

**TRADE AND ECONOMIC RELATIONS BETWEEN TURKEY AND
AFGHANISTAN IN THE POST-WAR ERA: 2001-2013**

ALIA SHARIFY ORTAQ

Eskişehir

Anadolu University, Graduate School of Social Sciences

October 2017

Approval of the Graduate School of Social Sciences

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MASTER THESIS

Department of Economics

Supervisor: Prof. Dr. Elif DAĞDEMİR

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Committee Members

Signature

Member (Supervisor) : Prof.Dr.Elif DAĞDEMİR

Member : Assoc.Prof.Dr.Zeki KARTAL

Member : Assist.Prof.Dr.Ayla YAZICI

27/10/2017

Date

Prof.Dr.Emel SIKLAR

Director

Graduate School of Social Sciences

ÖZET

SAVAŞ SONRASI DÖNEMDE TÜRKİYE İLE AFGANİSTAN ARASINDAKİ TİCARİ VE EKONOMİK İLİŞKİLER: 2001-2013

Alia SHARIFY ORTAQ

İktisat Anabilim Dalı

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Danışman: Prof. Dr. Elif DAĞDEMİR

Bu çalışma 2001-2013 yılları arası Afganistan ve Türkiye arasındaki ticaret ve ekonomik ilişkileri ve Türk yatırımcıları için Afganistan'da yatırım ikliminin geliştirilmesini incelemektedir. Bu çalışma üç bölüme ayrılmıştır. Birinci Bölüm'de, 2001 öncesi ve 2001 sonrasında ekonomi ve Afganistan'daki siyasi durum hakkında bilgi verilmekte ve Afganistan'ın temel ekonomik göstergeleri ayrıntılı bir şekilde açıklanmıştır. Ayrıca bu Bölüm'de ülkedeki siyasi gelişmeler ve bu gelişmelerin ekonomik ve sosyal göstergeler üzerindeki etkisi incelenmiş ve Afganistan'ın sosyo-ekonomik kalkınması anlatılmıştır. Bu bağlamda, istihdam durumu, tarım, eğitim, sağlık, kadınların ekonomik güçlenmesi ve Afganistan maden kaynakları açıklanmıştır. İkinci Bölüm'de, Afganistan ve Türkiye'nin ekonomik ilişkileri ele alınmıştır. Bu Bölüm'de, Afganistan ve Türkiye arasındaki ilişkilerin tarihçesi, Afganistan ve Türkiye arasındaki ticari ilişkiler ve fırsatlar ve sorunlar incelenmiştir. Üçüncü Bölüm'de ise Afganistan ve Türkiye arasındaki yatırım fırsatları, Afganistan'da Türk yatırımları, Türk yatırımcıları için Afganistan'da yatırım ikliminin geliştirilmesi, büyük kısıt ve zorluklar ve Afganistan'da yatırım bölgesinin geliştirilmesi konuları analiz edilmiştir. Her bölüm altında zorluklar, fırsatlar ve öneriler ayrı ayrı açıklanmış ve değerlendirilmiştir.

Anahtar Kelimeler: Türkiye ve Afganistan ilişkileri, Afganistan'ın Siyasi Durumu, Ekonomik İlişkiler, Yatırım Fırsatları, Kadınların Ekonomik Güçlenmesi, Yatırım Bölgesi.

ABSTRACT

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Supervisor: Prof. Dr. Elif DAĞDEMİR

This study investigates the trade and economic relations between Turkey and Afghanistan during 2001-2013 and analyzes the current positions of Turkish investment in Afghanistan. The study consists of three chapters. The first chapter gives information about the economic and political situation of Afghanistan before and after 2001, and analyzes main economic indicators of Afghanistan. Furthermore, the chapter briefly states the political situation and its impact on the economic and social indicators. It also describes the socio-economic development, employment situation, agriculture, education, health, women's economic empowerment and mineral resources of Afghanistan. The second chapter illustrates the economic relations between Afghanistan and Turkey. In this chapter, three most important topics are summarized, namely the history of relations between Afghanistan and Turkey, Turkey's assistance on socio-economic field and trade relations between Afghanistan and Turkey. The third chapter is the most important section of the study. It examines the Turkish investments in Afghanistan in terms of challenges and opportunities and gives useful information about the main investment opportunities in Afghanistan. The chapter finally analyzes the current position of Turkish investments and highlights the challenges to strengthen the trade cooperation in Afghanistan by SWOT analysis.

Key Words: Turkey and Afghanistan Relations, Political Situation of Afghanistan, Economic Relations, Investment Opportunities, Women's Economic Empowerment Investment Zone.

ETİK İLKE VE KURALLARA UYGUNLUK BEYANNAMESİ

Hereby I state that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that I have fully cited and referenced all material and results that are not original to this study.

Name, Last name: Alia SHARIFY ORTAQ

Signature:

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ETİK İLKE VE KURALLARA UYGUNLUK BEYANNAMESİ

Bu tezin bana ait, özgün bir çalışma olduğunu; çalışmamın hazırlık, veri toplama, analiz ve bilgilerin sunumu olmak üzere tüm aşamalardan bilimsel etik ilke ve kurallara uygun davrandığımı; bu çalışma kapsamında elde edilemeyen tüm veri ve bilgiler için kaynak gösterdiğimi ve bu kaynaklara kaynakçada yer verdiğimi; bu çalışmanın Anadolu Üniversitesi tarafından kullanılan “bilimsel intihal tespit programı”yla tarandığını ve hiçbir şekilde “intihal içermediğini” beyan ederim. Herhangi bir zamanda, çalışmamla ilgili yaptığım bu beyana aykırı bir durumun saptanması durumunda, ortaya çıkacak tüm ahlaki ve hukuki sonuçlara razı olduğumu bildiririm.

Alia SHARIFY ORTAQ

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LIST OF ABBREVIATIONS

AIHRC	: Afghanistan Independent Human Rights Commission
AISA	: Afghanistan Investment Support Agency
AMS	: Afghanistan Mortality Survey
BMI	: Body Mass Index
BSA	: Bilateral Security Agreement
BVS	: Basic Voluntary Services
CAREC	: Central Asian Regional Economic Council
CAGR	: Compound Annual Growth Rate
CEE	: Central and Eastern Europe
CIS	: Commonwealth of Independent States
CNPC	: China National Petroleum Corp
CPI	: Consumer Price Index
DOST	: Directly Observed Therapy Short Courses
DHL	: Dalsey, Hillblom, and Lynn
ECO	: Economic Cooperation Organization
EU	: European Union
FDI	: Foreign Direct Investment
FEW	: Famine Early Warning
GDP	: Gross Domestic Product
GVA	: Gross Value Added
HQ	: Headquarters
IMF	: International Monetary Fund
KILM	: Key Indicators of the Labour Market
LDCs	: Least Developed Countries

MEED	: Middle East Economic Digest
MENA	: Middle East North Africa
MOU	: Memorandum of Understanding
MNCs	: Multinational Corporation
NATO	: North Atlantic Treaty Organization
NRVA	: National Risk and Vulnerability Assessment
ODA	: Official Development Assistance
OECD	: Organisation for Economic Cooperation and Development
PRT	: Provincial Reconstruction Team
SAARC	: South Asian Association for Regional Cooperation
SOEs	: State-owned Enterprises
TB	: Tuberculosis
TIKA	: Turkish International Cooperation and Development Agency
UNDP	: United Nations Development Programme
UNFPA	: United Nations Population Fund
UNICEF	: United Nations Children's Fund
USA	: United States of America
USSR	: Union Soviet Socialist Republic
VFUs	: Veterinary Field Units
WHO	: World Health Organization
WTO	: World Trade Organization

INTRODUCTION

Islamic Republic of Afghanistan, is a landlocked and mountainous country located in Central Asia, South Asia, and is a part of the Greater Middle East. The country is bordered by Pakistan to the south and east, Iran to the west and Turkmenistan, Uzbekistan and Tajikistan to the north. In the extreme northeast, Afghanistan has common border with China. According to the statistics of 2011, it has a population of around 26 million inhabiting an area of approximately about 250,000 square miles (647,500 sq km), slightly smaller than Texas and slightly larger than Ukraine. Afghanistan's capital, Kabul stretches in the southern foothills of the Hindu Kush mountain range, which splits the country along a north-south divide. Some of natural resources of the country are natural gas, petroleum, coal, copper, chromate, talc, barites, sulfur, lead, zinc, iron ore, salt, precious and semiprecious stones.¹

In 19 August 1919, Britain left the Afghanistan and Afghanistan gained her independence. Afghanistan history is mixed of culture, ethnic and religion. There are three main ethnic groups with three official languages. Those are Pashtun (speak Pashtu) Tajik (speak Tajik) and Uzbek (speak Uzbek). There are some other ethnic groups too, such as Hazara, who are were converted to Shiism by the Persians, Bloch people they speak Blochi and live south- west of Afghanistan, Turkmens and Kyrgyz people they live northern Afghanistan.²

This study aims to submit a short description from the previous studies on the Turkey and Afghanistan's relations. According to Canan Bayram Çubuk thesis on Turkey's role in Afghanistan in the Post 9/11 Era: Except important contributions for a Western-led military operation Turkey has also other humanitarian assistance in Afghanistan. Turkey's approach for stabilizing Afghanistan was through training of the Afghan National Military Forces, enhancing civil-led PRTs, ensuring many other kind of humanitarian supports leading to diplomatic initiatives as regional peace-broker between the conflicting parties. Turkey's role in national reconciliation expected to be assistance to the resolution of the problem with helping of hand model by enabling a more favorable regional environment whereby the

¹Institute for Political and International Studies (2009). *Afghanistan*. Tehran, Publication Center of Ministry of Foreign Affairs, p. 1.

²Institute for Political and International Studies (2009), p. 11.

positions of Afghan political actors can be approximated. The commitment of Turkey in finding a stable solution of the Afghan conflict is so much linked with the enlargement of the transformation of Turkish foreign policy in recent years.

The support and the role of Turkey in Afghanistan are not only providing trainings for Afghan troops, for soldier and army furthermore, but also to establish peace between Afghanistan and Pakistan because Turkey has good relations with both the countries (Afghanistan and Pakistan).³

A relation between Turkey and Afghanistan has been warm owing to their durable cultural and historical connections. It is well known that Afghanistan was one of the first countries that officially recognized the Grand National Assembly of Turkey (TBMM). The Turkey –Afghanistan Alliance Agreement is the first official mutual agreement signed between two countries in Moscow 01 March 1921, before the foundation of the Republic of Turkey. For 35 years, Afghanistan has been struggling from the war such as the soviet invasion, civil war, Taliban-led administration and the US-led the North Atlantic Treaty Organization (NATO) operation.

Therefore, Turkey is the one of the most important partners of Afghanistan. Presence of Turkey in Afghanistan is very important, as Turkish authorities have also said, the presence of Turkey in Afghanistan will be continued as long as Afghans considering necessary. The special relations between Afghanistan and Turkey were strengthened after Taliban's regime. Turkey is only the Muslim country in NATO. In 2001, when the International Security Assistance Force (ISAF) started its operations under NATO, Turkey assisted by sending 300 soldiers.⁴

Moreover, this study intends to bring an analyze of Turkish-Afghan trade and economic relations, to give a summarized and detailed information about the Afghanistan's politics and economic conditions, to explain reasons of Turkey's presence in Afghanistan and Turkey's assistance to Afghanistan. Moreover, this thesis aims to encourage young generation

³C.Çubuk (2014). *Turkey's Role in Afghanistan in the Post 9/11 Era*. Ankara: Middle East Technical University, p. 49.

⁴S. Doğan (2015) *Turkey's Foreign Policy in Afghanistan*. Ankara: p. 53.

to study about Afghanistan. Because of complicated situations and closed economy, it is very hard to collect data about Afghanistan. Thus, it is a struggle for all the studies about Afghanistan. This study is distinct from other studies, because it study examines the actual political and economic situation of Afghanistan and gives detailed information about all economic indicators of Afghanistan and Afghanistan's investment and trade relations whereas other studies focus only on one topic.⁵

⁵ written by author.

CHAPTER 1

AN OVERVIEW OF THE AFGHAN POLITICS AND ECONOMY

It is very tough to write about Afghanistan's economy without doing equal investigation about Afghanistan's political situation, which gives dark mask to all activity of the country. The existence of the Afghanistan was in the mid-eighteenth century dated 1747; during mentioned time Ahmad Shah Durani was king of Afghanistan he established the foundations of an Afghan empire.⁶

During the 1747-72, Ahmad Shah Durani was king of Afghanistan, who occupied Indian subcontinent and Afghanistan was modeled into its present territorial boundaries. Three Anglo Afghan wars were waged during that time: from 1839 to 1842, 1878 to 1880 and briefly in 1919. At the same period many internal violent incidents created by Amir Abdur Rahman Khan (1880-1901) to unite the Afghanistan. Afghanistan became buffer state during British and Russian empires and in the process was both buffeted and strengthened. Since 1880 to 1979, there were no foreign troops in any city of Afghanistan; the country was alone for some time. During the 1919-1929 Amanullah Khan was king of Afghanistan and then maintained its neutrality during World War II.⁷

1.1. An Overview of the Afghan Politics

In 1926, Afghanistan was under the power of Amanullah Khan his efforts and purpose was diminishing the power of religious leaders of the country and increasing the power of women. During his term he tried to increase the participation of Afghan women in the political and social arena. After king Amanullah Muhammad Nadir Khan took the power he was cousin of king Amanullah. The new king continued cautious modernization attempts until he was assassinated in 1933. Afghanistan was neutral in World War II; it joined the United Nation in 1946.

⁶A. Banks. et all. (2009). *Political Handbook of the World*. Washington: CQ Press, a division of SAGE, p. 2.

⁷W. Byrd (2012). *Lessons from Afghanistan's History for the Current Transition and Beyond*. Washington: United State Institute of Peace, p. 3.

Afghanistan was neutral until the late 1970s, both of them; the United State and the Soviet Union was aiding and abetting for Afghanistan, at the same period the country was facing serious economic problems, the King Muhammad Zahir Shah had mishandled the economic crisis. In July 1973, he announced a republic, his cousin Lieutenant Sardar Muhammad Daud Khan became president and prime minister. In 1978 Daud Khan was ousted by Noor Mohammad Taraki, he introduced Marxist reforms and he was closely working with Soviet Union. In 1979, Tarak was killed by Hafizullah Amin, Amin became president of Afghanistan, the USSR's troops entered to Afghanistan Amin had very short term presidency, after Amin USSR supported Babrak Karmal and he became president of Afghanistan.⁸

In February 15, 1989, Soviet left Afghanistan, in 1992 Kabul captured by guerrilla alliance they setup a new government containing of a 50-member ruling council Burhanuddin Rabani was selected as provisional president.⁹

In August 1998, Taliban (a group of terrorist leading by Osama bin Laden, a Saudi born militant) gained the power and captured the Kabul. In March 1999, an UN peacekeeping agreement was reached between Taliban and Ahmad Shah Masoud (a former mujahidin leader) but war started again in July.¹⁰

In October 2001 government of the Taliban ended, the United States started fighting against the Taliban and Al Qaeda. In November 2001, US troops begin entering to country and also United States started her financial and other supports to Afghanistan.¹¹

In December 2001 a pan- Afghan conference took place in Bonn Germany, Hamid Karzai was selected temporary president of Afghanistan but Taliban did not stop

⁸Institute for Political and International Studies (2009), p. 19.

⁹H. Yazdany (2008). *Women in Afghanistan. Lack of Educational Opportunities*. Austria: European University Center for Peace Studies (EPU) p. 11.

¹⁰A. Rahmani Yazdari (2007). *Backwardness of Afghanistan and Ways to Out*. Kabul. Behsud Payanda Baqi Bookstore, p. 5.

¹¹W.Dowell (2014). *The Essencial Field Guide to Afghanistan*. Geneva, Switzerland: Crosslines Publications, p. 223.

the fighting. The violence and war was continuing in the places such as Gardez, Kandahar and Helmand.¹²

In August 2003, NATO decided for establishment of the international security force in Kabul. In January 2004 new constitution was accepted by Loya Jirga for a strong central government, at the same time United States and NATO was increasing their troops in the country to fight against the Taliban and Al Qaeda. Therefore, by 2005 NATO forces increased around 9000.

In October 2004 the first democratic election held in Afghanistan, Hamid Karzai won the election and became president of Afghanistan, generally voting was peaceful but there was many problems between the ethnic groups Karzai was giving more important for his ethnic (Pashtuns) generally Pashtuns hold highest posts from the government.¹³

In September, 2005 national provincial legislative elections were held, the groups of Karzai won important seats in the lower house (Wolesi Jirga), his groups were include of religious conservatives, former mujahidin and Taliban (which were overlapping groups). In 2006, stresses and problems increased with Pakistan by the end of the year president Karzai had blamed elements of the Pakistani government of directly sustaining the Taliban.¹⁴

Since 2001 to May, 2006 the U.S. led alliance was doing its largest operation against Taliban forces; some 11,000 troops undertook a summer attacking in South provinces of Afghanistan such as Kandahar and Helmand.¹⁵

In June 2011, U.S president Obama announced that American forces would be withdrawn from Afghanistan, 3000 troops left Afghanistan at the same year. At the same

¹²K. Katzman (2013). *Afghanistan: Politics, Elections, and Government Performance*. Congressional Research Service, p. 6.

¹³S. Banks, T. Muller, W. Overstreet, J. Isacoff (2009). *Political Hand Book of the World 2009*. Washington: 2300 N Street, Suite 800, p. 7.

¹⁴Katzman (2013),p. 7.

¹⁵Institute for Political and International Studies (2009), p. 35.

time NATO forces decided to give the long process responsibility of Afghanistan's security to Afghan forces.¹⁶

In September 2011 and April 2012, many terror attacks happened in Kabul, the attacks were related to the Haqqani Network (a Pashtun group linked to Al Qaeda). In May 2012 NATO summit accepted withdrawal of the NATO forces from Afghanistan by the end of 2014. In June 2013, Afghan forces took all the responsibility of the countries security. In November 2013, an agreement between Afghanistan and United States discussed regarding US troops to continue their operation after 2014, but Karzai was refused to sign the agreement until after the Afghan presidency election in April 2014.¹⁷

1.2. An Overview of the Afghan Economy

Afghanistan's economy has recorded significant progress from decades of incompatibility. After the fall of the Taliban regime in 2001, Afghanistan's economy has started improving with the large share of international assistance, the development of the agricultural sector and service sector growth. Apart from recent years improvement Afghanistan is exceptionally poor and extremely depend on foreign support. The majority of population is suffering from lack of housing, shortage of potable water, electricity, medical care etc. Afghanistan's living standard is lowest among world. The international community highly support for Afghanistan's development; such as promising over USD 67 billion at nine donors conferences between 2003- 2010. In Tokyo conference 2012, donors promised to give USD 16 billion aids through 2015, with these all supports Afghanistan still remaining poor and need to overcome with numbers of challenges such as high level of corruption poor public infrastructure etc.¹⁸

The decades of war and destruction extremely harmed the Afghanistan's economy. The most important and productive activity is agriculture almost 80 percent of the population is busy with agriculture both livelihood and some commercial. The major crops

¹⁶<https://www.whitehouse.gov/the-press-office/2011/06/22/remarks-president-way-forward-afghanistan> (Access Date:10.09.2014)

¹⁷<http://www.bbc.co.uk/persian/search/?scope=persian&q=afghanistanbbc%20essays%20about%20the%20history%20of>(Access Date: 12.09.2014)

¹⁸Home Office UK Border Agency. (2010). *Afghanistan Country of Origin Information (COI) report*. UK, p. 15.

are rice, grain, fruit, nuts and vegetables.¹⁹ The main export products are fruit, nuts, vegetable and carpets. The industry is small scale consist of handicrafts, textiles, carpets and some food processing.²⁰

1.2.1. An Overview of the Afghan Economy Before 2001

Afghanistan is a landlocked country at the crossroads of Asia; it is major provider of the natural resources for the global economy. However, in current years country could not have a great economic potential. Therefore, it is very hard to find reliable data on Afghanistan's economy over the course of the past century the country's economy tightly linked to its political history.²¹

The first three Anglo Afghan wars started in 1883 with British infestation and framed Afghanistan's role as buffer state in 19th century. Amanullah Khan was the most successful president who saved the country from the British occupation. When Afghanistan attained independence from the British in 1919, Afghan leaders started working on reforming of modern education system, on women's right; they tried to modernize the countries society, transportation, medical system and economy. In 1930s, Afghanistan took a step on modest economic development programme. The government of Afghanistan opened bank, introduced paper money, established schools, universities and sent students abroad for education by giving scholarship, these modernization continued until 1950 King Zahir Shah's term.²²

From the 1950s onward Afghanistan was stragglng with cold war, war affected Afghanistan's economy negatively. From 1953 to 1963, Afghanistan's Prime Minister Mohammad Daoud Khan constrained to ask military and economic support from both the USA and the USSR. During 1950 and 1970, Afghanistan was receiving 50 percent of foreign aid from USSR and 30 percent from USA. In the early1960, an infrastructure project signed between Afghanistan and USSR for completion of Salang Tunnels. The

¹⁹International Development Association (2013). *Document of World Bank*. p. 8.

²⁰W.Dowell (2014), p. 225.

²¹M. Fujimura (2004). *ADBI Research Policy Brief*. p. 3.

²²A. Giustozzi (2008). *Afghanistan: Transition Without end An Analytical Narrative on State-Making*. London: Crisis States Research Centre, p. 5.

duration of project was four years in 1964 project was completed and those tunnels reduced travel time between northern cities of Afghanistan and Kabul. By 1967, the country had 1,200 miles of cemented roads and a 25 percent increase in power output.²³

In 1978, the World Bank suggested that, Afghanistan should more concentrate its economy on small-scale agricultural production as well as on horticulture and livestock, because the economy of the country was sharply falling down. In 1979 USSR entered in Afghanistan, Afghanistan highly depended upon USSR's aid. Soviet funding increased annual aid reached around USD 200 million. In 1979 with the entry of USSR, civil war was also started and the economic activity of the country was completely collapsed.²⁴

Apart from this progress, Afghanistan experienced an important "brain drain" as educated and skilled workers left the country and many Afghans lost their lives on the border of the other countries. According to estimates, around 3.5 million Afghan people lost during Soviet regime, as result of conflict, violence and population displacement. War and population displacement negatively affected agricultural productivity. In the 1980s as conflict and weak harvest in 1982 created severe food insecurity. During the 1980 to 1990s, a large percentage of arable land was damaged. Lack of food products led to the black market and the price of the basic commodities increased to 95 percent. Afghanistan had one of the lowest standards of living in the world and in 1990, annual income was estimated to USD 714 per person.²⁵

1.2.2. An Overview of Afghan Economy After 2001

Actual condition of Afghanistan, since fall of Taliban there has been important progress in the improving of the economy. In 2001 Bonn Conference and in 2002 Tokyo Conference was about reconstruction of Afghanistan, which brought together around 60 donor countries and 20 International Organizations to support Afghanistan. Despite all

²³W.Byrd (2012), p. 5.

²⁴O. Joya (2011). Munich Personal RePEc Archive (MPRA). University of Bordeaux, p. 69.

²⁵S. Masoud (2001). *Ups and Downs of the Economic Crisis in Afghanistan*. Peshawar, p. 10.

billions dollars spent or misspent but Afghanistan still could not achieved what was expecting before those conferences.²⁶

After the fall of Taliban, Afghanistan economy has recorded a fast growing economy from a low base. The GDP growth in 2007 reached to 12 percent and in 2008 increased to 3.4 percent the growth for 2009- 2010 was 22.5 percent. Apart from these improvements, unemployment was remaining 35 percent and factors such as corruption, security and deficiency of professional workers had restricted development and the conduct of business. To reduce poverty and to focus on maintaining macroeconomic stability in 2006 Afghanistan and IMF decided about an agreement on Poverty Reduction and Growth Facility Programme for 2006-2009. Due to banking crises of country's largest bank (Kabul Bank) the International Monetary Fund (IMF) suspended the credit programme in Afghanistan the IMF enacted a new extended credit facility in November 2011.²⁷

In 2013 due to favorable weather conditions, agricultural output reached to the highest level with the 2.7 percent increase to cereals production, from other side political and security transition caused to decreasing of economic growth to a fall in investor, consumer confidence and that is resulted a sharp declaration of private investment and growth in non-agriculture sectors. Economic growth decreased from 14.4 percent in 2012 to 4 percent in 2013. Inflation rate was 7.7 percent in 2013, slightly higher than 6.4 percent in 2012. On the other hand, domestic revenues declined to 9.5 percent GDP in 2013 from 10.3 percent in 2012 and the peak of 11.6 percent in 2011. The decline in revenue collections became a result of the economic slowdown as well as weaknesses in implement on both tax and customs administration. The growth expected to remain weak in 2014.²⁸

1.2.2.1. Gross Domestic Product (GDP)

Gross domestic product (GDP) is one of the primary and most important indicators to measure the health of a country's economy. Briefly, GDP is the monetary value of all the

²⁶W.Dowell (2014), p. 310.

²⁷Norwegian Agency for Development Cooperation (2012). *Evaluation of Norwegian Development Cooperation with Afghanistan 2001-2011*. Ruselokkveien 26 Oslo Norway, p. 64.

²⁸<http://www.worldbank.org/en/country/afghanistan/overview>(AccessDate:10.11.2014)

goods and services produced by an economy over a specified period. It is measured in three ways:

- a. On the basis of expenditure, i.e. the worth of all goods and services purchased, comprehend consumption, capital expenditure, rise in the price of stocks, government expenditure and exports less imports;
- b. On the basis of income, i.e. income rising from employment, self-employment, rent, company profits (public and private), and stock assessment.
- c. On the basis of the supplementary value by industry, i.e. the value of sales less the costs of raw materials”.²⁹

The most favorable measure of economic performance of a country is its yearly gross domestic product (GDP). The degree of progress of the countries considers accordingly. There can be a necessary question; how Afghanistan can push its GDP?

Afghanistan can upgrade its GDP by improving the quality of local production and export, bettering education system, government backing for domestic industries, enlarge employment policy, motivate foreign investment, and decimate corruption.³⁰

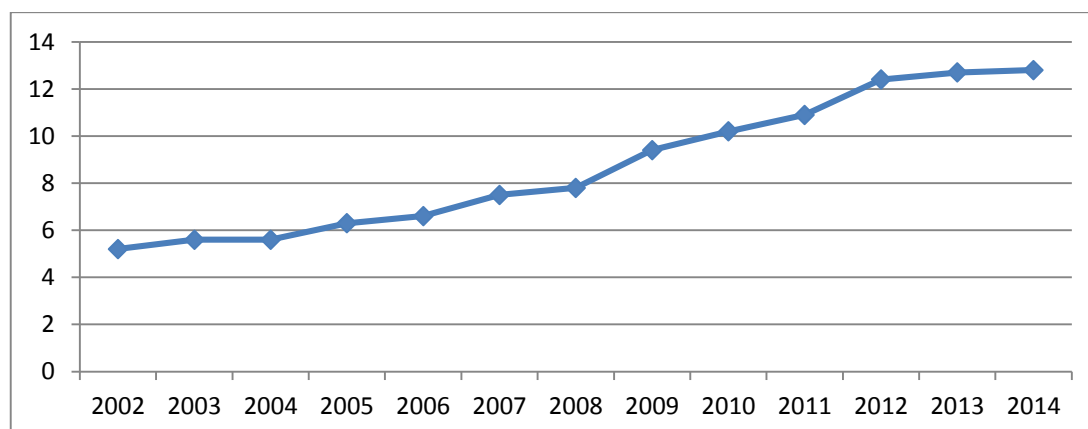


Figure 1.1. GDP (Constant, Billions of 2010 USD)

Source: World Bank National accounts data and OECD National Accounts data files.³¹

²⁹H. Başar (1998). *Terminology of Economics, Finance and Human Resource Management*. Istanbul: University of Istanbul Faculty of Economics, p. 134.

³⁰O. Adel (2012). *Strategies to Increase Domestic Production in Afghanistan*. Germany: Ruhr University Bochum, p. 10.

Figure 1.1 explains Afghanistan's GDP, billions of 2010 USD, from 2002 to 2014. There was 2 percent difference in GDP growth between 2011-2013 in 2011 GDP growth increased 10.86 percent and in 2013 it was increased 12.97 percent. Naturally, agriculture counts for one-fourth to one-third of GDP, depending on yearly output. Wheat is the most important licit crop in the country, which completes for around 60 percent of agricultural output. However, agricultural output highly depend on rain-fed, around one-third of the wheat productions come from rain-fed.

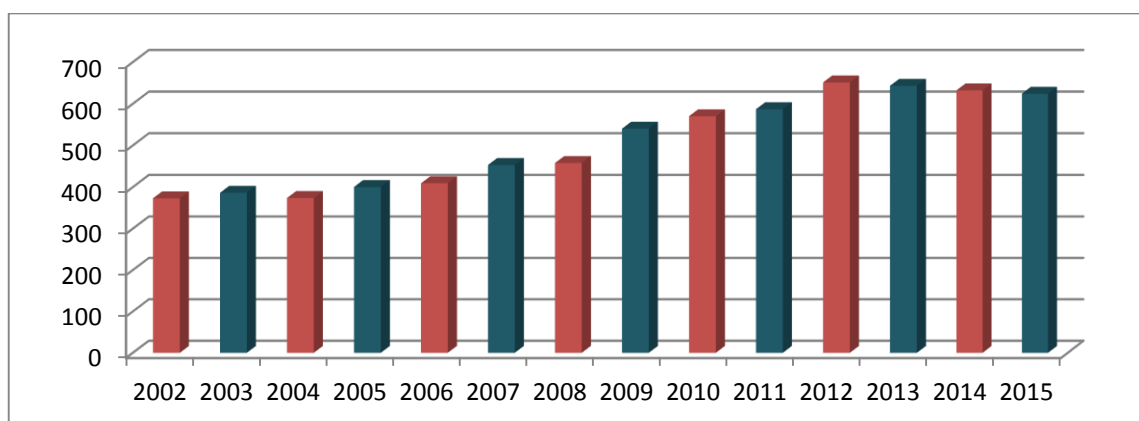


Figure 1.2. GDP per capita (constant 2010 USD)

Source: World Bank national accounts data, and OECD National Accounts data files.³²

Figure 1.2 presents the GDP per capita of Afghanistan, constant 2010 dollars from 2002 to 2015. Afghanistan is poorest country in the world with per capita GDP of only 416.87 USD. Its social indicators are also worst in the world; infant mortality is 115 per 1000 live births; maternal mortality is 1,600 per 100,000 births and 57 percent of men over the age of 15 are illiterate. Undernourishment is a critical issue as 70 percent of children do not receive timely supplementary feeding and 85 percent of households consume non-iodized salt. There is a very large gender disparity. Around 86 percent of women above 15 years of age are illiterate in some areas registration of girls in school is very low. Main causes of the all these problems are: security concerns, poor infrastructure, weak institutions, limited human and technical capacity, unreliable power supply, weak legal framework, etc.

³¹<http://data.worldbank.org/country/afghanistan> (Access Date:09.10.2016)

³²<http://data.worldbank.org/country/afghanistan> (Access Date:12.09.2016)

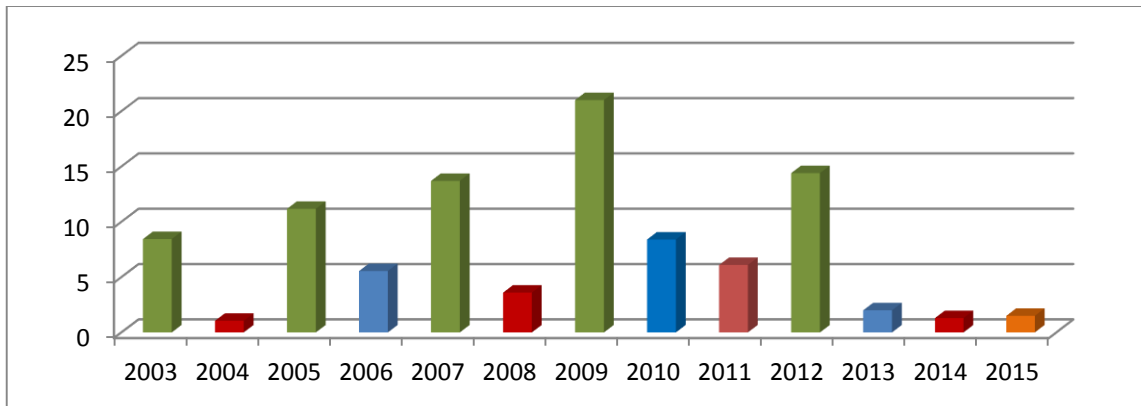


Figure 1.3. *GDP growth (annual percent)*

Source: *World Bank national accounts data, and OECD National Accounts data files.*³³

Above Figure 1.3 displays the annual percentage GDP growth of Afghanistan from 2002 to 2012. Services are the largest sector of Afghanistan’s economy. Wholesale and retail trade, restaurants and hotels; transport, preservation and communications; finance, insurance and real property and community, personal, social and government services count for 49 percent of the GDP. Output from agriculture is 26 percent. Manufacturing and mining establish 13 percent of the wealth and construction 12 percent.³⁴

1.2.1.2. Inflation

According to Prof. Dr. Haşmet Başar, inflation is “a rise in the general level of prices within an economy, accompanied by a decrease in the purchasing power of the unit of currency used in that economy. Inflation is often, but not always, accompanied by losses in real purchasing power”.³⁵

With a simple definition, inflation is a raise in the price which we pay for the goods and decrease in the purchasing value of money. The primary reason of inflation is

³³<http://data.worldbank.org/country/afghanistan> (Access Date:13.09.2016)

³⁴<http://www.tradingeconomics.com/afghanistan/gdp> (Access Date:15.09.2016)

³⁵H. Başar (1998), p. 160.

an upsurge in the money supply. As “more money chases fewer goods”, the price of the disposable goods is bid up. So simply, growth of money in circulation increased prices directly.³⁶

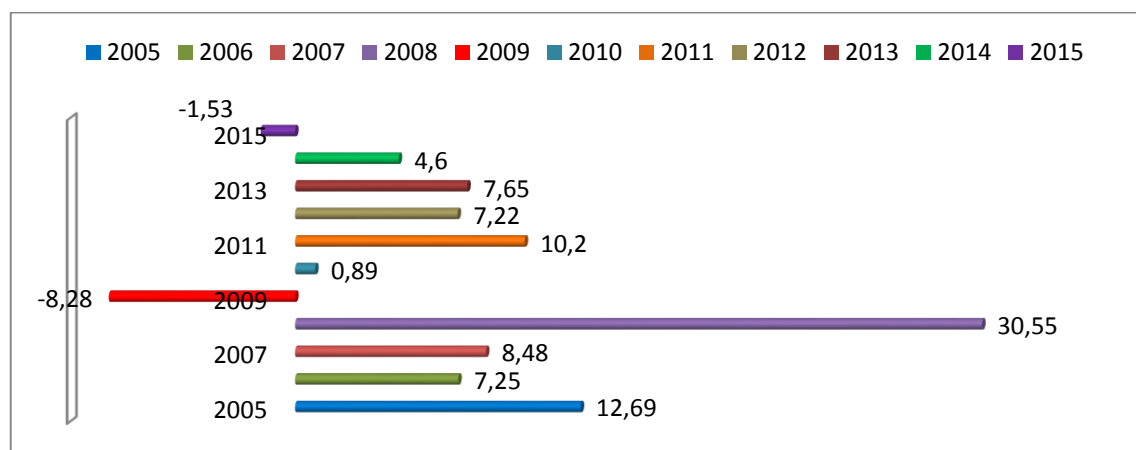


Figure 1.4. Inflation

Source: *The Global Economy (The World Bank)*³⁷

As Afghanistan is an importing country, its inflation has always been oscillation. Based on the consumer price index (CPI), inflation increased to 22.71 percent in 2008 (Figure 1.4). The main reason of this is Afghanistan’s dependency on foreign imports. As the prices in the external markets oscillated, price levels in Afghanistan changed too. A strong deflation was seen in the 2009 i.e.-13.20 percent because of decreasing international price of consumer goods and a high degree of food imports replacement made probable by a good internal harvest.

1.2.1.3 Real Interest Rate

The interest rate measured in terms of goods rather than money. It is thus equivalent to the money (or nominal) interest rate less the rate of inflation.³⁸

³⁶<http://inflationdata.com/articles/2010/07/21/real-definition-inflation/> (Access Date:13.09.2014)

³⁷<http://www.theglobaleconomy.com/Afghanistan/Inflation/>(Access Date: 12.10.2016)

³⁸H. Başar (1998), p. 276.

The Fisher equation gives a linkage between nominal and real interest rates. In order to change from nominal interest rates to real interest rates following formula is given:

$$\text{Real interest rate} = \text{nominal interest rate} - \text{inflation rate.}$$

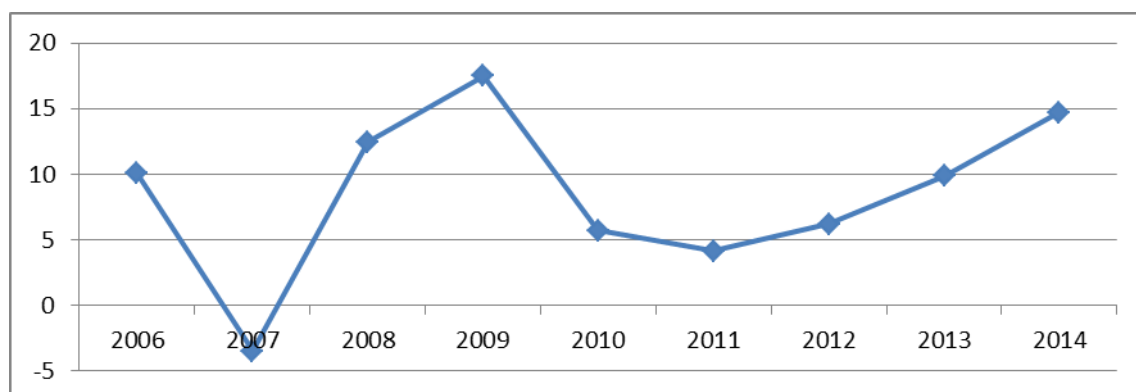


Figure 1.5. *Real Interest Rate (Percent)*

Source: *International Monetary Fund, International Financial Statistics and data files, and World Bank and OECD GDP estimates.*

Afghanistan's real interest rate from 2006 to 2012 is given at Figure 1.5. The average value of interest rate during that time was 7.72 percent with a minimum of -3.47 percent in 2007 and a maximum of 17.48 percent in 2009.

1.2.1.4 Savings

According to John Maynard Keynes “the saving is the excess of income over what is spent on consumption.”³⁹ Keynes expressed that if investment surpasses saving, there will be inflation. If saving surpasses investment, there will be recession. In the midst of an economic depression, the exact course of process should be to stimulate spending and demotivate saving. This runs in reverse to the preponderant wisdom, which says that frugality is required in difficult times. In Keynes's words, “for the

³⁹<https://www.marxists.org/reference/subject/economics/keynes/general-theory/ch07.htm>
Date:15.10.2014)

(Access

engine which drives enterprise is not frugality, but profit.”⁴⁰Following Figure shows Afghanistan’s saving from 2008 to 2012. Due to 35 years of war, economy of Afghanistan has always negative saving.



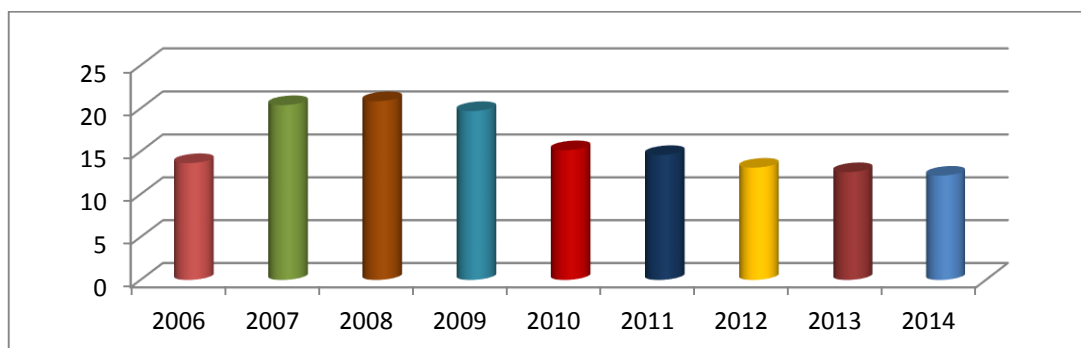
Figure 1.6. *Savings in Billion USD*

Source: *The Global Economy (The World Bank)*⁴¹

Afghanistan’s savings explained through Figure 1.6. The average value of savings for Afghanistan during that time was -2.35 billion USD with a minimum of -3.44 billion USD in 2011 and a maximum of -1.67 billion USD in 2008.

1.2.1.5. External Debt

External debt is an unpaid loan that one country owes to another country or institutions within that country. External debt also includes due payments to international organizations and banks such as the International Monetary Fund (IMF). Figure 1.7 present Afghanistan’s external debt since 2006 to 2014.



⁴⁰<http://www.maynardkeynes.org/maynard-keynes-economics.html>(Access Date:18.10.2014)

⁴¹http://www.theglobaleconomy.com/Afghanistan/savings_dollars/(Access Date:10.11.2016)

Figure 1.7. External Debt, Percent of Gross National Income

Source: *The Global Economy (The World Bank)*⁴²

Figure 1.7 displays External Debt of Afghanistan according to percentage of Gross National Income. Minimum value of external debt in 2006 was 13.73 percent and maximum value during the 2008 was 20.94 percent.

Afghanistan's total external debt is 2.3 billion dollars of which 12382.78 million dollars was given by Russia. Some of the countries have exempted their debt from Afghanistan:

- In March 2002, the Chinese government has exempted the 18.80 million dollars.
- The Danish government has exempted the 0.9 million dollars.
- In January 2005, Slovak government has exempted the 29.34 million dollars.
- In September 2002, Garman government has exempted the 67.51 million dollars.
- In March 2005, German government has exempted the 29.6 million dollars.
- In August 2007, Russian government has exempted the 10,316.22 million dollars.
- In January 2008, Government of Saudi Arabia has exempted the 24 million dollars.
- In May 2008, Iraqi government has exempted the 9.5 million dollars.
- KORUS government has exempted the 0:44 million dollars.
- In May 2010, the International Development Bank has exempted the 69.8 million dollars.
- In July 2010, the Government of the United States has exempted the 108.5 million dollars.⁴³

1.2.1.6. Investment

World Bank ranked Afghanistan's number 164 in its 2012 annual report in its doing business ranking for countries in the world. This backward ranking status is due to its high level of corruption, political violence and competition, unqualified

⁴²http://www.theglobaleconomy.com/Afghanistan/External_debt/(Access Date:11.11.2016)

⁴³ K. Popal (2012). *Former and New Loans of Afghanistan*. (Translated: Alia Sharify), Kabul: Payam Aftab News Network, p. 3.

regulations on the protection of property, lack of skilled workforce, under-developed financial markets and inadequate infrastructure problems and potential attractiveness of the country.

The main five factors that investment decisions are based upon are the reasonable tax norms that are equitably enforced; political and economic durability and security; access to finance and infrastructure; an appropriately capable workforce; and clear unambiguous regulations.

Investments in Afghanistan witnessed a sharp increase after the collapse of the Taliban regime. Afghanistan attracted a lot of foreign and domestic investment even from reputable companies like Coca-Cola, Baghlan Sugar. There were firms like moribund venture that has also uplifting their operations in the country. It is believed that the solution to increase the investment can be privatization since it could boost foreign and local investment letting them enter to the market through the process of privatization. However, politically motivated decisions have slowed down the privatization process of State Owned Enterprises (SOEs). As a result, until today only two enterprises have actually been privatized.⁴⁴

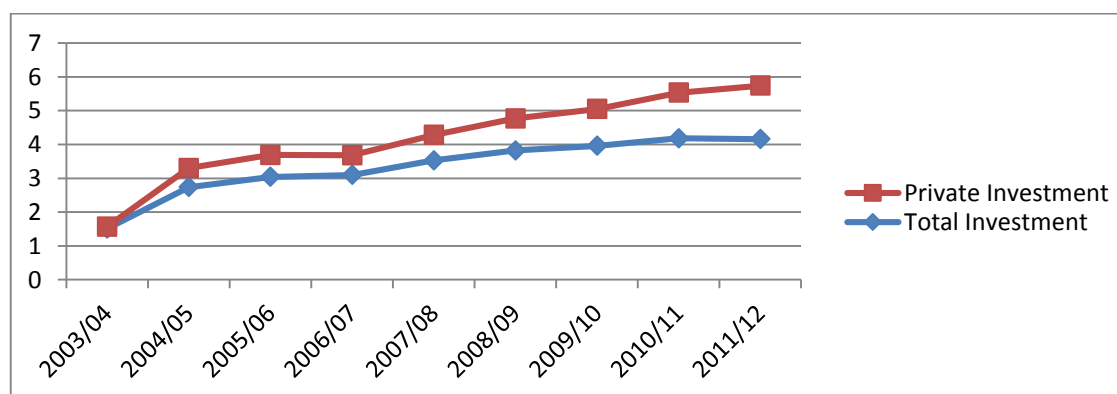


Figure 1.8. Investment in Afghanistan since 2003

Source: *Research and Statistics Department of Afghanistan Investment Support Agency (AISA)*⁴⁵

⁴⁴The World Bank (2005). *The Investment Climate in Afghanistan*. Finance and Private Sector Development Unit South Asia Region, Washington, USA, p. 7.

⁴⁵<http://www.aisa.org.af/Content/Media/Documents/economy-fact-english711201413422838553325325.pdf> (Access Date:15.11.2016)

The last ten years that is from 2003 to 2013, Afghanistan has seen experiencing a sharp increase in foreign investment from 1.3 percent to 8.6 percent in 2011 as registered in the annual records. According to Afghanistan Investment Support Agency (AISA), 25,000 new businesses in different sectors were recorded which in turn has poured in about USD 5.2 billion into Afghan economy. Total investment (including public and private), however, amounted to 22.6 percent of GDP in 2011. Foreign direct investment (FDI) makes around one-third of all private investment in the country. Figure 1.9 below shows contribution of the private investment. ⁴⁶

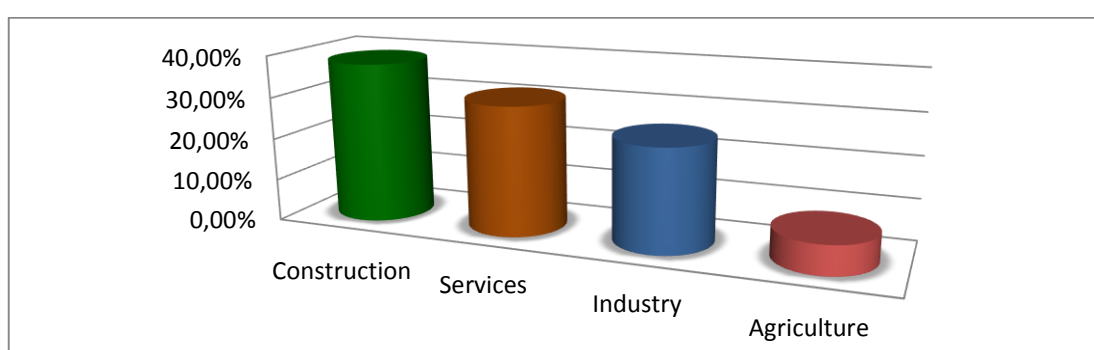


Figure 1.9. Investment Decomposition by Sector (Total 2003-2015)

Source: *Afghanistan Investment Support Agency (AISA)*⁴⁷

The Figure 1.9 shows the development pattern (private investment by economic sectors) of the country between 2003 and 2015 with construction leading with a 38.1 percent. Services sector is at the second position with a percentage of about 30.00 percent, which telecommunication and commercial banking constitute the biggest part. Industries as the third major choice of private investors received about 1.4 billion USD, which is equivalent to quarter of all total private investment. Agriculture, however, has obtained the least sum of private investment, partially due to lower output productivity and higher vulnerability to climatic changes.

⁴⁶Research and Statistics Department of AISA (2012). *Essential Facts on Economic Performance and Investment in Afghanistan*. Kabul, p. 11.

⁴⁷<http://www.aisa.org.af/Content/Media/Documents/economy-fact-english711201413422838553325325.pdf> (Access Date:15.11.2016)

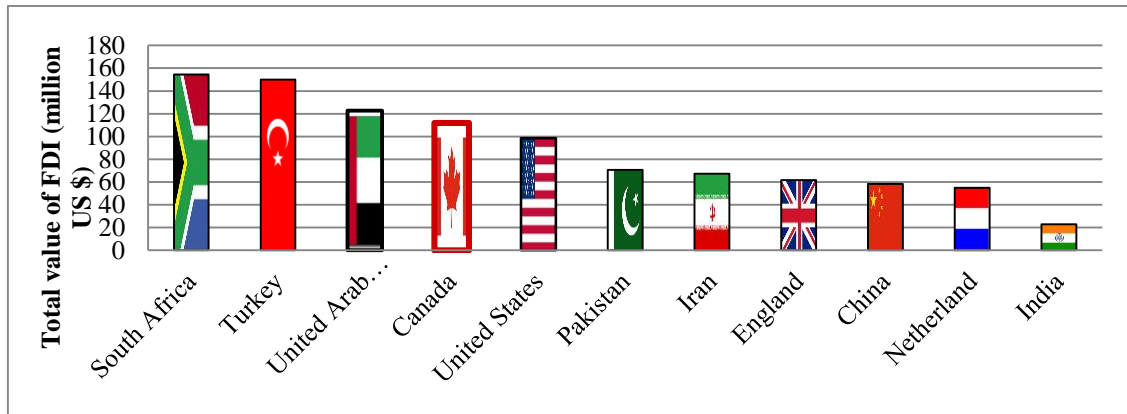


Figure 1.10. Top Investing Countries, in Terms of Total Value of FDI (2012)

Source: *Afghanistan Investment Support Agency (AISA)*

As postulated by Figure 1.10, South Africa leads the countries in terms of total value of FDI in Afghanistan with approximately 154.4 million USD, closely followed by Turkey with approximately 150.1 million USD. The least amongst the 10 top investing countries in Afghanistan is India, occupying the 10th position with 22.9 million USD of investment.

AISA's statistics show that nearly four thousand foreign companies have invested in Afghanistan, holding up to 15 percent of all registered business enterprises total value of the FDI (i.e. USD 1.8 billion). This data shows how Afghanistan had attracted a substantial amount of FDI in spite of so many challenges left by the conflict period and Taliban regime. As we all know, there are uncountable advantages associated with increase in FDI. Just to mention a few; donate to economic growth and job creation, may raise transfer of technology and market competitiveness, which is most needed in Afghanistan.

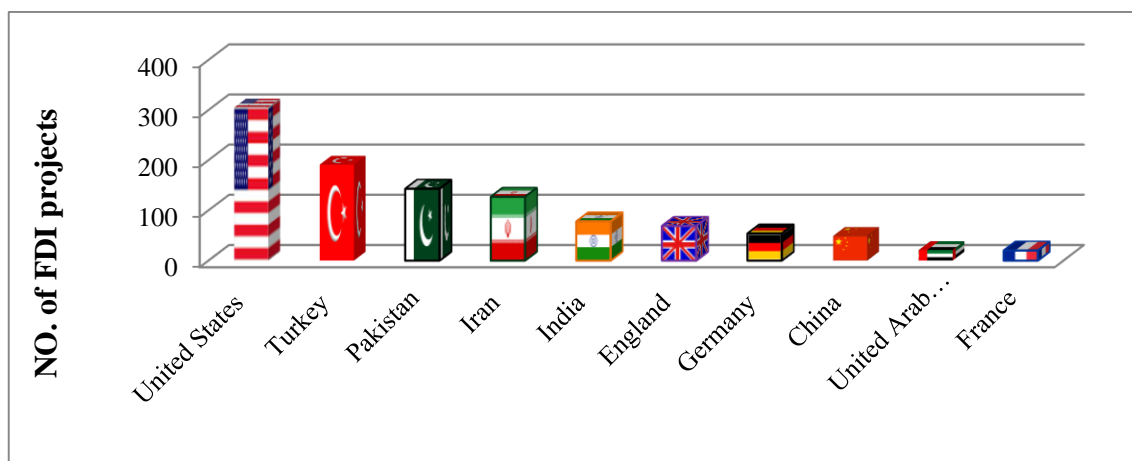


Figure 1.11. *In Terms of Number of FDI Projects, Top Investing Countries (2012)*

Source: *Afghanistan Investment Support Agency (AISA)*⁴⁸

Figure 1.11 shows countries leading in number of FDI project in Afghanistan where by the first three positions are held by United States, Turkey, and Pakistan respectively, meanwhile the least three positions occupied by France, UAE and China respectively. The areas of priority in terms of investment are services, agriculture and construction.

From the year 2003 on, it can be said that the country is on a good run when it comes to foreign investment as the business climate is becoming more favorable compared with the years of the Taliban rule. This can be seen with the number of Multinational Companies (MNCs) stepping their feet into the business arenas in the country bringing improvements in goods and services. However, there are still visible challenges faced by the government of Afghanistan like failure of the government to collect taxes and charges for public services and these are seen as advantages to invest in the country, which are taken advantage by some firms. For example, few firms pay taxes except for customs duties and most drill their own wells.

The MNCs that have invested into Afghanistan in different sectors are, DHL in the transport and logistics sector, Coca Cola in food processing, Standard Chartered Bank, National Bank of Pakistan, Habib Bank Ltd, and National Bank of Punjab, in the banking

⁴⁸<http://www.aisa.org.af/Content/Media/Documents/economy-fact-english711201413422838553325325.pdf> (Access Date:15.11.2016)

sector, Hyatt Hotels and Serena Hotels in tourism, and trade led by Toyota Motors and Alcatel Trade International. Turkey is the largest investor country, with projects amounting to an estimate of USD 120 million, closely followed by Germany, India, and Pakistan, the value of investment at upwards of USD 650 million since 2002 from a total of 25 countries. Amounting to an estimated USD 180 million, the telecommunications sector has thus far attracted the most investment according to AISA records on investment.

From the above analyses and details, a great amount of improvement can be seen in private sector and in internal investment in the country. Since 2003 it is estimated that about 770,000 employment possibilities have been created by the private sector with nearly 400,000 of the jobs be it temporary and permanent jobs was in the construction sector according to AISA agency record. Nearly 60 percent of all new jobs created in the country has provided by internal investment.⁴⁹

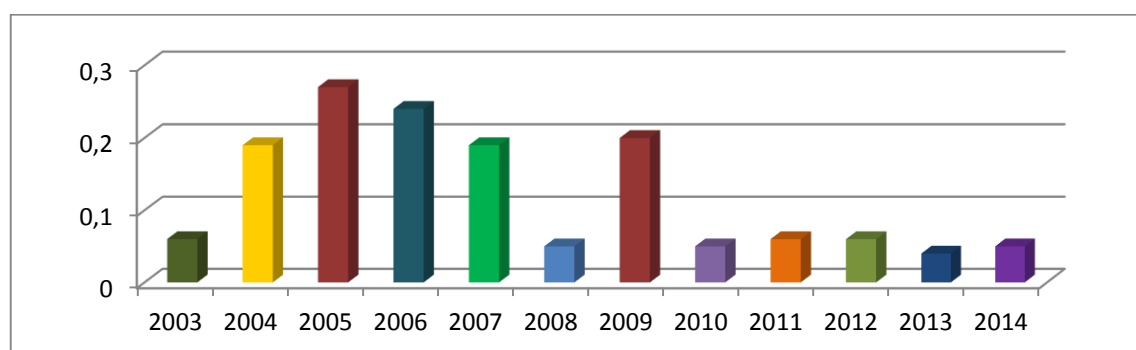


Figure 1.12. *Afghanistan Foreign Direct Investment, Billion USD*

Source: *The Global Economy (The World Bank)*⁵⁰

Figure 1.12 shows Afghanistan’s FDI, in billion USD, from 2003 to 2014. Though Afghanistan geographical position and with a population of about 28 million people makes it a natural center for trade and transit between Central and South Asia coupled with investment opportunities presented for foreign investment in Afghanistan. On the other hand, weak infrastructure and instable security situation make Afghanistan a challenging business environment. In fact, many foreign companies are interested and find great advantages for providing training programmes for Afghan workers.

⁴⁹<http://www.miga.org/documents/horizon.pdf>(Access Date: 1.01.2015)

⁵⁰http://www.theglobaleconomy.com/Afghanistan/fdi_dollars/ (Access Date: 1.01.2016)

Government of Afghanistan is trying its best for improvement of a business friendly environment and for development of more FDI. It is hard to lay hands on accurate data on the FDI in Afghanistan; collected data is filled with discrepancies and unreliable. However, for the purpose of research the following data was recorded on FDI in Afghanistan in the year 2007 0.19 billion USD and total FDI stocks at 1.55 billion USD, representing 12.6 percent of GDP. The top FDI destination sectors were services, agriculture and construction; with top investors being the USA, Turkey, South Africa, Pakistan and Iran.⁵¹

1.2.1.7. Foreign Trade

History has shown that Afghanistan has been at the connection of trade routes between central, south and west Asia for over three centuries. In the 1990s official trade was dominated by the re-exportation of products, to neighboring countries such as Pakistan, Iran and other countries, whereby electronic goods and cosmetics dominated the exported goods. Main imported products for internal use were mainly agricultural products such as, rice, wheat, fuel and cooking oil, while indigenous exports include fruit and nuts, raw materials and timber. Afghan main imports are low quality products from Pakistan, their trade has been hit by high inflation brought about the 2008 food crisis and after the Pakistani floods in 2010. Due to conflict in the country Afghan exports for the last decades has fallen drastically as a result it imports has risen as high as three times its export values today. It is the consideration of the high level of donor aid. The export base is unusually narrow, with few tradable products, concerted in few markets, and trade data tendencies increase doubts about their long-term survivability. Fruits, nuts, wool, and cotton and hides occupy around 90 percent of the export revenue of the country. These proceeds are used to pay for more expensive and sophisticated manufactured capital and consumer good bring about a great deficit in terms of trade for the country. In the 19th century, Afghan trade was limited mainly to the neighboring countries, India, Persia, China and Bukhara. Now her exports reach distant markets in

⁵¹U.S. & Foreign Commercial Service and U.S. Department of State (2010). *Doing Business in Afghanistan: 2011: Commercial Guide for U.S. Companies*, p. 32.

both East and West, major destinations being the USSR, India, Pakistan, Iran, Japan, Bahrain, Czechoslovakia, Germany, England, Canada and the USA.⁵²

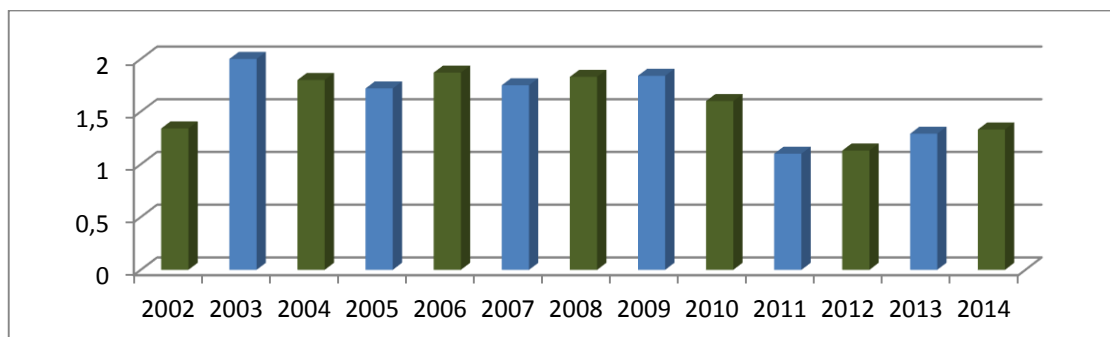


Figure 1.13. *Export of Goods and Services, Billion USD*

Source: *World Bank National Accounts Data, and OECD National Accounts Data Files.*

Figure 1.13 above shows export of goods and services from 2002 to 2013 in billion USD. The values shown represent export of goods and services and all other market services. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal and government services. Compensation of employees and investment income (factor services) and transfer payments are excluded.

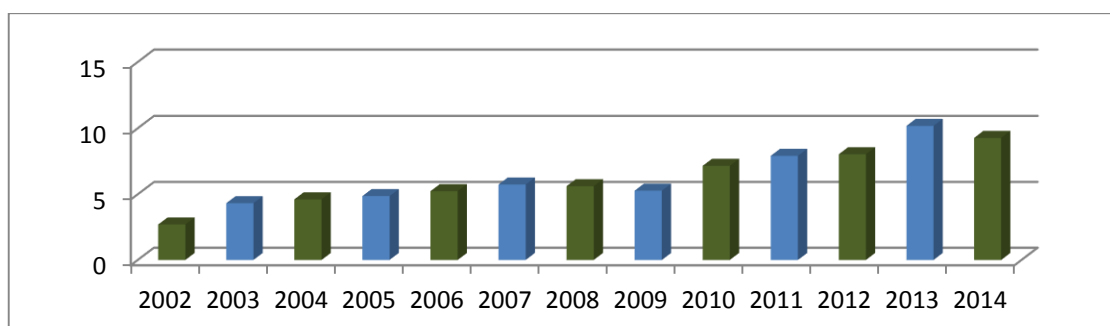


Figure 1.14. *Imports of Goods and Services, Billion USD*

Source: *World Bank National Accounts Data, and OECD National Accounts Data Files.*

⁵²Z. Eltezam (2010). *Afghanistan Foreign Trade*. Middle East Institute: Houston, Texas, p. 95.

Figure 1.14 gives details about Afghanistan’s imports of goods and services, billion USD from 2002 to 2014. The average value of imports during that time was 2.44 billion USD with a minimum of 2.7 USD in 2002 and a maximum of 9.27 billion USD in 2014.

1.2.1.7.1. Trade Partners

China, Czech Republic, Germany, India, Japan, Pakistan, Russia, Tajikistan, Turkmenistan, Turkey, Uzbekistan, United Kingdom and United States are the major trading partners of Afghanistan. Natural gas, nuts, carpets, qaraqul skins, and dried and fresh fruits are the major and most important exports of Afghanistan. $\frac{3}{4}$ of Afghanistan exports are carpets and dry fruits. When compared with its imports, Afghanistan’s export is very low, with tradable products going to a few markets. The country exports only to 35 destinations, which puts it well below the average of about 90 markets for other least developed countries (LDCs).

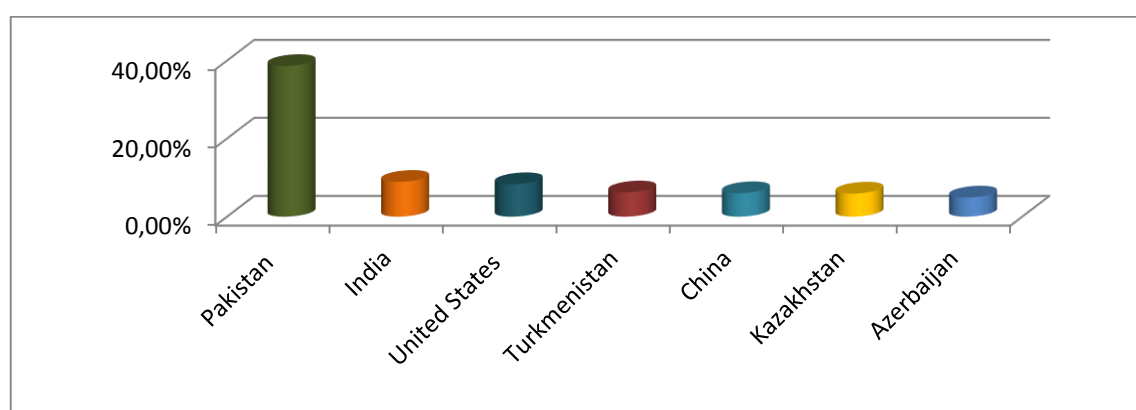


Figure 1.15. *Main Import Partners in 2015*

Source: *The Statistics Portal of Afghanistan*⁵³

Figure 1.15 shows the main import partners of Afghanistan in 2015. As explained before, Pakistan is the main exporter to Afghanistan occupying the first stage with 38.6 percent of total import and Azerbaijan is least with 4.9 percent of total import.

⁵³ <http://www.statista.com/statistics/262181/main-import-partners-of-afghanistan/>
15.11.2016)

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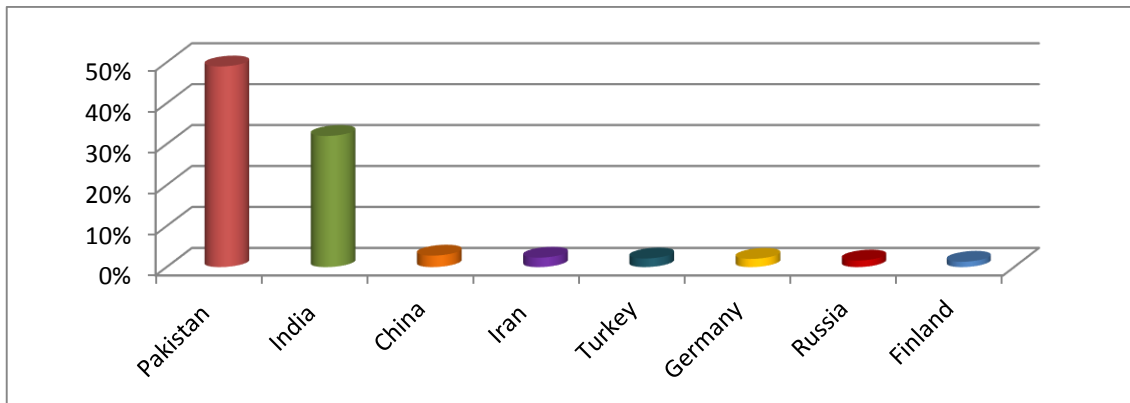


Figure 1.16. *Main Export Partners in 2014*

Source: *The Observatory of Economic Complexity (OEC)*⁵⁴

Figure 1.16 shows the main export partners of Afghanistan in 2012, headed by Pakistan. Just like in imports, Pakistan is the main export partner, with 32.2 percent of total exports and the United States is at the last stage having 6.2 percent of total exports.

It is believed that Afghanistan's main trade destinations are changing. There has been decrease towards Asia and Pakistan from 80-65 percent and a 15 percent increase in total share of exports towards Middle East/ North Africa (MENA) region between 2005-2009. However, Pakistan was still the biggest trade partner in 2010 with 48 percent of exports in 2010 but fell to 32.2 percent in 2012, and values reduced from 300 USD to 191 billion USD 2005-2010. Interestingly, Afghanistan increased the relations and exports to India. Exports to India increased with a 19 percent share, Iran at 10 percent, and to Russia a 6 percent share. Amazingly, the most important change was to Iran, growing share of exports from 9 billion USD to 41 billion USD 2005-2010. However, exports to Russia and India were the same, at 70 billion USD and 25 billion USD respectively.

⁵⁴http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/afg/show/all/2014/
16.11.2016)

(Access Date:

1.2.1.7.2. Balance of Trade

The balance of trade is the modification among the values of exported and imported goods and services. It includes the first two items of the balance of payment explanation on the credit and debit side. This is known as “balance of payment on current account”. Some writers explain the balance of trade as the modification among the value of merchandise exports and imports. Prof. Meade regards this way of describing the balance of trade as wrong and of minor economic importance from the point of view of the national income of the country.⁵⁵

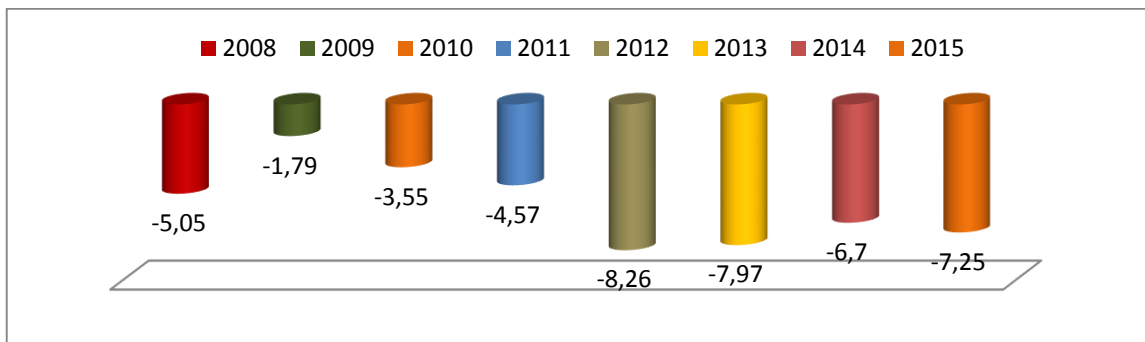


Figure 1.17. *Balance of Trade, in Billion USD*

Source: *The Global Economy (The World Bank)*⁵⁶

Trade balance has been in deficit throughout the period from 2008 to 2012. The average value of trade balance for Afghanistan during that period was -3.79 billion USD with a minimum of -7.96 billion USD in 2012 and a maximum of -1.83 billion USD in 2008. Afghanistan’s negative trade balance is at its highest, which is extremely worrying.

1.2.1.7.3. Volume of Trade

Volume of trade is the amount of security or contracts traded for a specified security (or a given set of securities, or an entire market) that were traded during a given period.⁵⁷

⁵⁵M. Jhingan (2006). *International Economics*. Vrinda Publications: Delhi, India, p. 319.

⁵⁶http://www.theglobaleconomy.com/Afghanistan/trade_balance_dollars/ (Access Date:12.03.2016)

The most recent value for export volume index (2000 = 100) in Afghanistan was 172.75 as of 2014. Over the past 14 years, the value for this indicator has changed between 195.56 in 2005 and 44.56 in 2001.

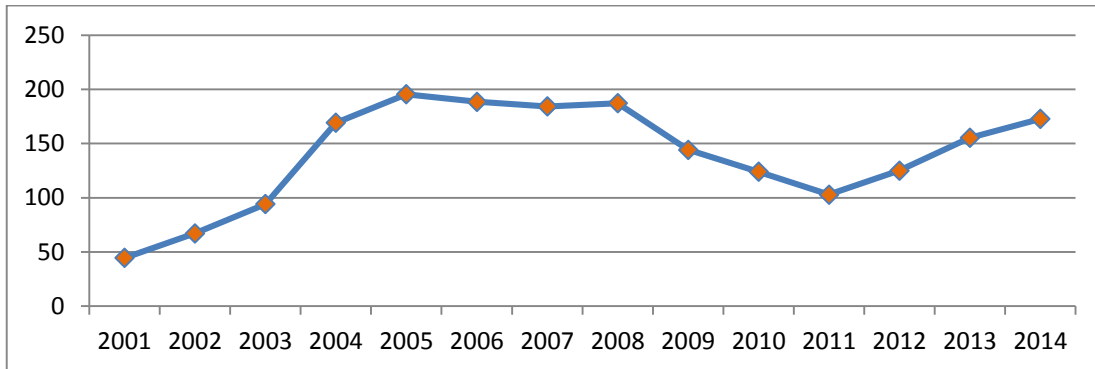
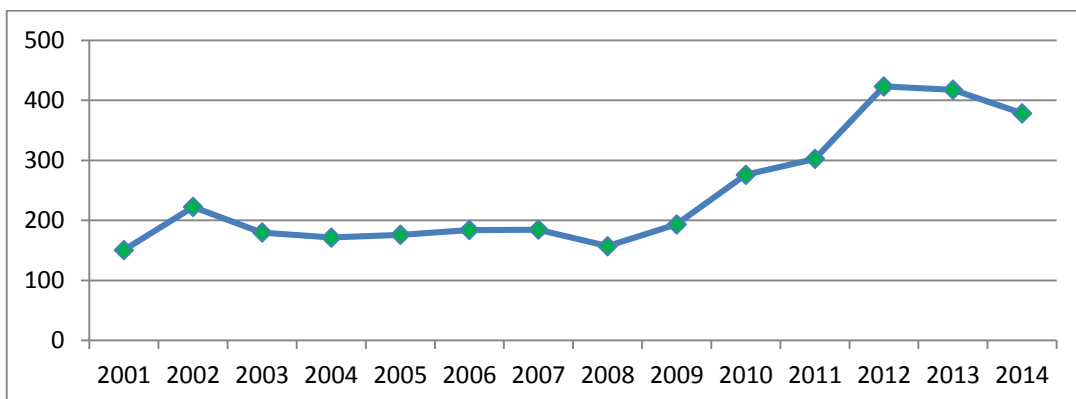


Figure 1.18. *Export Volume Index (2000=100)*

Source: *World Integrated Trade Solution (WITS).*⁵⁸

Figure 1.18 explains the export volume of Afghanistan during 2001-2014. It can be seen from the figure that at the period of 2001- 2004 the volume of exports were increased. That can be because of the formation of transitional government after the fall of the Taliban’s regime. During 2005- 2008, it was going approximately equal. At the 2009- 2011 period it was decreased and the reason can be election’s insecurity. During 2011- 2014, it was increased. The probable reasons of this increase can be the positive political situation after the presidential election.



⁵⁷ <https://www.stocktrader.com/2006/03/21/volume-and-its-meaning/> (Access Date: 13.3.2015)

⁵⁸ <http://wits.worldbank.org/CountryProfile/en/Country/AFG/StartYear/2011/EndYear/2015/Indicator/TX-QTY-MRCH-XD-WD> (Access Date: 13.11.2016)

Figure 1.19. Import Volume Index (2000=100)

Source: *World Integrated Trade Solution (WITS)*.⁵⁹

Figure 1.19 illustrates the import volume of Afghanistan during 2001-2014. The import volume of Afghanistan was going normal after the advent of the new government in 2001-2009, because all goods and services in the country was importing from neighbor countries. After 2009, import volume of Afghanistan started to increase. The probable reason for this increase could be Afghanistan's democratic presidential election. It encouraged both domestic and foreign investors to invest in Afghanistan. Therefore, it might have a positive effect on import volume of Afghanistan.

1.2.1.7.4. Composition of Trade

The composition or structure of Afghanistan's foreign trade means major product or sectors in which Afghanistan is doing export and import. In 2004, Afghanistan became the member of World Trade Organization (WTO) and has also joined several regional trade organizations, including the Central Asian Regional Economic Council (CAREC), the South Asian Association for Regional Cooperation (SAARC), and the Economic Cooperation Organization (ECO). Afghanistan has signed over three dozen agreements, protocols, and Memorandum of Understanding (MOUs) with different countries and organizations on trade, commerce, regional collaboration, transit, and transport. Afghanistan's attendance in the WTO has up hold its import as well as its export with several countries.⁶⁰

Table 1.1. *Afghanistan's Composition of Trade, 2007 – 2015: (Exported and Imported Goods in Thousand USD)*

No	Item	Item
	Total exports	Total Imports
1	I. Fresh fruits	I. Machinery & equipment
2	Grape	Machinery
3	Pomegranate	Battery (vehicle)
4	Apple	Battery (radio)

⁵⁹<http://wits.worldbank.org/CountryProfile/en/Country/AFG/StartYear/2011/EndYear/2015/Indicator/TM-QTY-MRCH-XD-WD> (Access Date: 13.11.2016)

⁶⁰S. Poulad (2010). *Making Real Progress and Measuring Performance*. Kabul, Afghanistan: WTO of Afghanistan, p. 3.

5	Tangerine	Battery (motorcycle)
6	Melon	Medical (equipment)
7	water melon	Tractor, Lorry, Bus, Motorcycle and Bicycle
8	Apricot	Generator
9	II. Dried fruits	Motor spare parts
10	Red raisin	II. Petroleum
11	Green raisin	Petrol, Diesel, T one oil, Kerosene, Motor oil, Grease and other oil for motor
12	Black raisin	III. Metals
13	Big raisin	Iron plates and sheet
14	Abjosh raisin	Metal pipe and iron nail
15	Dried apricot, high quality	Iron rod and Building materials
16	Dried apricots (Ashtaq)	IV. Chemicals
17	Damson plum	Paint
18	Dried apricot (Shakarpara)	Tire and tube for lorry, Tire and tube for car
19	Dried cherry	V. Construction materials
20	Dried fig	Cement
21	Kernel of almond	Glass for building
	No	Item
22	Soft almond	Hard wood
23	Hard almond	VI. Paper
24	Kernel of walnut	Toilet tissue
25	Walnut	VII. Clothing materials
26	Pistachios Kernel	Cotton artificial
27	Kernel of apricot	Cotton, Flax and Woolen yarn
28	Dried berry	VIII. Food items
29	Dried damson plum	Milk powder
30	Pine cone	Spices
31	Other dried fruit	Wheat, Rice and Sugar
32	III. Medical plants	Other confectionary
33	Licorice root	Vegetable oil
34	White asafetida	Black tea and Green teas
35	Black asafetida	Salt
36	White behman	Beef
37	Yarleng	Chicken (meat)
38	Syoria	IX. Cigarettes & drinks
39	Anardana	Cigarettes
40	Flower of zoof	Nonalcoholic drinks
41	IV. Spices	X. Fabrics, clothing, & footwear
42	High quality caraway	Polyester fabric
43	Kajak caraway	Men new cloth, Women new cloth, Children new cloth and Used cloth
44	Mushroom	Blanket and Wraparound
45	V. Seeds	Razor blade
46	Coriander seed	Men new footwear, Women new footwear, Children new footwear, Rubber footwear and Used footwear
47	Water melon seed	Metallic dishes
48	Alfalfa seed	Glass utensil

49	Clover seed	Plastic utensil
50	VI. Skin	Medicines
51	Karakul skin	Agricultural medicines
52	Sheep skin	Toilet soaps
53	Goat skin	Washing soap
54	Cow and bull skin	Washing powder
55	VII. Wool	Sewing machines
56	Sheep wool	Washing machines
57	Kurk wool	Refrigerators
58	Cotton	Watches
59	VIII. Sausages	Clocks
60	Sheep sausage	Radio, Cassette player, Recorder and Television
61	IX. Carpets and rug	Electrical appliances
62	Rug	Matches
63	Carpet, high quality	Stationery
64	Handicrafts	Manufactured goods
65	Others	Unspecified articles

Source: *Afghanistan Statistical Yearbook 2011-2012 & 2014-2015*⁶¹

Table 1.1 explains Afghanistan's composition of trade, 2011-2012 and 2014-2015: (Exported and Imported Goods in Thousand USD). As already known, Afghanistan's exports are less than its imports. Table 1.1 shows Afghanistan's main export and import commodities. Mostly exported commodities are carpets and rug, dried fruits, fresh fruits and medical plants. Major imported goods are petroleum such as grease and other oil for motor, dishes and medicine, machinery and equipment and food items.

1.3. Socio-Economic Development of Afghanistan

Afghan Economy has been damaged by years of war and political instability coupled with hard and drought prone climate in the country. Thus, the economy was harmed economically and physically. Afghanistan is a multicultural country with different ethnic groups and cultures with 90 percent of the country's population are engaged in agriculture and the vast majority of simple subsistence farming has destroyed what is normally economic climate, drought and war, economic capacity. About 40 percent of Afghan economy depends on agriculture for livelihood with rising use of opium and skyrocketing unemployment, a rapid economic development is

⁶¹<http://www.cso.gov.af/en/page/1500/4722/2014-2015> (Access Date: 11.11.2016)

necessary to save the country from all these social ills. This economic development should be focused primarily on agriculture since the higher percentage of the country depends on agriculture. The volatile economy of Afghanistan cannot just be improved by education since joblessness is at its peak.⁶²

The conflict and economic upheavals has triggered a massive rural urban migration that has negative side effects such as crowdedness of public services and space, traffic, homelessness and use of illegal and intoxicants. It is estimated that over 30 percent of Afghan population lives in urban areas and urban growth is higher than everywhere else in Asia but with poorer public services. In recent years, population of the Kabul has doubled. The reasons of this doubling are the limited resources in areas such as health, education and social infrastructures and systems, and iniquitous access to basic services in rural areas. Between the 34 provinces of Afghanistan, the most urbanized, in relative terms, are (1) Balkh (2) Jawzjan, (3) Kandahar, (4) Heart, (5) Nimroz, (6) Kunduz, and (7) Baghlan, with respectively, 39.1 percent, 29.7 percent, 27.9 percent, 26.2 percent, 26 percent, 24.8 percent and 21.9 percent of their total populations living in urban places respectively. All of these seven have urbanization rates higher than the national average of 19.4 percent. In the remaining 27 provinces, the proportions range from 15.7 percent in Nangarhar to 0.4 percent in.⁶³

1.3.1. Employment Situation in Afghanistan

Afghanistan is one of the countries with one of the youngest population in the world with over 68 percent of its population are 25 years or below and 49 percent children below 15 years old. However, unemployment rate which is about 40 percent is destroying the futures of the youths in the country. The employment condition of Afghanistan today damaged by the social, economic and political challenges. Unemployment and underemployment are obviously one of the most difficult issues plaguing the country and the lack of productive and decent job opportunities is a main reason of tenacious poverty. This unemployment and poverty has a direct impact on youth's involvement on social ills

⁶²C. Breede (2008). *A Socio Economic Profile of Afghanistan*. Kabul: Canadian Army Afghanistan, p. 69.

⁶³UNFPA (2007). *Afghanistan Socio - Economic and Demographic Profile*. Kabul: UNFPA Afghanistan, p. 23.

as a means of survival, prompting some of the youths to pick up jobs and opportunities offered by arm groups, terrorist organizations and narcotics industries in the country and across the region. It believed that 36 percent of the population of the country live below poverty line and those who are fortunate enough to be employed are under paid with horrible working conditions. This unemployment ill in the country has drastically increased due to irrational government policies as systematic mapping of the country coupled with instability that push away foreign investment. Therefore, in order to fight these social ills, rational government policies focused on youth employment and empowerment should urgently be implemented.

Due to high and ever increasing unemployment and limited opportunities, the youth's outward migration has been viewed as the only and worthy option to secure a job and retain some marketable skills and income. However, as globalization is swiftly coming into play and affecting international norms and financial systems as well as law, currency changes and instabilities as well as tightening immigration laws in neighboring countries this option too is fading away in the eyes of the entangled youths of the country.

1.3.1.1. Childlabor

The rate of child labor in Afghanistan is alarming. According to the United Nations Children's Fund (UNICEF), 30 percent of primary school aged children are daily workers and are used as a source of family income. This social ill is directly linked to the alarming rate of illiteracy in the country. It is estimated that 71 percent of adults and up to 86 percent of women, more than 50 percent of the population of 26 million people is under the age of 18 are illiterate in the Afghanistan. Education (especially youthful and child education) which is amongst the top priorities of the Millennium Development Goal must be strictly upheld in Afghanistan. Otherwise, the country's future will be compromised and doomed.

Though the industrial (manufacturing) sector in Afghanistan is still rudimentary not like in other countries where children are used as workers in the industrial zone, the use of child labor is still high in Afghanistan as children can be seen working in vehicle repair, metal workshops, tailoring and farming. Statistically, among the child labor, 21 percent of child workers are employed in shops, 13 percent work as street vendors. In all major cities

and urban areas, there are street children who shine shoes, beg, and collect and sell scrap metal, paper, and firewood. They help their families for their economic needs to survive. Due to the lack of social services by the state; over 3 million children are being denied an education.

Challenges:

1. Lack of grounds and opportunities for protecting children, which effect negatively not only in the past, but also may effect in the future too.
2. Economic poverty is the first thing that sacrifices the children. Economic poverty might be main reason of child marriage, childlabor, and the non-access of children to education.
3. There is no sufficient investment made for needs of the children in Afghanistan, even for general issues such as access to potable water and health facilities to more specific ones like equal opportunity in matters relating to education.
4. Lack of public awareness as well as self-awareness of the children on their needs and rights make them the victims of violence and rights abuses. Violence against children, both in its physical and mental forms, is a commonplace, boring event.
5. One of the most serious challenges which affect the children and violating their rights are unaccepted cultural and customary practices. Such as early marriages and discontinuation of education, which mainly emanate from unaccepted traditional practices, and target girl child.
6. Children living in poor families are in a worse situation and poverty hinders the normal change of their personality.⁶⁴

⁶⁴Afghanistan Independent Human Rights Commission (AIHRC) *Research and Policy Unit, Research Report the General Situation of Children in Afghanistan*, p. 5.

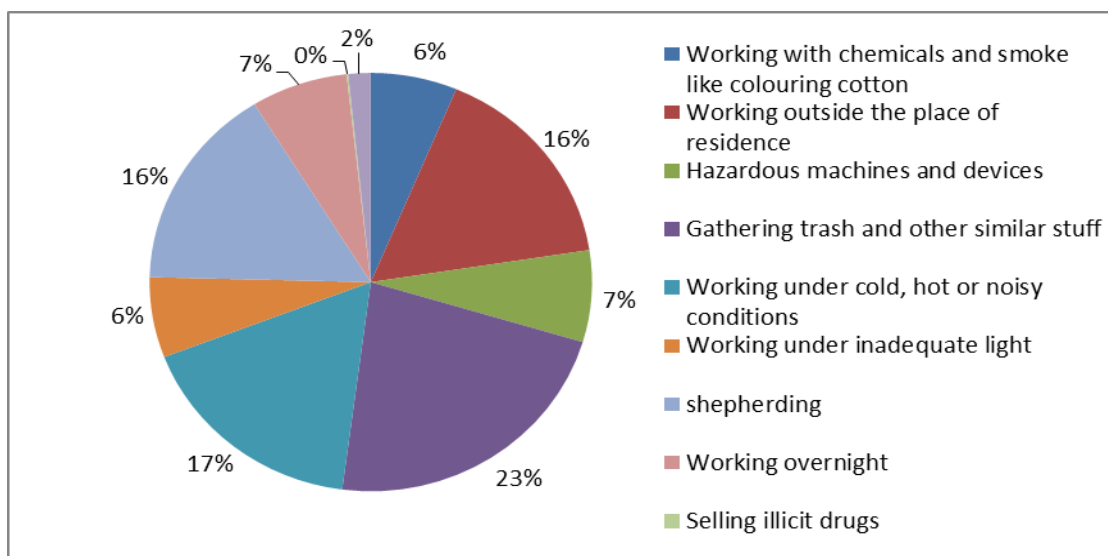


Figure 1.20. *Percentage of Recruitment of Children in Hard Work*

Source: *Afghanistan Independent Human Rights Commission (AIHRC) Research and Policy Unit, Research Report the General Situation of Children in Afghanistan.*⁶⁵

Figure 1.20 explains the percentage of recruitment of children in hard work, according to interview of AIHERC 65.5 percent (775 persons) of all workers work daily from 1 to 6 hours, 26 percent (307 persons) workers work from 7 to 12 hours, and 8.5 percent (101 persons) workers work over 12 hours.

1.3.1.2. Unemployment

Unemployment associated with negative activities as said earlier, is a very serious problem plaguing the nation of Afghanistan. It is very difficult to get exact figures on the unemployment rate in Afghanistan due to the absence of a developed statistical institution. Where data is available, it is often biased and unreliable since government agencies will always defend the interests of the regime as they are not totally independent. According to the National Risk and Vulnerability Assessment (NRVA) 2007/8, the unemployment rate is 7.1 percent and an estimated labour force (15+) of 11.59 million for 2012, there are presently about 823,000 unemployed Afghans.⁶⁶ As more than 400,000 young employees enter the job market yearly, there is an increasing

⁶⁵ <http://www.refworld.org/topic/50ffbce4c9/50ffbce4d2.html> (Access Date: 15.03.2015)

⁶⁶ ILO (2012). *Time to Move to Sustainable Jobs Study on the State of Employment in Afghanistan.*

need to create employment opportunities in Afghanistan. According to the (NRVA) 2007/2008 report, Afghanistan’s youth unemployment rate was 10 percent for young men and 15 percent for young women; it is higher than the national unemployment rate of 7.1 percent. Young people tend to work temporary and uncertain positions (63.8 percent) and daily workers (17.6 percent) due to lack of education, skills and experience and limited job opportunities available in the community.⁶⁷

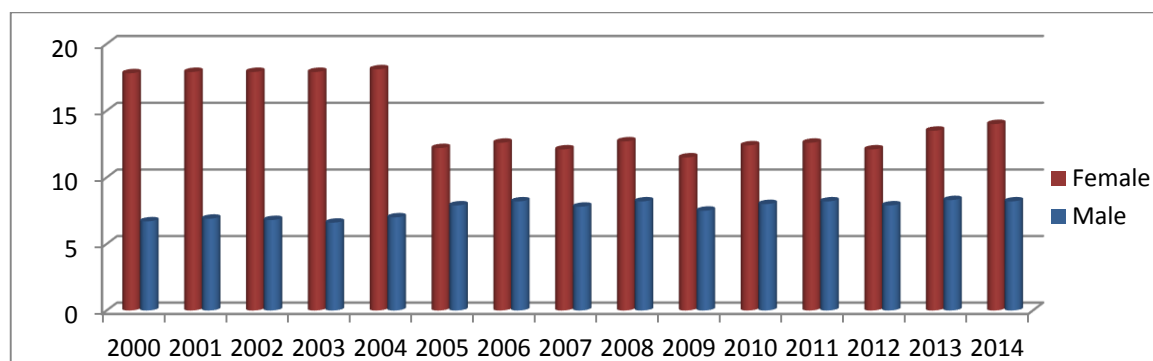


Figure 1.21. *Unemployment Rate (%)*

*Source: ILO, 2013, Key Indicators of the Labor Market (KILM)*⁶⁸

Figure 1.21 shows percentage of unemployment rate between female and male in Afghanistan from 2000 to 2014. The national youth unemployment rate estimated at 7.1 percent with male unemployment being 10 percent and female unemployment 15 percent making it higher than the national figure.⁶⁹

1.3.1.3. Labor Force Participation

The following percentages explain how the labor force is actively, passively or inactive in the country’s labor force when it comes to employment statistics. The working population of Afghanistan that is 14 and above is estimated at about 54 percent (approximately 14 million) with a great deal of children. Within this number, about half

⁶⁷International Labour Organization. [ILO](2013). *Afghanistan Youth Employment Policy Brief*. Kabul, p. 2.

⁶⁸<http://kilm.ilo.org/2011/Installation/Application2013/kilm13install.htm> (Access Date: 15.03.2016)

⁶⁹National Risk Vulnerability Assessment (NRVA) 2007-2008. (2010). *Poverty status in Afghanistan*. Ministry of Economy and the World Bank, Economic Policy and Poverty Sector General Directorate of Policy and ANDS Monitoring and Evaluation, p. 24.

is actively involved in production of goods and services and the other half is inactive either through unemployment or in the process of looking for a job Afghanistan's labour force amounts to over 7.2 million people, 5.9 million males and 1.3 million females these amounts are for all persons in the working age of 14 and over who are currently active by being either employed or unemployed. This labor force participation and its analyses gives a clear picture on human resource availability and gender in equality and gender gap that exist in the country when it comes to employment and the production of goods and services.

Afghanistan's male labor force is believed to be the highest in the entire region of South Asia with approximately 82-91 percent of the male population in the rural area inhabited by the Kuchi population is actively involved in daily labor that is intensive agricultural farming due to lack of educational opportunities, wage earning chances are limited which warrants all members of a household to be involve in some money earning activity in order to fetch adequate family income. Al though the male population participation is highest in the region, the female population is amongst the least. The labor force participation in the Urban area is relatively lower than in the rural areas sector (43 against 51 percent for both sexes combined) as there other activities to get involved in like schooling which doesn't give you enough time to work as well as lower poverty as compared to rural areas.⁷⁰

⁷⁰<http://cso.gov.af/Content/files/Chapter4%20LABOUR%20FORCE%20CHARACTERISTICS.pdf>
(Access Date: 17.03.2015)

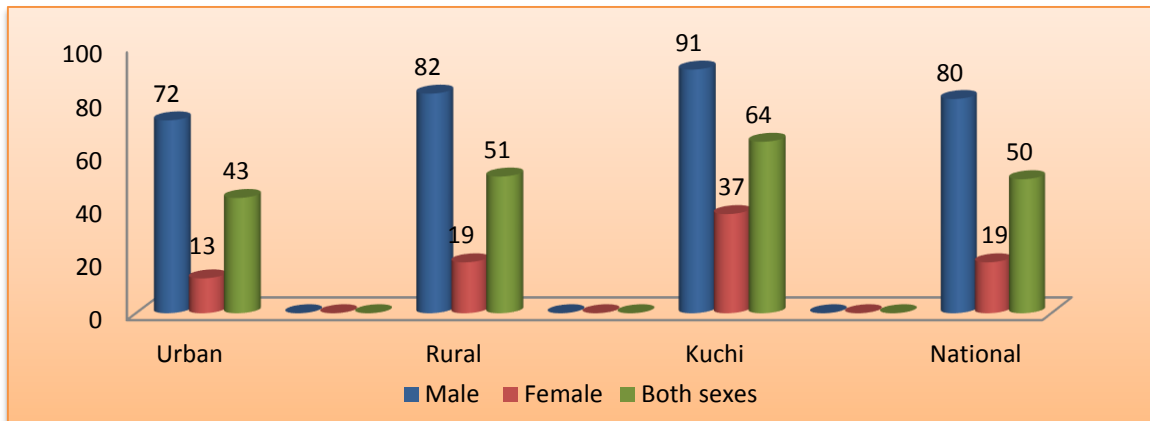


Figure 1.22. Labour Force Participation Rate, by Residence, and by Sex in 2013

Source: Labour Force Characteristics, Central Statistics Organization of Afghanistan⁷¹

The following percentages show the pattern of labour force participation in Afghanistan which is estimated about 80 percent of males between 20-59 years old, 46 percent of working boys that is 14 years or teenage age group as stipulated in the preceding paragraphs, between 22-53% of male elderly group that is above 65 years. For women, labour force participation varies little with age. Overall, participation rates are very low due to cultural barriers and insecurity problems. Figure 1.22 shows the percentage of labour force participation rate of Afghanistan from 2000 to 2012.

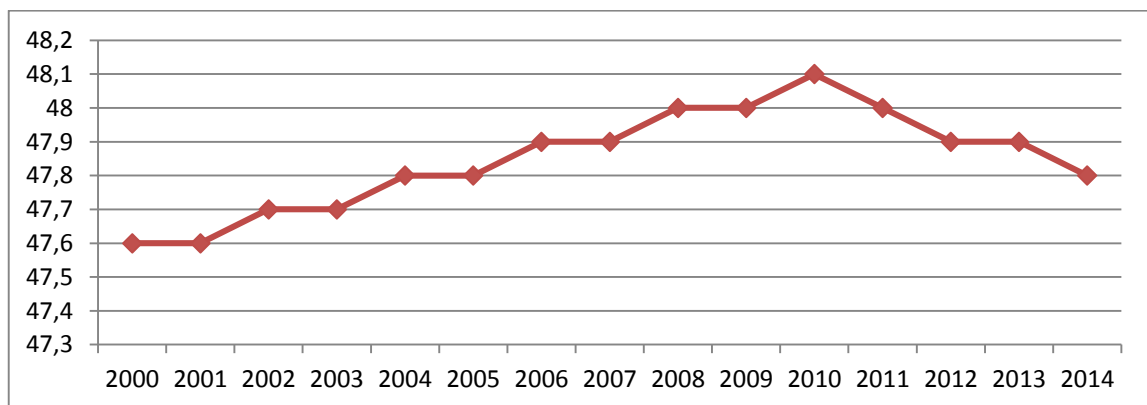


Figure 1.23. Labour Force Participation Rate (%)

Source: ILO, 2013, Key Indicators of the Labor Market (KILM)

⁷¹<http://cso.gov.af/Content/files/Chapter4%20LABOUR%20FORCE%20CHARACTERISTICS.pdf> (Access Date: 13.3.2015)

Figure 1.23 shows the participation rate (percent) of labor force within the population of Afghanistan from 2000 to 2014. The average value during that period was 48 percent with a minimum of 47.6 percent in 2000 and a maximum of 48.1 percent in 2010.

1.3.2. Agriculture

Agriculture is the backbone of Afghanistan as mentioned before. 80-90 percent of the country's population depends on agriculture directly or indirectly and its contribution to the GDP during 2010-2011 was estimated to be 28 percent. In that same year, the sector's share in national employment was 59 percent with a total export of licit estimated at USD 388.5 million. The primary export items in terms of percentage and earnings were carpets and rugs (40 percent of the total value of the licit export), dried fruits (27 percent), medicinal plants (10 percent), wool (8 percent), fresh fruits (7 percent), skin (4 percent) and other items (4 percent). Hence, the position of agriculture sector in the national economy and the export incomes are cannot be underestimated or taken for granted. Cereal production is the most significant for the agricultural sector since Afghanistan is very much dependent on cereal production, which accounted for over three-fourth (77 percent) of the agricultural GDP at 2010/11 market prices.⁷²

Horticulture and livestock sub sector occupies 9 percent and 14 percent, of the country's GDP respectively.⁷³ Afghanistan's annual cereal production was 5.2 million tons during 2005-2009. The cereal production in the country has been rising every year as can be seen in the following Figure 3.6 million tons in 2008 to 6.3 million tons in 2009. However, there have been some inter-years such as 2002, 2004, 2006 and 2008 that experience a fall in production, as there was droughts that affected crops production and years. The production improves in the following years (2003, 2005, 2007, 2009 and 2010) as there was considerable rainfall that favored crops and yields were good. The

⁷²Ministry of Agriculture, Irrigation and Livestock (2012). *Agriculture Prospects Report*. Kabul, p. 2.

⁷³Ministry of Agriculture, Irrigation and Livestock (2012), p. 1.

highest self-sufficiency in cereal (97 percent) was achieved in 2009 when there was bumper harvest of cereals (6.33 million tons).⁷⁴

The best year for cereal farmers in Afghanistan was 2012 as production and yield was estimated to be 6.32 million tons. This yield almost hit the record level of 2009 (6.33 million tons) that benefited individual families as well as organizations that trade in cereal. Production of wheat was 5.0 million tons in 2012 which was less than 2 percent below the record level of production of 5.1 million tons in 2009. Figure 1.24 gives the Afghanistan’s cereal production during 2002-2012. Among other cereals, (milled rice, maize and barley) wheat has the highest production.

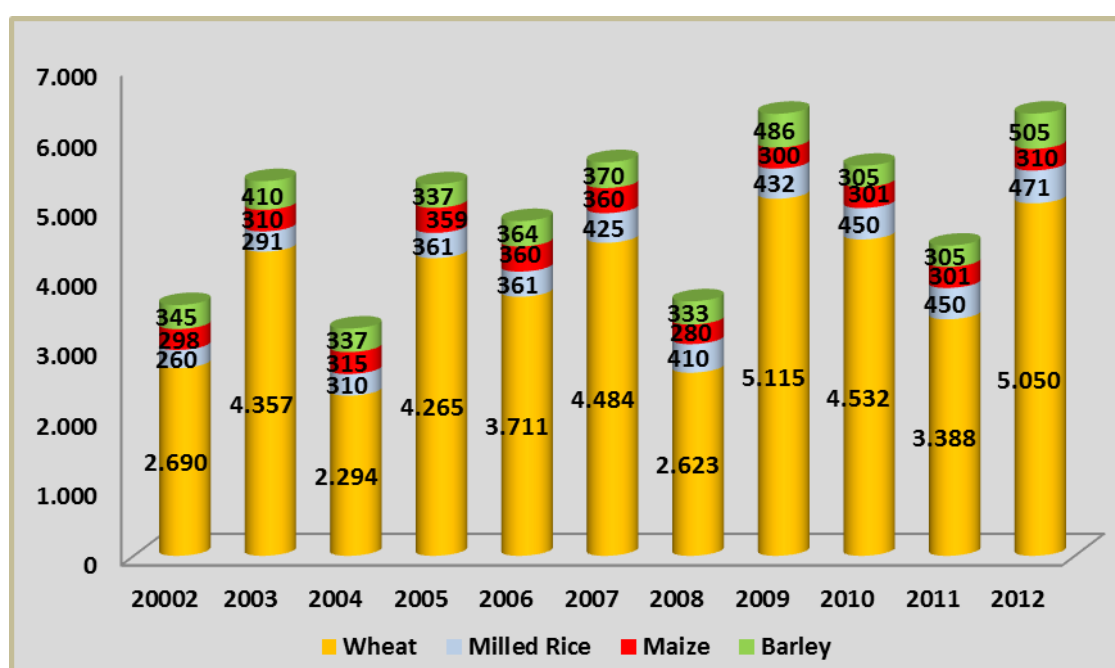


Figure 1.24. Afghanistan’s Cereal Production 2002-2012 ('000 tons)

Source: *Agriculture Prospects Report, Statistics and Marketing Information Office, General Directorate of Planning and Policy, Ministry of Agriculture, Irrigation and Livestock, Kabul Afghanistan, 2012.*⁷⁵

An estimated 3.14 million hectares of land was used to grow cereals in 2012 with production rate of 6.3 million tons, including wheat 5.0 million tons (79 percent)

⁷⁴Central Statistics Organization [CSO] (2012). *Afghanistan Living Conditions Survey*. Kabul, p. 18.

⁷⁵http://mail.gov.af/Content/Media/Documents/MAIL_Agriculture_Prospects_Report_2012Jul8th138201211537380553325325.pdf (Access Dat: 20.01.2015)

and barley 505,000 tons (8 percent) with barley and paddy gaining popularity at a steady rate. Anticipating favorable planting/growing conditions for paddy and maize, milled rice and corn production in 2012 were about to reach 500,000 tons and 310,000 tons, respectively.

1.3.3. Education

An advanced human development and technology is a result education or knowledge. Education is one of the most noteworthy aspects of human development. The convention on the right of the child the most widely ratified human rights treaty enshrines the right of all children to a primary education that will give them the skills they need to continue learning throughout life. However, this right has been denied mostly in Afghanistan. The most vulnerable to this denial are women and girls who are commonly given into early marriages. As a result, they miss many opportunities to develop themselves and integrate with the wider world.

The conflict and political upheavals that has engulfed the country for the past four decades has affected the lives and happiness of people as well as social arenas like education system in terms of staffing, premises, curricula and student attendance not leaving out social gatherings that can lead to productive thinking. Girls were completely banned from attending school during the years of Taliban government. However, since 2001, a positive and hopeful era has opened for the country, as a nationwide rebuilding process is being enforcement with large support from the international community.⁷⁶

Since the year 2001 and the preceding years progress has been made in improving basic education in Afghanistan with funds from Non-governmental organizations (NGOs) and state sponsored projects. Over 7 million children were registered to school and more than 10,000 schools are providing education services. As oppose o the years when Taliban government was in power where no girls were

⁷⁶ National Risk and Vulnerability Assessment (2011- 2012) *Afghanistan Living Conditions Survey*. Kabul, p. 71.

registered in school, today 37 percent of the student population is girls. Similarly, the number of teachers has increased from 142,500, of whom nearly 40,000 are women.⁷⁷

Moreover, extra curricula activities like adult literacy activities and attendance has increased since 2009. Learning centers rose from 1,100 to 6,865, and activities enlarged from 9 to 20 provinces, bringing literacy and financial services to over 169,000 beneficiaries (62 percent female). The support of this educational activities has been enormous from the local government, state as well international organisations as a result training and quality teacher training programs has been instituted to reduce the teachers gap that has existed for over 32 years of conflict. University registration has also prominently risen to 62,000.⁷⁸

According to the official data from the Ministry of Education of Afghanistan, in the academic year 2014-2015 there were about 15479 schools operational all over the country.⁷⁹ Total numbers of students registered across the board were 9056369 this includes students in primary, middle, professional, nighttime schools teacher training, vocational and religious schools out of which 3552306 students were female. There was a noticed increment of 5.3 percent in female students in 2014-15 compared to 2013-14. The numbers of female teachers were 63416 at the same time the total numbers of teachers were 201088 in 2014-15. In 2014-2015 the total number of graduate students from literacy course was 215350 persons, the total numbers of students in those courses were 518381 persons and the total numbers of literacy courses were 20825. Moreover, in 2014-2015 the total number of universities was 126 it includes all government and private universities and higher educational institution of learning and the total number of faculties was 537 all over the country. Medical sciences institute's (9 institutes in the country) students were 256140 with 52832 numbers of females giving an increased percent of 34.1 percent as compared to previous year's enrolment of females students. In the same year, total number of teachers were 11381 out of which, 1369 were female.⁸⁰

⁷⁷<http://www.pplogistics.biz/page.php?page=105&cat=3333> (Access Dat: 20.11.2016)

⁷⁸<http://www.globalsecurity.org/military/world/afghanistan/intro.htm> (Access Dat: 21.11.2016)

⁷⁹World Education Forum [WEF], (2015). *Afghanistan National Education for all (EFA)*. Incheon, p. 10.

⁸⁰<http://wenr.wes.org/2016/09/education-afghanistan>(Access Dat: 21.11.2016)

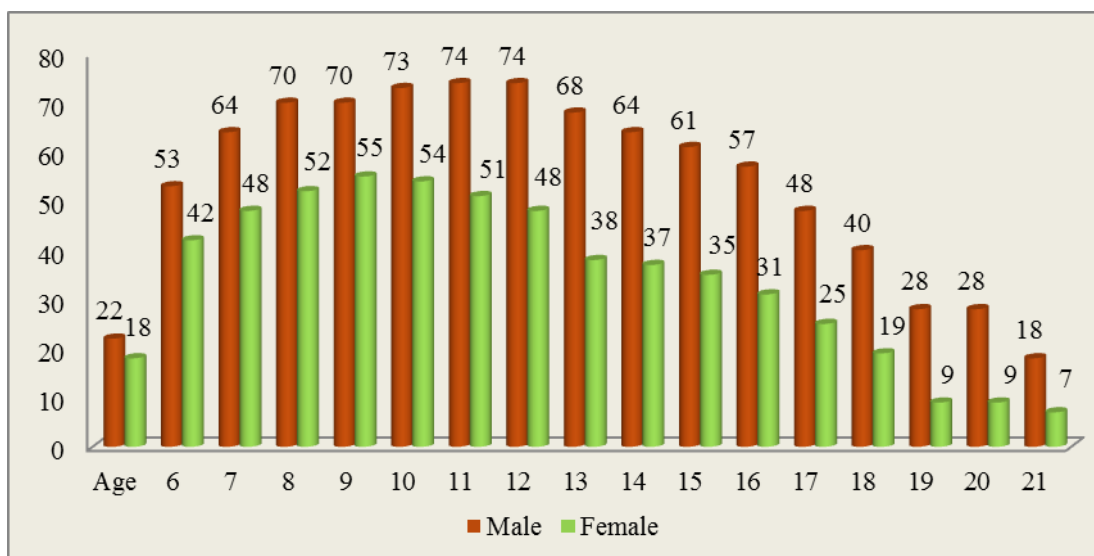


Figure 1.25. *Education Attendance Rate, by Sex, and by Age*

Source: *Afghanistan Living Conditions Survey, National Risk and Vulnerability Assessment 2012- 2014.*

Figure 1.25 shows the difference between male and female school attendance. We can see a noticeable difference between the number of male and female attendance and it gets wider as the educational level gets higher.

1.3.4. Health

Afghanistan is at the rank of the least developed countries in the UN ranking. Its health sector is failing enormously in the delivery of services characterized with high mortality rates, one of five children dies before the age of the five and one out of every eight Afghan women die from causes related to pregnancy childbirth each year.

According to the Afghanistan Mortality Survey 2010 (AMS 2010), only 46 percent of Afghan people can use safe drinking water and 8.3 percent population can use improved sanitation facility and life expectancy at birth is at 64 years. Since 2001, little progress has been made to improve the situation. After 2001 things has been viewed positively since about 85 percent of the population now lives in districts that have providers to deliver a basic package of health services. About 57.4 percent of the population lives within one hour's walking distance from a public health capability. Infant and under-5 mortality in

2010 has decreased to 77 and 97 per 1,000 live births respectively, from 111 and 161 per 1,000 live births in 2008. The pregnancy-related mortality ratio is about 327 per 100,000 births, which means that every two hours; a woman dies in Afghanistan from pregnancy-related causes.⁸¹

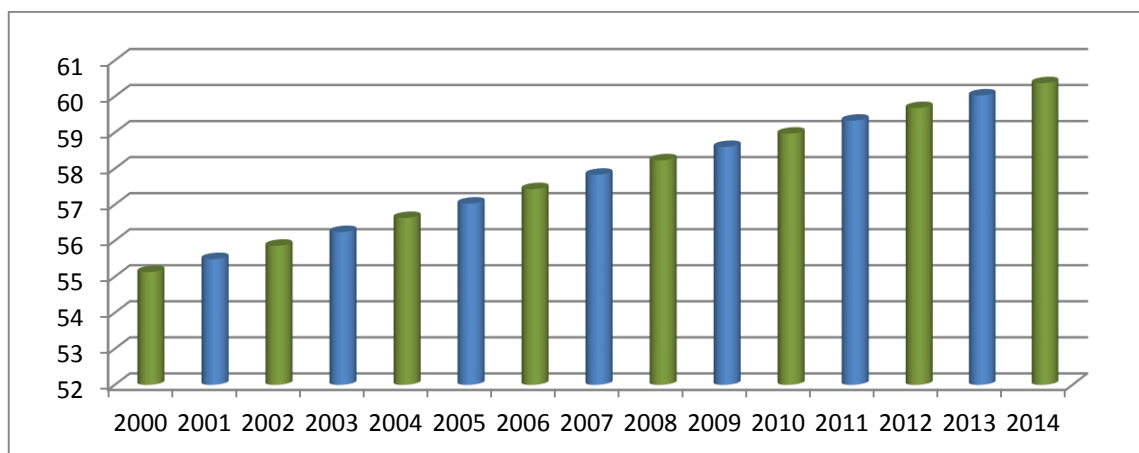


Figure 1.26. *Life Expectancy in Years*

Source: *The Global Economy (The World Bank)*⁸²

Life expectancy in Afghanistan is amongst the lowest in the world. The World Bank last measured the life expectancy of the country in 2011. According to the World Bank data, the average value was 55.45 years with a minimum of 54 years in 2000 and a maximum of 60 years in 2014. Infant mortality before the age of 5 was measured at 25 percent. This is because of lack of or poor health service and nourishment.

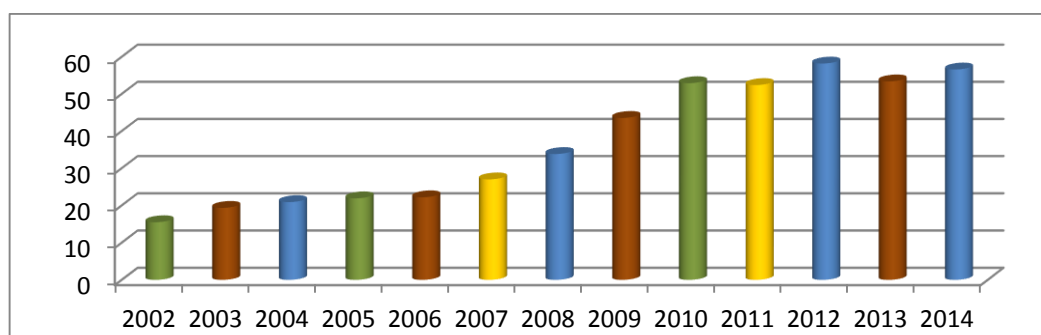


Figure 1.27. *Afghanistan Health Spending Per Capita*

⁸¹ National Risk and Vulnerability Assessment (2011- 2012), p. 84.

⁸² http://www.theglobaleconomy.com/Afghanistan/Life_expectancy/(Access Dat: 20.01.2015)

Source: *The Global Economy (The World Bank)*⁸³

According to the health spending per capita statistics of Afghanistan from 2002 to 2014, the average value for Afghanistan health spending during that period was 35.29 USD with a minimum of 15.8 USD in 2002 and a maximum of 58.17 USD in 2012.

1.3.5. Women's Economic Empowerment in Afghanistan

Due to old historical and cultural as well as superstitious believes in the country, the place of the women was considered in the kitchen just like the culture in so many parts of the world before enlightenment and gender based movements. These beliefs rendered the Afghan women redundant and made them just baby making or homemakers in society. This was more rampant during the Taliban regime. However worth nothing is the fact that during the Soviet era women were part of the wider society and played pivotal roles in the development of Afghanistan. Women held positions in noble professions like Professors, Engineers, and Doctors etc. Women were path of the higher learning education holding Masters and PhD as well as Post-doctoral degrees.

The unprecedented events that took place in the country for the past decades negatively affected economic growth and infrastructural development. These unprecedented events brought about deeper economic issues like low business assistant policies and services and political confusion and insecurity. Just like men in the country, Afghan women were directly affected by the events. However, the roles of the women shrink to a backbench position in affairs of the society more due to the earlier prevailing cultural norms mentioned earlier. Recently, with the support and right environment, women have the opportunity to move to a higher level in the economy.

The culture that restrict women's mobility breeds inability to access opportunities, resources, production sites, sales and even employment availability for them. This is further worsened by the lack of all-inclusive social or business platform that will be used to share business information. Moreover, Afghan women lack the

⁸³http://www.theglobaleconomy.com/Afghanistan/Health_spending_per_capita/(Access Date:22.01.2015)

support of family and support of community to work outside. From 2006 to 2011, there was a decrease in percentage of women participation in the workplace. In 2006, it was 71 percent but in 2011, it decreased to 62 percent, which was brought about by political confusion and as a result insecurity at the work place. It should be noted that Afghan economic problems are peculiar to both men and women; however, women are more severely affected. For example, very less number of Afghan women can access to startup capital and equality to start their business. They could not dare due to security necessities for loans or to increase capital to finance in their ongoing activities, which results in a “missing middle” of female business entrepreneurs.

In order to fight this gender exclusion in the society of Afghanistan and the world at large, the challenges faced by women require a thorough study and acceptance. Then strategic and multidirectional approach, women must be authorized at all levels of economic appointment at the livelihoods level, as workers, and as business proprietors as they require the improvement of a favorable situation to promote their achievement.⁸⁴

Women’s political participation under the new government and constitution amendment has interestingly risen to a plausible rate with the help of foreign partners and government institutions that supports equality and women’s right. As a result of this new development we can now see a great number of women holding offices in the three arms of government such as civil servants in government, as law makers in the parliament, as ministers, district governor in the districts as well as private sector and social arenas of life like sports. Habiba Sorabi was appointed the first female governor in 2005. In 2009 council elections, women were voted as mayors; similarly, women head three ministries. Out of 2500, people in Loya Jirga (Grand assembly) to deliberate the Bilateral Security Agreement (BSA) with USA in the month of November 400 of them were women. Table 1.2 shows the percentage of women working in different sectors of the government.

⁸⁴A. Benton vd. (2012). *Economic Empowerment Strategies for Afghan Women*. Kabul: USAID office, p. 9.

Table 1.2. Comparison between Male and Female Participation in Public Sector, 2010

Position/Role	Men (percent)	Women (percent)
Population	51.2	48.8
Judges	95.3	4.7
Prosecutors	93.6	6.4
Attorneys	93.9	6.1
Police	99.5	0.5
Army	99.4	0.6
Parliamentarians	72.7	27.3
Civil Servant	81.5	8.5

Source: *Civil-Military Fusion Center (Khan 2012, 3)*⁸⁵

Even though the view on the participation of women in public life has been seen as positively improving, given the population of women in the country it can be said it is still minor as illustrated at Table 1.2. It should be improved in order to have a more balanced and democratic society for a better Afghanistan. Statistical figures by the Central Statistics Organization of Afghanistan shows that the participation of women has dropped by 13 percent comparing to 2006.⁸⁶

In order to reach to this more democratic and balanced society, challenges affecting women participation such as lack of safety, custom, cultural barrier, monetary challenges and so on must be tackled and dealt with.

1.3.6. Mineral Resources

Afghanistan is a landlocked country that has more mineral potential. The mineral sector contributes enormously to the country's GDP every year. The leading industrial minerals and metals of the country are chromium, copper, gold, iron ore, lead and zinc, lithium, marble, precious and semiprecious stones, sulfur, and talc. Copper mine was being developed and extracted in Aynak district, Iron ore in at Hajigak district. Natural and mineral/ fuel resources of the country include natural gas and

⁸⁵http://www.academia.edu/9523635/Womens_Political_Participation_in_Afghanistan(Access Date:22.11.2014)

⁸⁶A. Azad (2013). *Women's Political Participation in Afghanistan*. Bishkek: OSCE Academy, p. 5.

petroleum produced in Sheberghan city. It should be noted that most of the countries resources are still undetected or still be detected leaving them under exploited coupled with the insecurity and safety consent in the country that has engulfed it for the past decades. Investment in infrastructure and transportation projects for mining was a serious feature of developing Afghanistan's mineral industry.⁸⁷

Before 2011, it was estimated that 90 percent of the Afghan budget came from foreign aid since the country was engulfed by conflict for decades. However, from 2012 on foreign aid started to decrease and FDI was expected to increase especially in the mineral sector as licensing was under way after 2011 financial year. In 2012, 20 percent of Afghanistan's GDP was from mineral resources. The improvement in this sector is believed to encourage the future economic growth in the country. In the previous years, Afghanistan imported most of its energy from different countries including petroleum and electricity and exported small amounts of infrastructure and transportation projects for mining. It was a serious feature of developing Afghanistan's mineral industry.

Just like other sectors, it is difficult to lay hands on statistical data on the Afghanistan mineral resources and activities. In most of the times, the data is not reliable. However, it is believed that overall activities except for those of foreign firms are limited to an extent. Between 2008- 2010, the country produced some mineral resources such as cement, coal, natural gas, and some industrial minerals for local consumption.

According to the data by the U.S. Geological Survey (USGS), collected in 2012 on Afghanistan mineral production, chromite was about 6,000 metric tons (t); marketed natural gas, 145 million cubic meters; and talc, 200,000 t. Production of rock salt and cement was estimated to have decreased by 5.3 percent and 2.6 percent, respectively, compared with that of 2011. Output of petroleum condensate, however, was estimated to have improved meaningfully by 14.3 percent, as China National Petroleum Corp. (CNPC) began trial oil production in October 2012.

Afghan mineral industry has remained small and rudimentary. As a result of this, output can only feed the local or regional market's needs. As a result of this small scale

⁸⁷C.Kuo (2013).*The Mineral Industry of Afghanistan*. Kabul: Advance Release, p. 3.

operations and rudimentary machinery, some of the state run industry has started to be privatized as a process that is continuous to date. Private sectors are encouraged to take part in mineral exploitation to boost competition and production. Foreign firms from countries such as China, Canada and India has shown their interest and started actively to contribute to the countries resource improvement.

Table 1.3. *Afghanistan: Estimated Production of Mineral Commodities (Metric tons unless otherwise specified)*

Commodity	2008	2009	2010	2011	2012
Cement, hydraulic	37,300	31,500	35,600	38,000	37,000
Chromate	6,500	6,700	5,727	6,204	6,000
Coal, bituminous	346,900	500,100	724,900	750,000	780,000
Gas, natural:					
Gross (million cubic meters)	155	142	142	145	150
Marketed(Ditto)	145	140	140	142	145
Gold (kilograms)	NA	NA	NA	NA	NA
Gypsum	48,700	46,400	63,100	62,000	65,000
Marble	36,900	26,600	28,900	30,000	32,000
Nitrogen, N content of ammonia	18	22	27	28	30
Petroleum, condensate 42-gallon barrels	156	104	64	70	80
Salt, rock	158,200	180,300	186,100	190,000	180,000
Talk	200,000	200,000	200,000	200,000	200,000

Source: *2011 Minerals Yearbook, Afghanistan [Advance Release].*⁸⁸

The improvement of Afghanistan's rich mineral resources could deliver substantial stimulus to economic growth in the country. The government anticipated that mining would represent 25 percent of the Afghanistan's GDP in 2016 after copper production comes on stream. Foreign investment in infrastructure and transportation for mining is predictable to be a key factor in the growth of its mineral industry. Some gold and copper projects were in the improvement steps and are predictable to start production in 2013 and 2016, respectively. The first gold mine has insured royalties to the government. Contracts for iron ore and hydrocarbon projects have been awarded.

⁸⁸<http://afghanistan.cr.usgs.gov/minerals-publications-maps>(Access Date:22.01.2015)

The country is assumed to offer more tenders of bids for mineral and energy resource development in the near future.⁸⁹

1.3.7. Challenges and Recommendations

Some important opportunities of Afghan Economy are as follows:

1. Afghanistan's economy is one of the most developed in the world because of its unique geographical location. It is also close to major oil and gas ports in South Asia and major global markets such as China, Pakistan and India.
2. The government of Afghanistan is working to create an appropriate environment for attracting foreign investments. The creation of appropriate laws for the regulation of investments is also being pursued. The government of Afghanistan is interested in developing the economy of Afghanistan by attracting investments.
3. Afghanistan is very rich in natural resources, especially mineral resources, where it has many mineral resources and energy resources such as oil, gas, coal and many precious stones such as emeralds, jade, amethyst, marble, beryl, lazuli, tourmaline, sapphire, quartz and sapphire.⁹⁰
4. Afghanistan suffers from many administrative problems that hinder the development of the economy in several areas such as banking, taxation, customs, procurement and investment leading to bribery and administrative corruption.⁹¹
5. Weak infrastructure, which is the transport, communications and energy system and weak legal framework;
6. Because of the security and economic situation there are no Afghan and foreign investors and the difficulty of obtaining land;
7. Lack of transparency in customs and government procedures;
8. A lack of skilled labor and trained personnel in both the government and the private workforce;⁹²
9. Weak government institutions and civil society institutions, weak parliamentary oversight and high levels of corruption;

⁸⁹Kuo (2013), p. 5.

⁹⁰<http://www.afghanembassy-brussels.org/investing-in-afghanistan.html> (Access Date: 10.12.2015)

⁹¹International Monetary Fund [IMF] (2013). *Afghanistan National Development Strategy Country Repor.* (Report No. 08/153). Washington, p. 57.

⁹²R. Azizi (2010). *An Overview of Opportunities and Risks of Doing Business in Afghanistan.* Kabul, p. 25.

10. Terrorism, foreign interference, instability and weak capacity in governance.

Recommendations:

1. Establish political will and take suitable activities;
2. Provide supplementary resources targeting infrastructural projects parallel to agricultural development, including FEW (famine early warning);
3. Increase policy space and flexibility, and keep down conditionality by focusing on results;
4. Promote trade, including the providing of Aid for Trade, trade facilitation, regional collaboration and technical assistance;
5. Increase transparency, accountability, and equitable representation;
6. Improve financial sector support and regulatory strengthening.⁹³

⁹³A. W. Haqiqi (2009). *Country Report Afghanistan*. Geneva, Switzerland: Ministry of Economy, Afghanistan, p. 10.

CHAPTER 2

ECONOMIC RELATIONS BETWEEN AFGHANISTAN AND TURKEY

In spite of lack of any direct border relation, Turkey regards Afghanistan as a country which requires closer relations. Turkey's intention, to Afghanistan can be explained with traditional and historical influences. In general, cultural arguments have a large share in the Turkish intention in Afghanistan. Almost any comment by a Turkish official or analyst begins with a reference to the existing brotherhood and deep friendship between the two countries, and continues to claim that Turkey has been under a historical responsibility to help Afghanistan during difficult times. After the Turkish war of independence in 1921, the Turk-Afghan external friendship agreement was signed in 1928 fostering the spirit of friendship that followed in the next decades. Turkey began by supporting the nascent Afghan state by helping them form state institutions through designated experts, this relationship between these countries is aided by the shared Islamic culture within the two states. Moreover, the presence of ethnic groups in Afghanistan like Uzbeks, Turkmen, and other Turkic communities in the country helped to lay a framework for this good relationship through cultural congeniality.⁹⁴

Turkey joined International Security Assistance Force (ISAF) and has been actively participating after its establishment by the UN in 2001. Till date this move is considered the most important Turkish contribution in Afghanistan. Turkey has been actively and directly supported for ending Taliban's government disassembling the Terror group Al Qaeda through Donation of Logistic for the coalition operation. Turkey is the only Muslim country among the NATO member and has the unique role in the country. Turkey's assistances are higher than other countries, such as training Afghan polices, and military branches providing military equipment and aid and participating together with Afghan forces in the operations. As time went by Turkey realize there is more urgent need for increment in civilian equipment to help reconstruction in Afghanistan than military equipment. According to Turkey a more comprehensive

⁹⁴Ş. Kardaş (2013). *Turkey's Regional Approach in Afghan: a Civilian Power in Action*. Ankara: TOBB University of Economics and Technology, p. 4.

approach should be adopted to touch on all pertinent areas like security, governance and economic development at the same time. In 2006, Turkey got to action by setting up a provincial reconstruction team (PRT), four PRT offices opened in four provinces of Afghanistan namely; Kabul, Wardak, Mezari-Sherif and Jowzjan those offices are heading by Turkish military forces.

Official development assistance (ODA) is another important area in which Turkish contribution and supports are visible and providing via the Turkish International Cooperation and Coordination Agency (TIKA). In October 2004, TIKA opened its first programme coordination office in Kabul but officially started in January 2005. TIKA has expanded its operation since then and has created more operation areas in other provinces like Wardak, Mazar-iSharif and Jawzjan that are very instrumental in coordinating the increasing volumes of Turkish aid that makes its way into Afghanistan. Turkey has undertaken many provisions to provide basic services and creation of systems that are stable and functions. These are mostly to respect of basic rights and freedoms to contribute to the reconstruction of the country. This has been facilitated by use of ODA as a soft power tool in its foreign policy toolkit, in Afghanistan. Since the creation of a TIKA office in 2004, statistics has proven that Afghanistan has occupied the number one position on the ODA recipient list by 2007 and has remained at the top 3 on list till today.

TIKA's activities are focused in areas that needs urgent attention such as, suchlike medical services, water purification, education and transportation infrastructure, not forgetting projects aimed at capacity building in public administration and good governance. The following statistics show how Turkey has been helping in the above mentioned areas. Between 2005 and 2009, Turkey dedicated USD 400 million ODA to Afghanistan. In 2010, Turkey's support to Afghanistan was estimated to be equivalent to USD 107 million, and one third of this figure was paid via TIKA. In 2011, that momentum continued and Turkey spent over USD 130 million in Afghanistan. The number and type of projects carried out with Turkish capitals, delivered either by TIKA or by nongovernmental sources, have been on a rise in the

same period. By 2012, over 600 projects have been carried out in numerous areas, while more than 80 schools were built by TIKA in Afghanistan.⁹⁵

2.1. History of Relations between Afghanistan and Turkey

The Turkish-Afghan Relations date far back from after the Seljuk's government in the period of Sultan Mahmud Ghaznavi in 999-1030. In 1762, Sultan Mustafa the 3rd of Ottoman Empire continued the already existing relation with Afghanistan under the leadership of Ahmad Khan Abdalli. . In 24 November 1762, King Ahamad Khan Abdali requesting ottoman to join Afghanistan against Shiism in Iran addressed a letter to Satan Mustafa the 3rd. The letter's content was a request to organize a voyage in Iran. The request was declined by the 3rd Sultan as he responded by saying he does not want to disrupt the peace with Iran.⁹⁶

In the years 1877-1878 an Ottoman embassy delegation was dispatched the King of Afghanistan Amir Shir Ali Khan by Sultan Abdullhamit requesting Afghanistan to help them in the Ottoman -Russian war which is aimed at defending Islamic countries like Hive (Turkmenistan) and Bokhara (Uzbekistan) and also recommended to Afghanistan to have a friendly relations with United Kingdom (UK). The Afghan King Amir Shir Ali Khan replied that he does not trust the UK any more.

As history has postulated, there exist a deep friendly and brotherly relations between Turkey and Afghanistan. On 23 April 1920, after the establishment of Turkish Grand National Assembly, one of the first government decisions reached was to establish a representative office or embassy in Kabul. Because of that, Mr. Abdurrahman was the first representative of Turkey in Kabul in 1920 appointed by Ankara. On 1 March 1921, the first agreement "Solidarity Agreement" was signed between Turkey and Afghanistan. This agreement was a milestone in the relations

⁹⁵Kardaş (2013), p. 11.

⁹⁶http://www.izzettincopur.com/index.php?option=com_content&view=article&id=82:tarhte-tuerk-afgan-lkler&catid=44:tarh-olaylar&Itemid=49#_ftn10(Access Date: 27.01.2017), (Translated: Alia Sharify).

between these two new states and paved the way forward for warmer ties; this was aided by the help Turkey received from Afghanistan during the war of independence.⁹⁷

Turkey has sent many personnel from different parts of life such as military personnel, academicians, physicians, specialists and trainers to Afghanistan since the creation of its Republic in 1923. Amongst the most prominent of such personnel was Dr. Ragip Türkkan, who constructed the Faculty of Medicine Hospital building in Kabul when he visited Afghanistan in 1936 and, his name is still written on the entrance wall of the above-mentioned Hospital. In 1947, Turkish physicians built the first sanatorium for tuberculosis (TB) control in Afghanistan. Moreover, the law school located in Kabul University campus was established by Prof. Dr. Orhan Oğuz, who was assigned from Turkey in the same year.

In 1928 the King of Afghanistan H.E. Amanullah Khan, visited Turkey. This visit accelerated the cooperation between the two countries. Turkey also extended a helping hand to Afghanistan during the civil war years through endeavors that were geared towards providing the necessary peace and stability as well as the much needed humanitarian activities such as health, education and shelter. Turkey has also actively involved in training programs in health and agriculture, as they believe that a quick enforcement of reconstruction projects is another significant necessity for assuring peace and stability. Turkey and Afghanistan were also united or brought closer by the activities of Mevlana Celaleddin Rumi who was born in Balkh city, which is today located within Afghanistan . He has a significant impact in world culture.

The Provincial Reconstruction Team (PRT) was established in different cities in Afghanistan and it has implemented many important projects such as construction of schools, health centers cold storage facilities in various districts of the province. It has also supported training programs for Afghan National Police and auxiliary police forces

⁹⁷K. Kaya (2013). *Turkey's role in Afghanistan and Afghan Stabilization*. Washington: Brandeis University, p. 30.

as well as organizing several humanitarian aid activities since its creation in November, 2006.⁹⁸

2.2. Turkey's Assistance on Socio- Economic Field

The relationship between Turkey and Afghanistan has always been good due to their strong, cultural, historical and religious connections. Since its Independence under the control of Amanullah Khan from the British Empire on August 19, 1919, it established Diplomatic relations with Turkey even though Turkey was still fighting for its own independent at that time and they were the first to officially recognize the Grand National Assembly of Turkey (TBMM) and subsequently the Turkish Republic. On 1 March, 1921 in Moscow, two countries signed the Turkey-Afghanistan Alliance Agreement, the first official agreement between the two states before the foundation of the Republic of Turkey. Mustafa Kemal Atatürk, the Leader of Turkey invited the President of Afghanistan and in May 1928, Amanullah Khan visited Turkey on that occasion a Treaty of Eternal Friendship was signed between Turkey and Afghanistan. In the meantime, Afghanistan and Turkey opened their embassies in each other's capitals. In 1934, Turkey diplomatically supported Afghanistan to become a member of the League of Nations. A similar foreign policy path was followed by both countries after the war as they were parties to the Saadabad (Nonaggression) Pact a non-aggression pact between Turkey, Iraq and Afghanistan that was signed on 8 July. The relationships created under Atatürk and Amanullah Khan has not just been smooth or juicy all through history, it has had its ups and downs but most importantly always preserved its strength.

In the past 35 years or more Afghanistan has had its own blurry day with crises plaguing the Nation such as the Soviet invasion, civil war, a Taliban-led administration and the US-led NATO operations. Turkey has been one of the countries involved in the reconstruction of Afghanistan under NATO's possibility in the post-2001 era. The relationship between the countries suffered a blow during this era and has not improved after these crises. The peak of the relation between these countries was during the

⁹⁸N. Tosun vd (2008). *Afghanistan Cooperation Activities in the Field of Health*. Ankara:Ministry of Health, Department of Foreign Affairs, p. 13.

Turkish war of independence and it was during this era that Turkey's foreign aid to Afghanistan also started. Socio-cultural and religious similarities between the two countries are perhaps the most important factors that have sustained healthy bilateral relations.

After the 11 September 2001 terror attack, Turkish-Afghan relations have insensibly increased Turkey being the only Muslim Majority NATO member; it played a pivotal role in operation geared towards bringing peace and stability in Afghanistan through International Security Assistance Force (ISAF), a multinational peace-keeping force established under NATO, started its operations, Turkey donated by sending 300 soldiers. However Turkey defined its forces as non-combatant but Turkey's responsibilities under the International Security Assistance Force (ISAF) has been greatly appreciated by all NATO members and US. The Turkish forces under the International Security Assistance Force (ISAF) took part in several Turkish NGO activities that are geared to help civilians a move that is praised and respected by the Afghan people and Government. Turkey's Foreign policy towards Afghanistan, which is more civil than military, puts Turkey in a good position within the Afghan context in the Region.⁹⁹

2.2.1. Turkish Provincial Reconstruction Teams in Afghanistan (PRTs)

In December, 2005 and January, 2006 after the Visit of NATO's Secretary General and president Hamid Karzai respectively to Turkey a decision taken to create Turkish Provincial Reconstruction Team (PRT) in Wardak. In October 2006, the Turkish PRT established in Maidan Shahr, the capital of Wardak. The Wardak PRT had two administrative structures, one being the Civilian Coordinator ship, and the other being the Military Unit Command. Military Unit Command was carrying out its duties with 29 civilian and 79 military personnel.

The PRT in Wardak province was assigned to support development of the Afghan society and of the infrastructure in as well as to help strengthen the provincial

⁹⁹S. Doğan (2010). *Turkey's Presence and Importance in Afghanistan*. Ankara: USAK Center for Eurasian Studies, p. 3.

administration and to increase their effectiveness and capability in security related areas, which are paramount to the success of the mission. The civilian Branch of the PRT was made up of experts from Turkish Ministry of Interior, the Ministry of Agriculture, the Ministry of Education and TIKA, who played a vital role in the planning and implementation of reconstruction and development projects in the area.

The entire Wardak province and its environs were covered by the activities of the Turkish PRT in Maidan Shahr. The activities included contribution of necessary supplementary capabilities and resources, reconstruction and capacity building attempts Wardak province a region believed to be able to supplement and refill the current development in the region. PRT also assisted in security through training programmes it's organized to benefit the Afghan National Police, by providing experienced Police Trainers to the educational programme of the Turkish-Afghan Police Training Center created by Turkey in 2008. PRT Wardak has closed down by 2014 but still PRT didn't just leave they left a lot of capital investment like buildings that are transformed into boarding schools used by Afghan youths and will continue to benefit the society for many years to come.¹⁰⁰

Another important Turkish PRT was PRT Jawzjan in the Jawzjan Province. It created in July 2010 in collaboration with ISAF Nations in response to a call by the Afghan government. Being amongst the 27 operating PRTs in the country and the 6 PRTs under the Regional Command North, It was based in Jawzjan and the Sar-i Pul Provinces. Turkey and Sweden decided that the Swedish- led PRT Mazar-e Sharif (MeS) and PRT Jawzjan would have “concurrent responsibilities” for the improvement and capacity building efforts in both the Jawzjan and Sar-i Pul Provinces on April 15, 2010.

To date Turkey has successfully executed about 800 projects in Afghanistan through its PRTs. About 84 schools, 70 hospitals Clinics were reconstructed by Turkish PRTs through TIKA or other Turkish groups. Even though, the closure of the Turkish PRTs TIKA which is the mother organization has continued it activities on the ground

¹⁰⁰S. Çolaoğlu and M. Yegin (2014). *The Future of Afghanistan and Turkey's Contribution*. Ankara: International Strategic Research Organization (USAK), p. 33.

till date. According to statistics and official figures Turkish aid to Afghanistan is approximately around USD 600 Million, whereby annually USD 150-160 million is in the form of direct aid to Afghanistan. By 2014, the standard of Turkish Humanitarian investment in Afghanistan is about USD 2 billion whereby all these funds paid by Turkish public budget.¹⁰¹

2.2.2. The Turkish International Cooperation and Development Agency (TIKA)

In 1992, TIKA was created with the aim to provide technical and cultural support to newly independent Turkic republics, emphasis on Turkic solidarity in practical and symbolic ways, and to accumulate and report Official Development Assistance (ODA) statistics of Turkey to the OECD. TIKA's first role was restricted to countries where Turkey had an ethnic, cultural, religious, and historical plea since Turkey has used TIKA's improvement international relations efforts as its greatest real soft power tools especially in the Post-Soviet transformation whereby Turkey present herself as a "secular role" model for these nascent states by contributing its progress assistance attempts as a way to also implement its political and economic impact.¹⁰²

TIKA officially opened an office in Kabul, Afghanistan in October 2004 but only started operation in January 2005. Since then it has expanded activities and branches to other areas such as Wardak, Mazar-i Sharif, and Jawzjan, and also working in close cooperation with Turkish Embassy to increase volume of Turkish support to Afghanistan.

Turkey supports Afghanistan in several areas of life from security to social. Turkey offer training courses for Afghan security forces through joint programs and also support education of Afghan student through Turkish scholarship commission that offer a lot of Afghan students scholarship to study in Turkey at the graduate and post graduate levels which goes a long way to develop their theoretical and practical knowledge. TIKA took special interest in the following areas in its operations in

¹⁰¹Çolaoğlu and Yegin (2014), p. 34.

¹⁰²C. Çubuk (2014). *Turkey's Role in Afghanistan in the Post 9/11 Era*. Ankara: Middle East Technical University, p. 65.

Afghanistan: Education, medical services, water purification and transportation infrastructure, as well as projects aiming capacity building in public administration. TIKA's main aim is to improve the quality of life in Afghanistan through sustainable activities, re-construction of its required public substructure.

TIKA in collaboration with the Turkish government has achieved enormous result in Afghanistan lots of schools, nursing and midwifery education centers for women has been constructed, 250 tons of humanitarian aid, thousands of Afghan police officers and soldiers trained. Turkey has also manage to help set up projects that will help to build a functioning, stable system that goes a long way to respect basic rights and freedoms in the country.¹⁰³

On October 2008, the former Turkish Foreign Minister of Turkey Ali Babacan visited Kabul within the framework of TIKA activities. The Afghan-Turkish Friendship Park in Mazar-i-Sharif that was started on April 27, 2010 was completed by June and was opened to the public on 27 July 2011. There are other projects that are underwent construction like the internet system established in University of Jawzjan through Provincial Reconstruction provided support from NATO Fund, a project that was remarked amongst the best project in Afghanistan in terms of cost and implementation by the project manager. There was also the construction of roads and bridges in Kabul estimated to be about 100 km. Projects has touched difference areas of life in the country as a result of natural disasters like floods and famine, humanitarian aid activities are held on regular basis each year. Moreover, Mevlana's born house in Balkh is undergoing restoration under one of the project of TIKA. There are more activities that TIKA has undertaken in fields of education, health and sanitation as seen below:

- On 20-27 March 2012, A committee of 14 persons from the Wardak Provincial Education Directorate with the support of TIKA and its projects, visited the Provincial Education Directorates as well as some schools in Istanbul and Ankara, and exchanged knowledge on the education sector.

¹⁰³ Çubuk (2014), p. 66.

- On 04 October - 23 December, 2012, TIKA renovated 4 preschools in the provinces of Jawzjan and Sare Pol, it donated items such as White board, puzzles, miscellaneous toys (cars, dolls, balls, ropes, ponies, camels, telephones), bags, keyboard, guitar, shoes for girls and boys, gowns, trousers, jackets, Afghan vests, fabric, television, cassette-player, ventilator, carpet and water depot upon the request of the Governorates of Jawzjan and Sare Pol.
- On May 03, 2012 TIKA provided most needed materials to schools that it previously built in the Village of Karshigak, district of Districts of Misirabad and Shortepa in Jowzjan Province.
- In the Health sector, TIKA has built numerous hospital in Afghanistan some of the most prominent are as follows; Maymana District, Afghan-Turkish Friendship Hospital, Shibirghan Afghan-Turkish Friendship Children's Hospital, Kwaja Baha Wuddin District, Afghan Turkish Friendship Mother and Child Health Clinic, Taluqan District, Afghan-Turkish Friendship Mother and Child Health Clinic etc. since 2005, Health Services to 4,500,000 Afghan Citizens has been catered by TIKA. According to statistics until 2012, 4,500,000 Afghan citizens have benefitted from these health facilities.¹⁰⁴
- Other arenas of life like social infrastructures and services as well as economic infrastructures were not left out by TIKA. Sectors such as; production sectors (agriculture), communication (support to Jowzjan National RTV), humanitarian aid (urgent food aid to those hit by flood in Sare Pol province).

2.2.3. The Importance of Afghanistan for Turkey

There was a lot of objection within Turkey about the Turkey's presence in Afghanistan after the helicopter incident in March 2012 that saw 12 Turkish soldiers lose their lives in Afghanistan. As a result of the crash a lot of objection was seen from

¹⁰⁴Turkish Cooperation and Coordination Agency [TIKA] (2012). *TIKA Annual Report*. Ankara, TIKa, p. 321.

the Turkish public about it forces presence in Afghanistan, However Turkey is still present in Afghanistan for at least 3 main and well known reasons.¹⁰⁵

First, the historical relations between the two countries cannot be underestimated. Afghanistan and Turkey has always being amongst the closest allies throughout the history of the Republic of Turkey. During the Turkish war of independence, Afghan people stood by the Turks amid problematic situations post by the war. This was the foundation of the relationship and the brotherliness between the two nations. Amongst the top most important foreign dignitaries, Atatürk hosted King Amanullah Khan in Ankara after the independence war of Turkey. This visit displays the importance of the relations between two countries.

The second reason is the Afghanistan's steadiness, since 2001. Turkey has strongly maintained that it should not position an aggressive force in Afghanistan. Just how right it was to have this attitude could be seen better than ever when one turns and reviews the past.

When talking about Turkish- Afghan Relations it should be noted that Turkey has not carried out a single attack in Afghanistan. In fact, they registered their troops in Afghanistan as non-combatant; the Turkish forces are in Afghanistan in order to help in the reconstruction of the country, which is devastated. Several thousand Afghan forces and police forces have been trained by Turkey over the past years. Turkey places so much importance on the Afghan security infrastructure in order to prevent the country from plunging into chaos after 2014.

Turkey believes that Afghanistan should be able to take charge of its own future supported with comprehensive human enhancement programs which include transfer of know how in areas such as agriculture, vocational education, apprentice training as well as educating a cadre of administrators. It is believed that Turkey is the number one

¹⁰⁵I. Bal (2012). Why is Turkey in Afghanistan.
http://webcache.googleusercontent.com/search?q=cache:http://www.turkishweekly.net/2012/05/02/comment/why-is-turkey-in-afghanistan/&gws_rd=cr&ei=qxsHWNjTDMjoaoGXjaAC (Access Date: 25.10.2016)

financial donor to Afghanistan since 2006. Statistically, more than two hundred projects have been in development, value a total of USD 27 million. The total value of projects and other works carried out since 2001 is known to be above USD 307 million most of this money comes from the share of the national budget. Unlike other countries who are in Afghanistan to get a share of its resources, Turkey has its clear purpose of helping the entrenched nation by building schools, hospitals, roads, and roads and in the end, has won the hearts of millions of Afghans through its sincere gestures. Afghanistan has been hit by lots of upheavals such as natural disasters, massacres, wars and foreign intervention since 1979 as a result Turkey has extended a helping hand to a brotherly nation.

The third reason is Turkey is a regional power and being a regional power comes with its responsibilities. One of those responsibilities is to maintain peace and stability in the region. Turkey spends about USD 2 billion on this course.

Being a regional power Turkey has to go out of its way to get involve as far as the Balkans to ensure stability of the region; Turkey tries to foster contacts between Serbs, Bosnians, Croats, and Albanians. A move that has been largely accepted by the different sides, Turkey is also active in the geopolitics of the Middle East and North Africa. Turkey is an important player in the region that cannot be underestimated when taking decisions. This was seen on 2 April Summit on the development in Syria. Turkey is also an intermediary between Pakistan and Indian over Kashmir as well as Pakistan and Afghanistan. It may also be worth reminding readers that in his speech on March 23 2012 to the Military Academy, Turkish leader Erdoğan stressed the fact that there are Turkish military cemeteries in 35 countries around the world. It sounds so easy to say that, but 35 countries shelter Turkish war dead in their soil.¹⁰⁶

2.3. Trade Relations between Afghanistan and Turkey

The economic and commercial relations between Turkey and Afghanistan have begun to develop over the course of the last decade. Trade volume between Afghanistan and Turkey increased at the highest level from 8 million dollars in 2000 to 296 million

¹⁰⁶I. Bal (2012).

dollars in 2012. The 95 percent Turkish companies are working on construction in Afghanistan. Since 2002 the total value of the projects that Turkish medium and large scale companies are dealing with reached about 2 billion and 555 million dollars. The Turkish companies rank first among the foreign investors; around 60 construction companies are working in Afghanistan. The number of Turkish personnel working in Afghanistan currently exceeds 3000.¹⁰⁷

¹⁰⁷Çolaoğlu and Yegin (2014), p. 36.

Table 2.1. External Trade of Turkey with Afghanistan

2002	ISIC	ISIC Name	Exports of Turkey	Imports of Turkey
	A	Agriculture and forestry	545	794.175
	C	Mining and quarrying		1.865
	D	Manufacturing	<u>20.231.173</u>	257.082
	Year total		20.231.718	1.053.122
2005	A	Agriculture and forestry	192.318	<u>6.550.058</u>
	C	Mining and quarrying	28.871	
	D	Manufacturing	<u>113.175.709</u>	693.897
	G	Wholesale and retail trade	3.819	1.057.178
	Year total		113.400.717	8.301.133
2010	A	Agriculture and forestry	393.082	<u>1.957.316</u>
	B	Fishing	7.287	
	C	Mining and quarrying	17.335	
	D	Manufacturing	<u>259.295.463</u>	<u>2.739.092</u>
	G	Wholesale and retail trade	77.253	401.1
2010	ISIC	ISIC Name	Exports of Turkey	Imports of Turkey
	K	Real estate, renting and business activities	120	
	Year total		259.790.540	5.097.508
2015	A	Agriculture and forestry	181.923	<u>935.857</u>
	C	Mining and quarrying	90.051	147.277
	D	Manufacturing	<u>161.220.118</u>	<u>7.751.610</u>
	G	Wholesale and retail trade	188	3.054.632
	Year total		161.492.280	11.889.376

Source: Foreign Trade Statistics of Turkish Statistical Institute (TUIK)¹⁰⁸

¹⁰⁸ <http://www.turkstat.gov.tr/PreTabloArama.do?metod=search&araType=vt> (Access Date: 21.11.2016)

Table 2.1, illustrates the external trade of Turkey with Afghanistan in 2002, 2005, 2010 and 2015. Afghanistan is one of the least developing countries in the world, due to low economic performance its exports are very low than its imports. If we compare the most exported and most imported commodities; most exported commodities in all years are the manufacturing goods in 2010 with highest value **259.295.463 USD**, in 2002 with the amount of **20.231.173 USD**, in 2015 with the amount of **161.220.118 USD** and in 2005 with the value of **113.175.709 USD**. When we look at the imported goods again it is manufacturing goods by having highest value of **7.751.610 USD** in 2015, 2nd largest imported commodity is the agriculture and forestry goods in 2005, with the value of **6.550.058 USD**, 3rd highest imported commodity is the manufacturing goods with amount of **2.739.092 USD** in 2010 and 4th most imported commodity is the agriculture and forestry with amount of **935.857 USD** in 2015.

CHAPTER 3

TURKISH INVESTMENTS IN AFGHANISTAN: CHALLENGES AND OPPORTUNITIES

By the end of war, Afghanistan opened its borders for foreign investment, and many countries from developed and emergent countries became so interested for doing business in the country as the post war reconstruction policies. Looking closely to Turkey case, Ankara became involved in that reconstruction process, which released many opportunities for Turkish investors, particularly in the field of agriculture, livestock and constructions. Turkey succeeded to handling its business opportunities regardless the several challenges facing the implementing government policies for promoting foreign investment in the country, such as image of poverty and violence, the struggling to shift from a socialist mode of government, and creating a viable, multi-ethnic state. In addition, the government of Afghanistan is working hardly to improve the general conditions for business life and foreign investment in various sectors in order to better manage the economic recovery`s process. Those efforts from Kabul and international community will be determinant in the coming decades for deep involvement of multinational companies- including Turkish economic giants- to contribute further in the country economic development.

3.1. Main Investment Opportunities in Afghanistan

In Afghanistan, there are many business opportunities which could be attracting to foreign investors, especially in agriculture, dairy, honey, mining and other interesting fields. The agricultural is generating 36 percent of the country`s GDP and presenting 85 percent of working class. We can count around one million farms and more than 2,000 wholesalers for horticulture products in the country. And more than half of the country entrepreneurs from private sector are working for providing services to farmers and farm related business. And that played in the past decade remarkable increase to the

national income and got direct positive impact on the lives of thousands of Afghans, particularly in the rural areas.¹⁰⁹

As the country's post-war strategies, Kabul poised agriculture as central point for the country development goals and adopted new policies to increase its productivity for agricultural goods by mobilizing new and modern resources, building working capacity through training programme to the farmers on how to increase output and adopt modern techniques, as well as facilitating foreign investment policies and regulations, furnishing adequate infrastructures to motivating more foreign companies to invest in Afghanistan. The involvement of the international community in the country's reconstruction process has also played a significant role – and continues to do- in developing the state capacity to increase its productivity, which in return provides great opportunities to both local and foreign investors, and promoting as well in medium and long term the economic recovery process in Afghanistan.

The dairy, honey and almond industries take other important role in the country's development process and give a considerable opportunity for foreign investors. The needs to develop these sectors/ products and related goods are extremely high, and market potentialities are encouraging. Particularly specific technical assistance for collection of products, transportation, storage, processing, pasteurization, and quality control are important. These necessities are still unsatisfied and they continue to present challenges to national investors. For dairy industry, the national productivity is estimated to 2.1 million dairy cowherd, 8.7 million sheep herd, and 7.3 million goats. Average productivity from 500-1,000 L/year/cow (low) to 1,000-1,500 L/year (high); and national productivity is about 2.1billion liters per year cow milk, and the same for sheep/goat milk & 8.1 tons of camel milk. Milk production is increasing by 3,200 hectoliters per year. For honey, the Hindu Kush area is an exceptionally good region for beekeeping and harvests well above 30 kg per colony per year can be generated. Typically an Afghan hive produces 20-30 kilos of honey per year. In the almond sector, there is high opportunity for access and capturing high share of almond

¹⁰⁹S. Shah (2009). *Main Investment Opportunities in Afghanistan*. Kabul: Afghanistan Investment Support Agency, p. 6.

demand in the global and regional markets. India currently imports 35 percent of the world supply of almonds, by developing this sector; Afghanistan could be a major supplier to Indian market.

The pharmaceutical sector in Afghanistan remains an open market with the ability to bring enough profits at both levels, for national investors as well as for the foreigners. Afghanistan government proceeded to encourage foreign direct investment in pharmaceutical sector for more promoting and developing the local industry of drugs and related products and better manage the challenges are facing. According to drug centers and medicos reports, more than 60 percent of medicine has low quality. Another challenge is the replacement of generic name with commercial name. According to AISA report on Investment Opportunities in Pharmaceutical Industry of Afghanistan, “the global pharmaceutical industry is worth more than about one trillion dollar in the market with increasing annual growth rate”. The market is highly competitive and there is still a need for extensive research for the development of pharmaceutical industry to find out real opportunities with clinical trials. Below a graphic for Afghan drugs importation.¹¹⁰

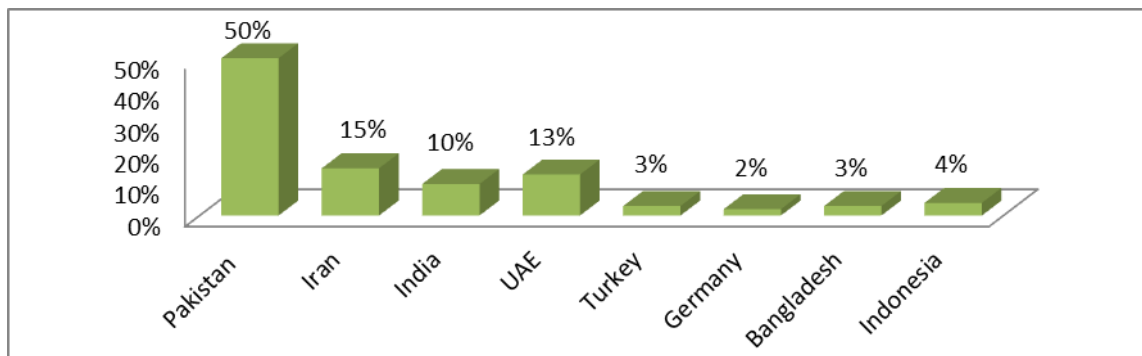


Figure 3.1. *Import of Medicine from Different Countries*

Source: *Afghanistan Investment Support Agency (AISA)*¹¹¹

From the Figure 3.1, it is clear that Afghanistan imported almost all its medical products from abroad with 50 percent from Pakistan, 15 percent from Iran, 10 percent

¹¹⁰Afghanistan Investment Support Agency [AISA] (2015). *Investment Opportunities in Pharmaceutical Industry of Afghanistan*. Kabul, p. 15.

¹¹¹AISA. (2015), p. 16.

from India, 13 percent from UAE. However, imports from Turkey are only 3 percent. In other words, Turkish investors are not well engaged in the sector regarding to market potentiality and good quality of Turkey`s pharmaceutical products.

Table 3.1. *Illustrating Afghan Business Fields and Opportunities for Foreign Investment*

No	Industry	Goods/Services	National Productivity	Foreign Investment	
				Current	Area of Opportunity
1	Dairy industry	Milk, cheese, butter.	Is extremely low, compared to potentialities	Few FDI are acting in the sector	New technology, developing skill workers
2	Honey industry	Honey in food, cosmetic, bees wax...	Small scale production for apis mellifica	Lack of FDI in the sector	Modernizing, diversifying the sector products
3	Almond	Almond producing and selling	Manually producing	Few foreign investment	Modernizing the sector
4	sunflower	Seeds, oil, cosmetic, bio-diesel, meal...	Manually producing	Few foreign presence in sector	Full government support to foreign investment in the sector
5	Tomato	Seedling, bed prep, transplantation	Manual producing, 20.000 workers, and 5 USD Million	The absence of foreign investment	Modern equipment, quality control, package machinery
6	Karakul Pelts	Commercial purposes	The world 2nd exporter of karakul after Namibia	The absence of foreign investment	Great international demand of Karakul lamb pelts
7	Sugar Beet	Beets, betaine, uridine, bio-butanol...	Semi-industrial	Few presence of foreign investment	Technical assistance in logistic and marketing
8	Olive	Canned/jarred olive, tapenade, health purpose	Producing only 15 percent of its capacity	FAO, Italy government,	Export opportunity to India and China...
9	Cashmere	Producing works	90-95 percent of Afghan goats are cashmere producing, and 30 percent of its capacity	Huge foreign interests	As the 3rd world producer of raw greasy, presents a good opportunity for foreign investment
10	Pharmaceut ical	Conventional and para-pharmaceutical	Low national capacity, much import from abroad	Much foreign interests	Competitive markets with big opportunity

Source: *Prepared by author*

Briefly, the domestic market itself is still in its infancy though growing rapidly and so, it offers great potential for early entrants. In addition, Afghanistan is centrally located in the heart of Central Asia within close proximity to major markets such as China and India and regional markets in the Central Asian republics, as Pakistan and Iran.

3.2. Major Challenges for Foreign Investment in Afghanistan

Afghanistan faces several challenges -since the early ages of the post-conflict- to promoting foreign investment and brings multinational companies to the country. The country image of poverty and violence are playing negatively a role for encouraging foreign investors to invest in Afghanistan. Kabul is still struggling to shift from a socialist mode of government, and creating a viable, multi-ethnic state in the country. In addition, Afghanistan continues to suffer by the length of the war, the country's vast and rural character, the intensity of mine-laying and bombing, insecure rural livelihoods, and continued lapses in security and lack of central government control over certain regions. The wave of refugees, increasing internally displaced people, reducing the general health of the Afghan people (life expectancy remains low (late 40s) by international standards). The rising of unemployment, surplus of unskilled workers, the lacks of adequate infrastructures for business life, such as roads, bridges, power generation and distribution assets, and schools are in need of extensive of rehabilitation.

Other challenging things are affecting the foreign direct investment in the country, like, legal framework for investment; in the aftermath of the collapse of civil society, the legal regime for FDI remains incomplete and in flux. Many investment laws, policies, and tax regimes, including those for mining, are not yet complete. A hosting law: immigration, social protection, and contract disputes remained inflexible, and the clauses for enforcing contracts is virtually impossible in Afghanistan, and the judicial system is regarded as inadequate and vulnerable to corruption. The customs administration is fractured, and often, the importers pay double customs duties. The entire amount of customs revenue does not reach to the Treasury and many firms regard customs officials as a major source of rent seeking. Financial sectors are also facing the lacks of appropriate policies to provide commercial loans to national investors; several international banks and the Central Bank provide conventional financial services to

business, but standard financial products such as commercial loans and export financing are not yet available in Afghanistan which in return has encouraging informal financial transactions between family and friends. Other big challenge is illegal business sector in the country, the World Bank estimates that Afghanistan now produces 87 percent of the world's illegal opium, which, including opium processed into heroin and morphine, contributes roughly one-third of estimated total national income.¹¹²

Meanwhile, the government of Afghanistan is working hardly to reduce those challenges and to improve the general conditions for business life and foreign investment in various sectors in order to better manage the economic recovery process. The many legislative changes proposed are going to greatly improve the investment climate in Afghanistan. And considerable policies have been adapted to privatize many public sectors, as well as, ameliorating security measures for both local and foreign investments. But, there are many things to do to attend those goals and further attracting multinational companies to contribute deeply in the country development.¹¹³

3.3. Turkish Economic Sectors and Their Investments in Afghanistan

Turkey has been engaged in Afghanistan economic recovery`s process since its early ages. Turkish investors penetrated Kabul local market and opened many opportunities, particularly in the field of agriculture, livestock and constructions. Below, the most important sectors of Turkish investments in Afghanistan.

3.3.1. Turkish Investment Sectors

Turkey as an emergent economic power started successfully to looking for a new market and new opportunity for its investment abroad. Ankara possesses a strong capacity for agricultural exportation, especially the fruits and vegetables. It is a major world producer and exporter; it exports to many countries in EU, Balkan and Caucasus. The exportation to EU-25 is estimated to 40 percent for fruits and 20 percent for vegetables¹¹⁴. Turkey agriculture field represents 23 percent of the EU-25 agriculture

¹¹²World Bank Group, Multilateral Investment Guarantee Agency [MIGA] (2005).*Investment Horizons: Afghanistan*. Washington, p. 15.

¹¹³MIGA. (2005), p. 20.

¹¹⁴http://www.taccsoutheast.com/pictures/Turkey_Agriculture_Industry.pdf(Access Date: 25.12.2016)

capacity; around 39 million hectares are devoted to agriculture. It represents as well 11.6 percent of the country GNP, the value added in agriculture estimated to 1.5-2.2 percent per year, and it contributes to GDP growth by average 5 percent per year. Turkey gets a large/growing food and agriculture industry, and it represents around 9 percent of the overall and 25 percent of the employment levels in the country.¹¹⁵

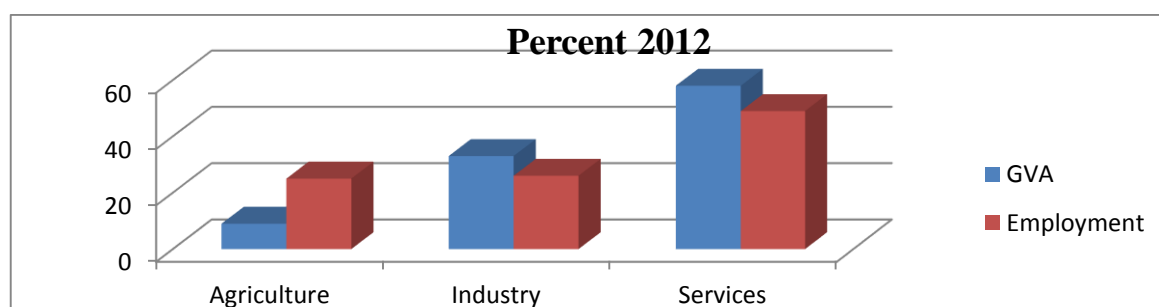


Figure 3.2. *Agriculture As Source of Employment in Turkey With High GVA Contribution*

Source: *Investment Support and Promotion Agency of Turkey*

In the construction sector, Turkey placed as the second world leading construction industry after China. It contributes to the country's GDP growth by 5.9 percent, and employs around 1.8 million people. Its direct and indirect impacts on whole Turkish economy is estimated to reach 30 percent. The agriculture sector of Turkey grew by 13.9 percent in 2002, 7.8 percent in 2003, 14.1 percent in 2004, 9.3 percent in 2005, 18.5 percent in 2006 and 5.7 percent in 2007, and achieved a remarkable progress by 18.3 percent in 2010.¹¹⁶

¹¹⁵Investment Support and Promotion Agency of Turkey [ISPAT] (2014)*Food and Agriculture in Turkey*. Ankara, p. 6.

¹¹⁶ISPAT. (2014), p. 7.

Table 3.2. GDP Growth Rate and Construction Sectors Growth Rate 1999-2014

Year	GDP Growth Rate (percent)	Construction Sector Growth Rate (percent)
1999	-3.4	-3.1
2000	6.8	4.9
2001	-5.7	-17.4
2002	6.2	13.9
2003	5.3	7.8
2004	9.4	14.1
2005	8.4	9.3
2006	6.9	18.5
2007	4.7	5.7
2008	0.7	-8.1
2009	-4.8	-16.1
2010	9.2	18.3
2011	8.8	11.5
2012	2.1	0.6
2013	4	7.1
2014	4.3	5.2

Sources: *Turk Stat*¹¹⁷

By looking at the Table 3.2, we might see such increase in construction sector growth rate by 9.2 and 8.8 during 2010 and 2011 respectively, which in return, contributed to GDP growth rate in the same years. While the recent years, from 2012 to 2014 seen unstable decrease in the construction growth rate, as well as its contribution to GDP growth rate.

Table 3.3. List of the Countries Ranking in Construction Sector

Country	2013	2012	2011	2010	2009
China	62	55	52	51	54
<u>Turkey</u>	<u>42</u>	<u>38</u>	<u>33</u>	<u>31</u>	<u>33</u>
USA	31	33	26	22	20
Italy	16	17	19	23	22
Japan	14	15	14	13	13
Spain	13	12	12	13	11
South Korea	13	15	12	11	12
France	5	4	4	5	5
Germany	5	4	4	4	4
England	2	3	4	4	4
Other	47	54	45	48	47
Total	250	250	225	225	225

Sources: *Engineering News Record(ENR) 2013*

¹¹⁷http://www.tmb.org.tr/doc/file/ydmh_ocak2015_eng.pdf (Access Date: 25.08.2016)

In addition, during six months in 2014, Turkish contractors undertook around 7500 projects in 103 countries, with a total value of some 285 billion USD. And according to international industry magazine, based on 2013 data in Engineering News Record, Turkey ranked as the second after China for “The World’s Top 250 International Contractors”¹¹⁸ as can be seen at the Table 3.3.

Looking to pharmaceutical sector, Turkey’s pharmaceutical market was placed by 2012 in terms of sales as the 6th largest market in EU and 16th largest in the world. Its annual sales reached USD 12.5 billion, which means a compound annual growth rate (CAGR) of nearly 10 percent between 2003 and 2012. The healthcare industry with pharmaceutical sector estimated to grow by 5.8 percent in 2012 and by 8.9 percent in 2013, while the real GDP growth in the same period only reached 3.5 percent. Furthermore, Turkey as the largest and youngest labor pools in Europe; population aged between 24-54 are representing around 65 percent of Turkish people, and the strength of that labor force is reflected in the pharmaceutical sector. According to ranking report of BMI's Risk/Reward Ratings (RRRs) which provides a globally comparative and numerically based assessment of a market's attractiveness, and according to BMT group for leading international design, engineering, science and risk management, in its 2014 report, Turkey ranks 5th out of the 20 emerging markets in Commonwealth of Independent States (CIS) and Central and Eastern Europe (CEE) with a score of 58.¹¹⁹

3.3.2. Turkish Investments in Afghanistan

In the lines of strengthening the country economic growth, Turkey became so interested in Afghanistan’s post war reconstruction process. The construction sector is the most leading sector of Turkish investment in Afghanistan. Around 95 percent of Turkish companies in Kabul are working in the construction industry. The total value is assumed to reach 2.5 million dollar by 2010. Actually, there are more than sixty Turkish companies actively registered in the country, and Turkish personal who are working in the construction sector are estimated to be three thousand workers. The opportunities of

¹¹⁸<http://docplayer.net/11218046-Turkish-contracting-in-the-international-market.html> (Access Date: 25.11.2016)

¹¹⁹Investment Support and Promotion Agency of Turkey [ISPAT] (2014). *The Pharmaceutical Industry in Turkey*. Ankara, p. 10.

Turkish investment in Afghanistan are extremely high; particularly in the fields of agriculture, veterinary, medicine, and textile industry. There is also a need for more investment in the education sector in Afghanistan; around half million of Afghan young looking for opportunities to attend primary, secondary, and higher education. Opportunities could interest Turkish public sector, as well as the private sector, to invest more in urban infrastructure for mutual interest of the both countries.¹²⁰

However, Turkish investors in Afghanistan are facing several challenges, such as transit transportation, which is caused delays to equipment deliverance to working places. According to the recent report from Turkish chamber of commerce, around 20 percent of the materials being lost during transportation, and the some routes such as the Iran-Afghanistan/Islam Qala and Iran-Turkmenistan/Torghundi border gates are unsafe and the fact that routes such as the Georgia-Azerbaijan-Turkmenistan route to Afghanistan covers difficult terrain connected with rough roads.¹²¹

3.4. SWOT Analysis for Turkish Investment in Afghanistan

A SWOT analysis is one of key tools generally used for analyzing a potential investment position from the investor's perspective and for identifying key marketing dimensions. To do so, we are going through the SWOT analysis' principals to look closely to internal factors - strengths and weaknesses- of Turkish investment in Afghanistan, and to external factors as well, refer to opportunities and threats as far as Turkish investment in Afghanistan is concerned. At Table 3.4 summarizing the major issues and sectors of Turkish investment in the country to come out how far Turkish public and private sector working in Afghanistan are involved and the advantages and disadvantages of their business life in the countries are summarized.

¹²⁰S. Çolakoğlu and M. Yegin (2014). *The Future of Afghanistan and Turkey's Contributions*. Ankara: Uluslararası Stratejik Araştırmalar Kurumu (USAK), p. 36.

¹²¹Çolakoğlu and Yegin (2014)., p. 37.

Table 3.4. General SWOT Analysis for Turkish Investments in Afghanistan

Sector SWOT		Turkish Business Sector in Afghanistan			
		Construction	Pharmaceutical	Agriculture	Livestock
Internal Factors	Strengths	1-world leading 2- good quality 3-reasonable price	1-the sector is developed 2- reputation 3- low price	1-ranking state 2- reasonable price 3-the quality	1-financial capacity 2- modern technology
	Weakness	1-communication 2- adapt to local market	1-communication 2- adapt to local market	1-Communication 2- adapt to local market	1-no well-known in the sector
External Factors	Opportunities	1- post war reconstruction policy 2- geographical location 3- few competitive	1-+ 95% imported 2- large population 3- market no saturated	1- Turkish image in Afghanistan 2- the huge needs for agriculture sector	1-technological assistance 2- credit lines
	Threats	1-steal of materials 2- poor road/no seaport 3- general insecurity	1-lack of standards 2- storage facilities 3-insecurity	1-purchasing power 2- infrastructure 3- insecurity	1- infrastructure 2- reimbursement capacity

Source: Prepared by author

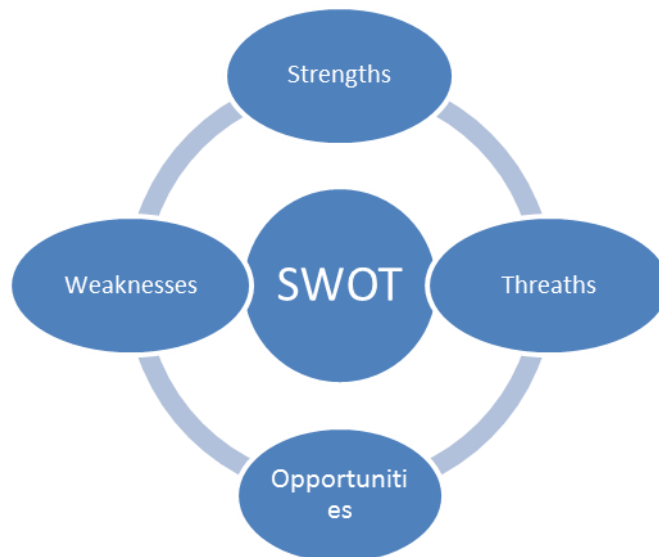


Figure 3.3. SWOT Analysis Template

Source: Prepared by author

The Figure 3.3 is illustrating the design for SWOT analysis by which the contents of Table 3.4 are given in details through the following figures. Strengths of a sector are put on the top of the figure, opportunities of a sector on the bottom side, while weaknesses and threats of the sectors are on the left and right side respectively.



Figure 3.4. *SWOT Analysis for Construction Sector*

Source: *Prepared by author*

The Figure 3.4 is presents the construction sector. Turkey is being the second world leading country in construction sector, and its quality gives opportunity to the Turkish investors to gain more in Afghan local market. Lower price of its products compared to its foreign competitors in the market increases its competitiveness. The geographical position of Afghanistan opens huge market opportunities to Turkish investors not only for Kabul, but also to the neighboring countries in Asia. And few presences of foreign investors in the sector give other opportunities to Turkey to be well engaged in Afghan local market. In contrast, the timing to get Turkish construction sector be familiar with local market in Afghanistan, and the lack of existing

infrastructure to facilitate business life in the country might play negatively to Turkish investors in Afghanistan.

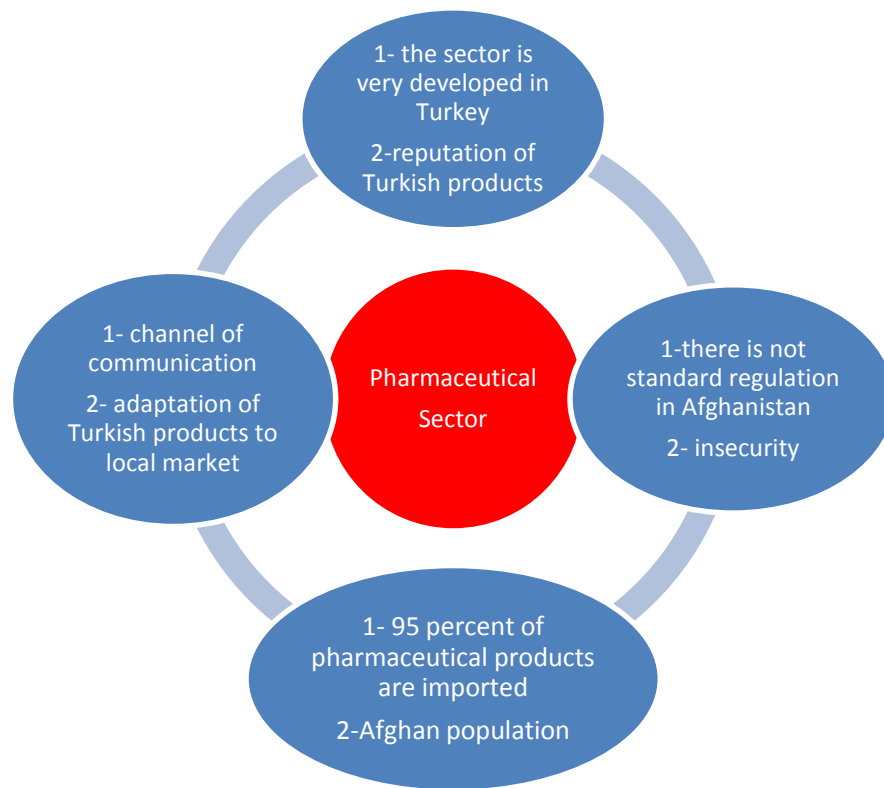


Figure 3.5. *SWOT Analysis for Pharmaceutical Sector*

Source: *Prepared by author*

In the pharmaceutical sector, the reputation of Turkish pharmaceutical products in Afghanistan and the sector development may be considered as strengths for Turkey in Afghanistan as can be seen by the Figure 3.5. Afghan population and its importation of 95 percent of the country pharmaceutical products are presenting good opportunities to Turkish investors to be well engaged in the sector. While insecurity in the country and the lack of standards and regulations to manage importation of pharmaceutical sector can present a serious threat to Turkish investors regarding to lower quality and price of other competitors from the region, such as China and India.

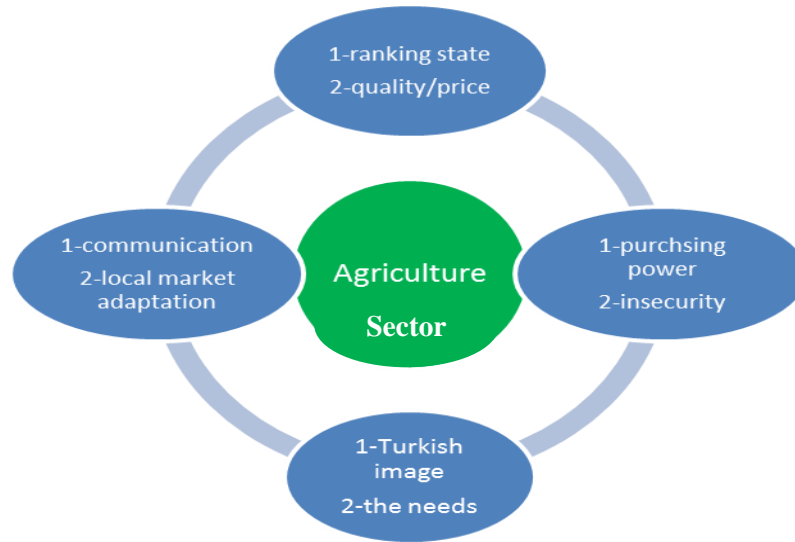


Figure 3.6. *SWOT Analysis for Agriculture Sector*

Source: *Prepared by author*

The development of agriculture sector in Turkey and its ranking position presenting the strengths and forces to Turkish investors in Afghan markets, and the good image of Turkey in Afghanistan and the huge needs to agriculture products in the country open evidence opportunities to Turkish multinational companies to compete bravely in Afghanistan. However, the purchasing power of Afghan people and insecurity in the country are presenting serious challenges to foreign investors, including Turkey.



Figure 3.7. *SWOT Analysis for Livestock Sector*

Source: *Prepared by author*

In livestock sector, Turkey is not well presented in Afghan markets regardless the financial capacity and modern technology that Ankara has compared to its Asian competitors dominating the local markets. In other words, Turkey can be very engaged in the sector by developing credit lines to the national investors, and assisting as well to bring more technology in the sector.

By looking at the main table and figures, many points could be raised. There are common threats and weakness vis-a-vis Turkish investments in Afghanistan. As threats, we may see the insecurity in the country due to the ongoing conflict, and the lacks of appropriate infrastructure allowing and facilitating the business life presenting major challenges to Turkish investors. As another weakness, we could touch the communication and adaptation of Turkish products to local market as fundamental lacks to the Turkish multinational companies operating in Kabul. We can also see the livestock industry as the most unprofitable sector compared to others. Like more, the potentials are very higher for Turkish investors, thanks to their strong know-how skills, the good image of Afghan people to Turkish nations, in addition to the lower price of

their products compared to the western competitors. But regarding to current statistics of the Turkish investments in Afghanistan, we might observe that Turkey is exploiting less than 20 percent of its potentials, which could be understood by the Turkish investors as a fear in taking risk to invest more in instable areas. To reducing that risk, Turkey should work closely with its counterpart in Kabul and with the international community already present in the country to enhance the business life and help in developing the Afghan investment policies and infrastructures. Furthermore, Turkey can give assistance in enhancing national capacity to maintain security for the economic development process Afghanistan.

CONCLUSION

The researchers suffered from the lack of reliable information on the economy of Afghanistan, especially in the last century. We cannot study the economy of Afghanistan without understanding the deteriorating security and political situation, which adversely affected the economy and cannot forget important factors such as external interference, tribal, army, clergy and civil wars and their impact on the economy of Afghanistan.

Key conclusions to be drawn from the study are as follows:

1. There have been improvements in Afghanistan after the fall of the Taliban government in 2001 in collaboration with the international assistance. These assistances have a growing impact on the services and agriculture sector mainly. However, the economy of Afghanistan has been continuing to suffer from many problems such as housing shortage and lack of clean water, electricity, unemployment and insecurity. Among them, the problem of security is the most important one because of the government's failure on imposing and implementing the law. The standard of living of the Afghan citizen is at worse levels in the world. The international community is providing financial aid to the government of Afghanistan, promising to provide 67 billion dollars between 2003 and 2010. In July 2012, the international community promised to provide an additional 16 billion by 2015. Despite huge international aid, Afghanistan faces major challenges in combating corruption and weak infrastructure.
2. The education and health sector in Afghanistan has been developed more than the economic, social and security sectors. The reasons of this progress in health and education are the attention of the international community, financial assistance, and early prioritization of goals, broad-based national and international support, strong legislative framework, monitoring capacity and cultural acceptance. The importance of the latter seems to be downplayed, but

likely plays a significant role in progress for gender equality and women's rights in areas where existing distributions of power and authority are threatened. Such social complexities must be acknowledged and addressed if progress in these challenging areas is to occur.

3. Due to the economic and security reasons, poor infrastructure and lack of schools and hospitals, Turkey has a growing interest in Afghanistan. All these reasons made The Turkish Agency for International Cooperation and Coordination(TIKA) to be interested in providing assistance in several areas such as education, medical services, water purification and transportation infrastructure, as well as projects aiming capacity building in public administration.

The Office of the TIKA was opened in Afghanistan in 2004. Afghanistan was at the top of the countries receiving assistance from the Turkish government in 2007. The Turkish government also pledged USD 400 million in development assistance between 2005-2009. In 2010, the value of the assistance provided was USD 107 million, of which TIKA contributed one-third. By 2012, more than 600 projects had been implemented by TIKA in various fields, more than 80 schools.

4. Afghanistan's economy has suffered from a severe recession due to conflicts, which has made the government of Afghanistan seek to open up investment opportunities to the developed countries, including Turkey. Turkish investments included several aspects such as agriculture, livestock and construction. These investments contributed to the fight against poverty and unemployment and contributed to the creation of new opportunities. Insecurity is the main threat to investment in general and Turkish investments in particular. The Turkish investments in Afghanistan are large due to the quality of the Turkish products, skilled labor and diversified production. But it is noted that Turkey is dealing cautiously with the security situation in Afghanistan because of the deterioration of the security situation, which contributes to reduce the proportion of Turkish investment in Afghanistan.

Result: "Peace is the greatest weapon for development that any person can have"

Nelson Mandela's this quote is very factual to Afghanistan. It should be remembered

that there were improvements in the economic and social indicators between 2007 and 2012 because of the positive political and social climate of the country. Therefore, it can be said that, peace and stability is the key to the economic progress and development of a country.

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