

REPORT

Features of the Afghan Economic Situation and the Taliban's Resources

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Contents

| | |
|---|----|
| Introduction..... | 3 |
| 1. Legacy of Complicated Crises | 4 |
| 2. Rouhani’s Last Words of Advice..... | 4 |
| 3. Raisi’s Options and Opaque Program | 6 |
| 4. The Chances of Success of Raisi’s Government | 9 |
| Conclusion | 12 |



The Afghan economy is characterized by fragility and reliance on international assistance, especially from NATO member states. The private sector is also very weak although the country possesses rare mineral resources estimated at trillions of dollars. However, these resources remain untapped due to the lack of security and ongoing political disputes. After the Taliban retook power, the situation has become much more uncertain.

This report offers a reading into the economic situation of the Afghan state before and after the Taliban captured power in mid-August 2021, as well as shedding light on Afghan living conditions and the resources available for the Afghan people.

1. A Reading Into the Features of the Prevailing Economic Situation and Its Ramifications

The aid flowing into Afghanistan covered at least 75 percent of the country's public spending. Given Afghanistan's critical reliance on foreign assistance, at a conference held in Geneva

in November 2020, international donors renewed their support for Afghanistan until 2024. However, the fate of this support remains uncertain now after the Taliban reclaimed power. It was planned that the collapsed Afghan government would receive \$370 million in funds from the International Monetary Fund (IMF) on August 24, 2021, but the funds were frozen after the Taliban takeover.

Afghanistan's financial uncertainty has been compounded by the Biden administration's freeze on Afghan government reserves held in US bank accounts. The Afghan state has foreign reserves estimated at \$9.4 billion, mostly in American banks. The economic impact of this asset freeze to prevent the Taliban from accessing billions of dollars was immediately felt, causing a decline of at least 6 percent in the value of the national currency against the US dollar — with each US dollar exchanged for 86 Afghan afghanis.

In addition to freezing the country's foreign reserves, the inflow of dollars from international donors and institutions to Afghanistan has stopped. This means that Afghanistan will likely face an economic crisis and the incoming Afghan government will be unable to manage the country's public affairs. This situation will worsen, especially if the freeze on foreign assets lasts a long time because of the Taliban not gaining international recognition. In addition, the country's budget for 2021 is estimated at merely \$6 million. This paltry sum will do little to boost the country's low level of economic activity. The overall Afghan gross domestic product (GDP) is nearly \$20 billion. This is a modest figure due to the conflicts that have crippled the economy — with a low GDP annual per capita of \$592 and a population of 34 million people. Against the backdrop of the poor performance of Afghanistan's formal economy, the country's black economy witnesses a considerable level of economic activity. This includes the production of

opium, the smuggling of various items and illegal mining.

The IMF expected that the Afghan economy would grow 4 percent in 2021 — a fair growth rate compared to a 5 percent contraction last year. But this expected growth was in the last periodic report released by the IMF in April 2021, and it will likely be downgraded in the next periodic report since it will be difficult to post such a rate due to the Taliban's takeover of power resulting in the suspension of trade and the disruption of business. Moreover, the nature of the Taliban's economic policies remain unclear, particularly as it is transitioning from an armed group to forming a government.

There are no recent updates about the unemployment rate due to the lack of credible local data. However, the International Labor Organization estimated that the unemployment rate in 2018 was at 30 percent, one of the highest unemployment rates worldwide.

The business environment in Afghanistan is characterized by extreme difficulty and lack of infrastructure, causing the country to rank 173 out of 190 countries in terms of business flexibility. In addition, the country suffers from a major trade deficit, 30 percent of total GDP, and it is expected to surge in the future. Afghanistan's foreign trade deficit reached \$5.7 billion in 2020.

On top of the country's exports comes gold, the exports of which reach \$1 billion, in addition to the country's unofficial opium exports.

Foremost among Afghanistan's official export destinations are the United Arab Emirates, Pakistan, and India. On the other side, the country imports wheat, oil derivatives, tobacco, and aircraft spare parts. The UAE, Pakistan, India, China and the United States are the main countries from where Afghanistan's imports come. There is no doubt that Afghanistan's trading relations

will be impacted depending on whether the aforementioned countries recognize the Taliban or not.

2. The Taliban's Financial Resources

The Taliban's military spending requires significant financial resources. Over two decades, the Taliban's leaders have developed ways to take advantage of the country's available resources in the areas they control, starting from opium planting, trade and exports to extracting minerals to levying compulsory royalties and taxes on crops (one-tenth zakat on crops) in the areas under their control to trading in consumer items and properties as well as utilizing the donations that flow to them from inside and outside the country.

The Taliban's leaders are likely to impose full control over the country's financial affairs and mineral resources after taking power.

Of course, the volume of the Taliban's financial resources remains unclear. But various global estimates, whether from official entities or intelligence reports, estimate that its annual resources in March 2020 stood at \$1.6 billion.

The Special Inspector General for Afghanistan Reconstruction (SIGAR) estimated in May 2021 that drugs make up nearly 60 percent of the Taliban's annual revenues. The estimate indicates that drug trafficking alone generates \$460 million per year for the Taliban — plus \$464 million obtained from mining operations in the areas under its control before seizing power. Furthermore, \$240 million is generated from annual donations and \$160 million from the compulsory taxes levied on crops.

According to the US Geological Survey, Afghanistan possesses raw materials and precious minerals like gold and uranium. This is in addition to its precious lithium reserves with a value estimated at \$1 trillion. Such materials are needed globally

for manufacturing cell phones, televisions, hybrid engines, computers, lasers, batteries, especially for electric cars, as well as for military industries — which means Western countries and others are likely to compete to exploit the aforementioned resources. The major countries importing Afghanistan’s raw materials include the United States, Turkmenistan, Iran, Pakistan and Kazakhstan.

With the Taliban’s recent assumption of power in August 2021, the group is likely to look at ways to take advantage of the country’s massive mineral resources. But it needs a tremendous level of investment to mine these resources as well as advanced technology which is not available at present because the Taliban’s rule is not internationally recognized and attracting international investment will not be possible in the future if economic sanctions are imposed on Afghanistan.

3. Current Living Conditions and Future Scenarios

Afghanistan is ranked as one of the world’s poorest countries, with 47.3 percent of the Afghan population living below the poverty line. Nearly 34.3 percent of Afghan workers get a daily income of less than \$1.9 per day, according to the Asian Development Bank in 2020. Furthermore, GDP per capita is extremely low at \$592 per year.

The agricultural sector is among the most important sectors in the country and the number one employer. Nonetheless, the Afghan workforce in the agricultural sector is not highly productive because of the absence of sophisticated equipment.

Up to 44 percent of the total Afghan workforce is employed in the agricultural sector and 60 percent obtain their income from agriculture, according to the IMF. Opium and grapes are the main crops and the country’s leading agricultural exports.

Inflation will be among the major challenges facing the

Afghans in the short run. The annual inflation rate this year was estimated at 5 percent before the Taliban took power, according to estimates from the IMF.

But it will certainly rise in the aftermath of the current developments, given the decline in the local currency's value, the stoppage of commercial supply lines at home and abroad and capital flight. As soon as the Taliban entered Kabul, some consumer items ran out while the prices of others doubled.

As for the future of the economic situation in Afghanistan, there is no question that suspending international aid, dollar shipments to the Afghan Central Bank and freezing foreign reserves estimated at over \$9 billion will lead to further deterioration in socioeconomic conditions.

This is in addition to the new government's potential inability to pay state employees, as well as disruptions in public services. This will lead to poverty rates and the number of poor increasing in the country. They are likely to suffer more due to price hikes and the value of the national currency plummeting. The latter is likely to stir violence and turmoil in the country. Moreover, the Taliban is expected to further depend on royalties and other illegal means to generate money such as through smuggling networks and exporting opium worldwide.

But in case the world recognizes the Taliban government and continues to offer conditional financial and economic support, the economic situation could be stabilized to an extent. This requires the Taliban to provide security, stability, and an appropriate environment for business. By doing so, the Taliban will be able to attract and allay the concerns of global investors and the Afghan people and send a message of reassurance to those at home and abroad. The Taliban has already started to send a message of this kind, though it is insufficient.

Conclusions

1. It is expected that the economic and living conditions of the Afghan people will remain uncertain, tilting further towards deterioration rather than improvement in the short run. This is because of the prevailing uncertainty regarding the Taliban's internal and foreign policies, the position of world powers and donors towards it and the possibility of imposing economic sanctions on the country in the future. In addition, some countries have set conditions to recognize the Taliban such as respecting minorities, women, human rights, and not providing a safe haven for terrorists. However, the Taliban's positions on these conditions remain unclear. All the aforementioned will determine the future of the economic situation in Afghanistan and determine whether it will be integrated into the international community or isolated as a pariah state like Iran and North Korea. Hence, either outcome will impact Afghanistan's economic performance indicators in the future.

2. The unemployment rate will depend on how long the current period of uncertainty will drag on, and how quickly trade relations can resume. In addition, it will depend on the security situation and whether the Taliban is able to reassure the Afghan people or not.

3. Many countries will rush to exploit Afghanistan's mineral resources and seize commercial opportunities with the Afghan government. This requires our policymakers to outline a strategy for developing relations with the Taliban, which, if approved, should include ways to take advantage of Afghanistan's economic opportunities. As a result, such a strategy would lead to strengthening our relationship with Afghanistan and its people.

4. Quickly offering humanitarian initiatives and providing political support will be appreciated by the Taliban government during this critical period.



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