goods, unfavourable exchange rate of afghani, and the fact that Taleban regime was not recognized by international community
virtually stopped the external trade (Office of the UN Coordinator for Afghanistan). As a result, the period of Taleban domination in Afghanistan brought economic stagnation and deepening isolation on international arena.

The terrorist attack on World Trade Center on 11 September 2001 started a new period in Afghan history and politics. Although the attack was engineered by Osama bin Laden and his Al-Qaeda, the Taleban regime, being a chief supporter of Osama, was singled out as responsible (Griffin 2003).

On 7 October 2001, the United States launched the ‘Enduring Freedom’ military operation in Afghanistan. Its main goals were to capture Osama bin Laden and destroy Al-Qaeda training camps in Afghanistan. At the same time, the US attack also targeted the Taleban regime. The military operation has continued up to day, and the withdrawal of international forces is planned for 2014.

Besides military actions, American administration and its allies accepted the inevitability of rebuilding Afghan economy. Reconstruction was necessary in every sector of Afghan economy: industry, agriculture, transport and communication, and infrastructure. The *sine qua non* prerequisite was the external financial aid. Afghanistan was simply too poor to generate enough financial resources for rebuilding its economy. For that reason, the first step taken by the allies was an assessment of the scale of financial assistance needed. In 2001/2002 World Bank, Asian Development Bank and the United Nations Development Programme (UNDP) estimated that just in the first year Afghanistan would need 1.4–2.1 billion USD of financial aid, 8.3–12.2 billion USD during next five years, and 1.4–18.1 billion USD during the whole decade (World Bank, Asian Development Bank, United Nations Development Program 2002: 46). The Afghan side presented its estimations and expectations in several official documents (National Development Framework 2002; Securing Afghanistan’s Future: Accomplishments and the Strategic Path Forward 2004; Afghanistan National Development Strategy. An Interim Strategy for Security, Governance, Economic Growth and Poverty Reduction 2006).

Afghan expectations differed from the plans drawn by the international community, and the main forum for the debate were consecutive conferences. The first one in the long series, International Conference on Reconstruction Assistance to Afghanistan, was held in Tokyo (21–22 January 2002). The Afghan side was represented by Hamid Karzai, minister of finances – Hedayat Amin Arsala and minister of foreign affairs – Abdullah Abdullah. On the other side of the table
sat representatives of 58 countries and numerous international organisations. In response to Afghan requests, the participants in the conference: ‘expressed their readiness to help the Afghan people in their reconstruction effort. To make concrete this commitment, pledges and contributions of over 1.8 billion dollars for 2002 were announced. Some donors made multi-year pledges and commitments of various time frames. The cumulative amount was more than 4.5 billion US dollars. In addition, some countries offered support in kind without specifying a monetary value’ (Co-chairs’ Summary of Conclusions 2002).

The next international conference on rebuilding Afghanistan, ‘Afghanistan and the International Community: A Partnership for the Future’ took place in Berlin from 1 March to 1 April, 2004. This time representatives of 54 countries attended, among them G8 members, all the neighbours of Afghanistan, member states of European Union and the representatives of the UN and World Bank (Berlin Conference). All participants acknowledged and welcomed the progress made by Afghanistan, such as the passage of the new constitution, parliamentary elections, presidential elections, improvement in internal security, reestablishment of the central bank, and preparation of the national budget (International Afghanistan Conference in Berlin 2004). At the same time decision was taken to award further funds for rebuilding and development of Afghanistan during the next few years: 4.4 billion USD from March 2004 to March 2005, and 8.2 billion USD in total from March 2004 to March 2007 (International Afghanistan Conference in Berlin 2004).

The next conference on reconstruction of Afghanistan took place in 2006 (31 January – 1 February) in London. During this meeting heretofore achievements were discussed, as well as actions, especially those undertaken through Afghan state institutions. Participating countries and organisations pledged to engage in a more effective cooperation and coordination of efforts to avoid overlapping, and create more efficient system of money transfer in order to allow more efficient absorption of funds by Afghan administration. Participants also wanted to increase a stream of funds flowing through Afghan budget. The states and organisations participating in the conference also promised to support Afghanistan with additional sum of 10.5 billion USD (London Conference On Afghanistan 2006: 12–13).

During the next conference in Paris (12 June 2008), the main topic of discussions was improving the coordination of actions, especially in perspective of presidential elections in 2009, and parliamentary elections in 2010 (Objectives and issues). At the same time participants declared 21 billion USD of additional support for Afghanistan: the United States declared 10.2 billion USD, the United Kingdom 1.2 billion USD, Asian Development Bank 1.3 billion USD, World Bank 1.1 billion USD, European Union 770 million USD, the rest other countries and institutions (Anderson 2008).

During 2009 two conferences concerning rebuilding of Afghanistan were organized, the first one in Moscow, and the other one in Hague. It is important to note that those conferences took place after the outbreak of the world financial crisis. On 27 March took place a special conference on Afghanistan under auspices of the Shanghai Cooperation Organization. Their focus was mainly on the issue of poppy cultivation, opium production in Afghanistan, countermeasures against the threat of terrorism and organized international crime cartels (Declaration of The Special Conference on Afghanistan Convened Under the Auspices of the Shanghai Cooperation Organization 2009). During the Moscow conference the Chinese deputy minister of foreign affairs informed, that his country would donate assistance worth 180 million USD to Afghanistan, and that China would erase all debts of Afghanistan (Moscow Hosts Conference On Afghanistan 2009).

Few days later, on 31 March in Hague another conference on Afghanistan, so called ‘International Conference on Afghanistan: a Comprehensive Strategy in a Regional Context’ took place. The main goal of the conference was to reaffirm long term obligations of international community toward Afghanistan (International Conference on Afghanistan 2009). During the Hague conference, Wu Dawei, Chinese minister of foreign affairs declared in his speech that China would donate additional 75 million USD to Afghanistan during the next five years (International Conference on Afghanistan Held in The Hague 2009).

Judging only by declarations and pledges made at the consecutive, the international community’s efforts are impressive. But when one looks at the implementation of those declarations, the picture appears much worse. The very fact that during the consecutive conferences the participants renewed the declarations of long term commitment suggests that implementation of those declarations might be a difficult challenge. There were discrepancies observable between Afghan expectations and the amount of money actually received. The governments of donor countries needed to consider attitudes of their citizens, towards aid financed with their taxes. They also needed to cope with institutional control over public spending at the domestic level. Therefore, a specific way of transferring money through agencies, advisory groups,
non-profit organisations or private companies from the donor countries emerged. As a consequence, a large portion of funds from international sources by-passed Afghan budget (Maley 2006: 98). And there was another problem: misusing of funds and resources. According to Jean Mazurelle, the World Bank director in Kabul 35% to 40% of the entire international aid to Afghanistan was ‘badly spent’. Evaluating the whole situation he said: ‘In Afghanistan the wastage of aid is sky-high: there is real looting going on, mainly by private enterprises. It is a scandal. In 30 years of my career, I have never seen anything like it’ (Duparcq 2006).

Activities of private enterprises mentioned by Mazurelle have caused serious doubts and controversies. Evidently, there are too many of them, considering the actual demand for their services. Employed for their supposed expertise, they have been paid millions of dollars. The effects of their activities have often been questionable. A good illustration is provided by a hospital in Qalai Qazi which officially opened in 2003. There is a report from the hospital dated 2005 available: ‘The ceiling had rotted away in patches; the plumbing, when it worked, leaked and shuddered; the chimney, made of flimsy metal, threatened to set the roof on fire; the sinks had no running water; and the place smelled of sewage’ (Nawa 2006: 1). The facility was built by American contractor The Louis Berger Group, which signed contracts for building other 81 clinics, roads, dams, schools and other construction projects, and it was supposed to be paid 665 million USD in total for those works (see United States Government Accountability Office 2005).

Nongovernmental organisations (NGOs) also play an important role in the process of rebuilding Afghanistan, although the country is not an easy field NGOs’. In 2008 only 40 convoys with humanitarian aid and 47 objects used for the purpose of humanitarian work were attacked or robbed. Some 112 NGOs’ staff were abducted, and five of them lost their lives. The reception of NGOs’ activities is mixed, sometimes very negative. NGOs have been frequently blamed for the high costs of their activities, or their disregard to local communities and their actual needs (Watts, Laurance 2004; Jelinek 2009). Those acting in Afghanistan may be divided into five categories: international (for example UN agendas, like FAO or UNESCO), foreign (for example Oxfam, Christian Aid, Muslim Hands, Afghan Communicator), Afghan (like Abdul Haq Foundation or Afghans 4 Tomorrow), women-oriented (for example: Refugee Women in Development, Womankind Worldwide or Women for Afghan Women).

and children-oriented (like: Help the Afghan Children, The Children of War and Child Light Foundation) (international NGOs operating in Afghanistan).

Miscalculated actions, lack of financial transparency, activities inconsistent with their core competences were the main reasons behind disappearance of some NGOs from Afghanistan. In 2009 the Afghan ministry of finances resigned from cooperation with 255 Afghan and 13 foreign organisations. During the first few months of 2010 the numbers were 152 and 20, respectively. Still there are 124 Afghan and 301 foreign non-governmental organisations active in Afghanistan (Afghanistan Dissolves 172 Ngos For Misconduct 2010).

All in all, on the surface there are symptoms of improvement, judging by economic indicators, but underneath the picture is bleak. First of all, the indicators did not represent the real progress of Afghan economy, as they are just a side effect of large foreign investment channeled into Afghanistan. It is estimated, that approximately 90% of Afghan state expenditure is financed from accounts of external donors: 62% by the United States and other countries, and 28% by international organisations. In the case of security-related spending, 90% of them is covered by the United States, 4% by other donors and just 6% by Afghan government itself (United States Government Accountability Office 2011: 11). This partly explains very poor results of Afghan export. While in 2006 the profits from exports accounted for 26% of Afghan budget, in 2010/2011 the figure was merely 18% (Zyck 2012: 3).

Besides other phenomena, like continuing warfare cultivation of opium poppy and production of opium is an important factor responsible for the current state of Afghan economy, and the condition of Afghan society. Moreover, exploitation of those ‘natural resources’ arguably led to emergence of the ‘Dutch disease’ symptoms. Contrary to popular belief, the history of mass cultivation of opium poppy in Afghanistan is relatively short. Opium poppy arrived in Afghanistan from the Middle-east in ancient times (some say that with Alexander the Great or his Hellenistic successors). But for a long time the crop had not spread much across the country. Poppy was cultivated in just a few regions, like Badakshan (United Nation Office for Drug Control and Crime Prevention 2001: 30). In the beginning of 20th century poppy was also grown in Nangarhar province and in some districts near Herat, Kabul, Kandahar and Jalalabad, and the monopoly for the export of opium remained in the hands of the sovereign (Macdonald 2007: 59–60).

According to 1932 data, the first year when this information was included in the statistics, opium poppy was cultivated on some 4,000 hectares, and the annual volume of opium production amounted to 75 metric tons. By comparison, the same year China produced 6,000 tons of opium (United Nation Office for Drug Control
and Crime Prevention 2001: 30). In 1945 Afghan authorities banned cultivation of opium poppy and production of opium. While the law was not widely respected, by 1956 the annual production fell to just 12 metric tons (United Nations Office on Drug and Crime 1972). In 1957 Afghan government issued new regulations prohibiting cultivation of poppy and production of opium. Still the law remained a dead letter, because, as an Afghan administration claimed, they did not have sufficient human and material resources to effectively fight the illegal production (United Nations Office on Drug and Crime 1972). As time went on, the problem was increasing. In 1970 International Narcotics Control Board in its report certified that Afghan authorities banned the cultivation and production of opium, but at the same time they claimed that in reality the cultivation was spreading, because of the ban’s inefficiency (United Nations Office on Drug and Crime 1971). Consistently, Afghan government came under fire of accusations of being too passive in its combat against illegal opium cultivation and production.

In late 1970s poppy was cultivated in more than a half of the 28 Afghan provinces. The export of opium amounted to 250 tons a year, and brought annual profits of up to 25 million USD. Around 100 tons of opium were consumed by the domestic market (Hyman 1984: 35–36). One of the factors responsible for the rise in opium production, was a growing wave of tourism, as in the late 1960s thousands of youth from the West visited Afghanistan on en route to India and Nepal or on their way back home leading through Iran and Turkey. Many of those visitors stopped in Afghanistan because of cheap hashish and opium (Fremantle 1986: 32; Sadat 2004; Macdoland 2007: 147; MacLean 2008).

After 1979 a significant rise in opium production in Afghanistan occurred. There were several reasons behind that increase. Firstly, under the regime of the People’s Democratic Party of Afghanistan the central government became weaker. The regime was able to maintain control only over main cities, while being virtually non-existent in the countryside. Secondly, Soviet intervention and the subsequent war contributed to the fall of traditional agriculture. And finally, cultivation of poppy and production of opium was a vital source of income for the mujahedin, who used the money to buy arms and ammunition (United Nations Office on Drugs and Crime 2003). As Jonathan Goodhand wrote in the middle of the 1980s: ‘…there was an arms pipeline going in, and a drugs pipeline coming out of Afghanistan’ (Goodhand 2005: 198).

Using the opium money to finance the mujahedin organisations and their struggle against the Soviet forces explains why the narcobusiness was not only tolerated, but to some extent even supported. The area of cultivation expanded significantly even
beyond the borders of Afghanistan, into the Pashtun tribal areas in Pakistan. It was supported by Pakistani secret police, Interservice Intelligence (ISI) and by American CIA. DEA (US Drug Enforcement Administration) turned their eyes away from drug trafficking originating in Afghanistan (Rashid 2000: 120–121). In effect, Afghanistan gradually became more and more important producer and exporter of opium. Since 1980s the volume of production was rising by 15% a year. In 1980 Afghanistan had 19% share of world opium production, in 1985 the share increased to 31%, ten years later – to 52%, and in 1999 – to 79% of the global production (United Nations Office on Drugs and Crime, *The Opium Economy 2003:* 88).

Those numbers are a proof that the end of the Soviet intervention did not translate into a drop in production. As a matter of fact, after 1989 production was growing even faster. The beginning of civil war meant that opium was even more necessary as a source of money to finance military actions of former mujahedin organisations (see Rubin 1995a). Between 1989 and 1994, the opium production was rising by 19% a year on average (United Nations Office on Drugs and Crime, *The Opium Economy* 2003: 90).

Taleban regime, which took over the control of most of the Afghanistan by 1996, declared that they would forbid poppy cultivation and opium production but eventually did not went beyond the promises. During their rule area of poppy cultivation rose significantly and the opium production more than doubled between 1996 and 1999, from 2,200 tons up to 4,600 tons (United Nations Office on Drugs and Crime 2005: 5). The Taleban regime remained idle for financial reasons. It is estimated, that taxing the opium transport to Afghan – Pakistani border gave Taleban regime 75 million USD in 1996–1997 (Rashid 2000: 104). And the taxation on cultivation and production of opium produced yearly a revenue of 30 million USD (Goodhand 2003).

The attitude of the Taleban regime toward opium cultivation and production changed during 1999–2000. First, in August 1999 Mullah Omar, the leader of Taleban, issued a decree ordering to reduce the poppy cultivation areal by one third. Next, on 27 July 2000, the mullah issued another decree, recognizing opium poppy cultivation as not compliant with the Islam, hence illegal (Goodhand 2003: 6). There is no definitive answer to the question, why Taleban regime did so but according to one of the circulating theories, the decision was speculation-motivated. Mullah Omar allegedly imposed the ban to raise the prices of opium. Logically, squeezing production should lead to increase in prices, and that is exactly what happened. By the 2001 the prices rose tenfold (United Nation, Drug Control Programme 2002: 13–14). The ban also caused cultivation to expand into provinces where Taleban
control was weak or non-existent, and where opium poppy had not been cultivated on mass scale earlier. The good example is Badakshan province, where the area of cultivation rose nearly threefold, from 2400 hectares in 2000, up to 6300 hectares in 2002 (Goodhand 2003: 200).

The American-led coalition’s military operation finally led to the fall of the Taliban regime, but it did not have any impact on poppy cultivation and opium production. Up to 2007, the growth of cultivation area and production continued. There was a small drop in 2008, followed by a stagnation in both cultivation and production in 2009 and 2010. But 2011 brought again a cultivation areas expansion, as well as cultivation coming back to some provinces, which were previously regarded clean. The opium production rose accordingly. In 2011 the area of cultivation amounted to 131 thousands of hectares, and the production of opium reached the level of 5,800 tons, that is 82% of world opium production (United Nations Office on Drugs and Crime 2011: 3).

In order to realize the significance of opium to the Afghan economy, it is advisable to look at the key economic statistics. In 2011 the GDP of Afghanistan amounted to 16.3 billion USD, and the value of exported opium was assessed to be between 2.1 and 3.4 billion USD (United Nations Office on Drugs and Crime 2011: 3). If an intermediate quantity of 2.75 billion USD is used for a calculation, then the export of opium constitutes about 17% of total Afghan GDP. The state budget do not benefit from the money, at least not directly, because the whole process of opium cultivation, production and exporting is illegal and beyond the state control. Yet it is highly profitable for those involved in production and sales, thus Afghan farmers are willing to continue its cultivation. In 2011 an opium producer earned 180 USD for a kilogram of fresh opium, and 241 USD for a kilogram of dried opium (United Nations Office on Drugs and Crime 2011: 3). One hectare of grain (wheat, corn or rye) brings around 1000 USD a year, while a hectare of opium poppy allows to achieve a yearly income of 6400 USD (United Nations Office on Drugs and Crime 2011: 74). It is one of the reasons why opium poppy cultivation replaces grain cultivation.

Cultivation of opium poppy is a sector which guarantees steady work and the highest daily wages in the whole economy. It is estimated that in 2011 the daily wage in of poppy field weeding was 6.6 USD, and for the cutting and milking of the poppy – some 12.6 USD. Furthermore, wages in the sector rise significantly every year. In 2010 a person cutting and milking poppy earned 9.3 USD a day, and worker weeding poppy fields – 5.4 USD a day. At the same time, a construction worker made 4.7 USD per day, and a harvester 5.4 USD per day (United Nations Office on Drugs
and Crime 2010a: 62). In 2011, the figures were 5.6 USD and 6.6 USD respectively (United Nations Office on Drugs and Crime 2011: 59).

Cultivation and production of opium is also one of a few sectors in the economy which offers workplaces. It is estimated that in 2010 some 248,000 farmsteads were involved in the cultivation and production of opium (in 2009 it was 245,000). Assuming there are some 6.2 person per farmstead, more than 1.5 million persons are either directly engaged in the cultivation and production of opium, or at least depend on income from that type of production (United Nations Office on Drugs and Crime 2009: 2; United Nations, Office on Drugs and Crime 2010a: 61). What is important, part-time employment connected with the cultivation of poppy should also be included. There is a large group of people seasonally working during the harvest. For example, it is estimated that some 800,000 working days are required during poppy harvest in the Helmand province. For the whole country, in 2005, the estimation was as high as 46 million working days. One hectare of opium poppy creates 5.6 workplaces (Mansfield, Pain 2005: 3). It does not need to be explained how important it is for the labour market of a country where in 2010 unemployment was as high as 35% (in a country of 24 million people with some 15 million people in the production age) (Index Mundi).

Having all the abovementioned facts in mind, one cannot avoid asking a question: is there any remedy to the current situation, in which Afghan economy is falling into a peculiar form of the ‘Dutch disease’? At first glance, it would seem that investments in other sectors of economy could be the cure. But as one takes a closer look, they are likely to realize it is not going to be so easy, and there are plenty other questions to be answered. In what sectors to invest? Who should the investments come from: the Afghans or international capital? Where to take the money from? How to overcome corruption? How to resolve a problem of the skilled workforce shortage? What to do about infrastructure and energy sources? Finally, what about an access to Afghan territory?

Paradoxically, it is exploitation of mineral resources which might heal Afghanistan from the ‘Dutch disease’. Paradoxically, because usually exploitation of rich mineral resources is the source of this ‘sickness’. In this case, however, exploitation of mineral resources might become a source of income so desperately needed for reconstruction of the country. According to the geological data, Afghanistan has significant deposits of several important minerals, like copper ore (copper deposit are estimated for 60 million tons, worth about 274 billion USD) molybdenum ore (724,000 tons), gold (682 tons), silver, iron ore (2.5 billion tons), sulphur (6 million tons), phosphorite, nickel, manganese, mercury (32,000 tons), lead and zinc (244,000 tons), niobium
(3.48 million tons), cobalt, bauxite (4.5 million tons), barite (over 151 million tons), graphite (over million tons), talc, asbestos (over 13 million tons) and many more (U.S. Geological Survey 2007, Risen 2010; Bandler 2011).

In the end, what might lead to ‘Dutch disease’ in other countries, in the Afghan case could actually become the cure. Profits from exploitation of mineral resources or concessions for exploitations might be a lever to reconstruct the country, and, consistently, limit the opium production, as new sectors of economy will appear and offer employment. That money could be used for creation of a modern system of education, transport infrastructure and communication, efficient health services, civil service, security forces, and, in the long run, also for building modern industry and services, which could become the basis for a stable state.

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