



the Hollings Center
for international dialogue

Dialogue Snapshot

The Future of Afghan-U.S. Relations: Development, Investment, and Cultural Exchange May 2011

Afghan-U.S. relations are entering a new and uncertain period. While many U.S. policymakers are buoyed by the death of Osama Bin Laden in Pakistan and focused on completing the troop drawdown in 2014, there is no clear vision of what America's future engagement with Afghanistan will look like. The sole certainty is that the United States is anticipating a less intensive, less costly involvement.

What can the United States hope to achieve in partnership with Afghanistan in the coming years? What is the current state of Afghanistan's development and private sectors and how can their untold success stories be replicated? How can Afghan cultural heritage be preserved in the face of domestic turmoil, economic scarcity, and social cleavages?

To address these questions, the Hollings Center for International Dialogue convened a three-day Next-Generation Dialogue in May 2011 entitled *The Future of Afghan-U.S. Relations: Development, Investment, and Cultural Exchange*. Held in Istanbul, Turkey the dialogue brought together a select group of Americans and Afghans that included development practitioners, international organization and NGO officials, private sector executives, think-tank representatives, and government advisors.

This report presents a snapshot of the dialogue and concludes with implications that policymakers, practitioners, and private-sector individuals may find essential for the future of U.S.-Afghan relations. Three recurring themes ran throughout the dialogue's development, investment, and culture sessions:

- *Afghanistan faces a narrative problem.* Negative international media coverage and public policy discussions overshadow fragile but appreciable progress.
- *The private sector in Afghanistan is alive and well.* It stands to make huge contributions across the fields of development and culture.
- *These gains are threatened by uncertainty about American policy beyond 2014.* The Afghan economy is beset by the growing fear that the US will abandon the country to the Taliban.

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Retooling Development Aid

Year after year, high-level donor conferences and compacts devoted to Afghanistan became exercises in missed opportunities; instead of engaging in a discussion about what the international development community does well and not so well, these summits turned into high-level speaking engagements where country and donor representatives merely affirmed long-deferred initiatives without moving towards sustainable implementation. Along the way, international development assistance has consistently failed to address critical impediments such as high security overhead costs and the heavy reliance on non-Afghan contractors, which means that around 40% of development dollars get taken back out of the country in corporate profits or consultant salaries.

On the positive side, participants discussed a large number of development success stories. Many of these are in the agricultural sector: For example, lucrative onion, potato, and raisin agribusinesses have been revived thanks to the rebuilding of irrigation systems that were destroyed in the 1990s and the construction of storage facilities designed to prevent crop rot. Farmers warehoused surplus onions and potatoes and sold them abroad when India and Pakistan were facing critical shortages.

The health sector has also seen substantial improvements including a major expansion in physician and midwife networks and the initiation of public health programs in provinces that had not seen medical professionals in decades. Additionally, one participant made the case that road-building in Afghanistan—much maligned internationally as wasteful, corrupt, and dangerous—has radically shortened travel times for Afghans between key cities and towns.

When the discussion turned to retooling development initiatives, participants made a number of proposals. Some called for a regional development strategy that would harness Afghanistan's neighbors—for example, providing access to Tajik electricity, Turkmen gas, and Iranian ports. Others suggested the need to ramp up existing American initiatives, in particular the *Afghan First* policy, which encourages coalition military and development agencies to procure goods and services from Afghan companies. A number of participants called for future development aid to shift to development modalities that promote investment and private-sector growth.

Boom or Bust? The Private Sector in Afghanistan

Numbers rarely present Afghanistan in a positive light. Afghanistan's GDP in 2010 was \$29 billion (less than one-third the GDP of Kansas City), and Afghanistan ranks 167th globally for ease of doing business according to the World Bank. Behind bleak figures one encounters a booming private sector full of contradictions, surprises, and huge growth potential. Participants discussed the pitfalls and successes of doing business in Afghanistan, and many spoke from direct experience.

The food and beverage market in Afghanistan has been resilient and is primed for major expansion, fueled in part by a fast-growing population estimated to reach 100 million by 2050. A sign of the sector's promise was the recent move of a Coca Cola bottling facility from Dubai to Kabul. Growth in the food and beverage industry is particularly important because it encourages the cultivation of non-opium crops, supplants imports from Pakistan and elsewhere, and goes hand-in-hand with improvements in the country's road and electric network.

Afghanistan's telecom and media sectors have undergone revolutionary transformations. Afghan television now features 30 channels, one of which has gained huge market share in neighboring Iran. And as one participant noted, telecom sector growth displaced the Afghan government from a role of implementer to regulator.

Participants analyzed the factors exerting drag on the private sector. Much private-sector growth is "donor drunk," responding to the immediate needs of reconstruction funds with no back-up plan for the inevitable future contraction in international aid.



Photo: Shadows loom over bustling Kabul

Credit and collateral are in short supply throughout the country, and Afghan companies must support operations with cash on hand. This makes it difficult to plan medium-term growth, decreases product quality, and disqualifies many smaller Afghan companies from international contracts. The Afghan export sector also faces major disadvantages in protecting copyright and property rights. Afghan hand-made goods—such as textiles and carpets—are frequently sold outside the country in lucrative Western markets but marked "Made in Pakistan." And Afghan businessmen often lack training in marketing. One participant recounted how Iranian and Pakistani businessmen attend trade fairs with glitzy marketing booths and ready supply chains, while Afghans come with 20 carpets.

Insecurity negatively affects the private sector. An Afghan executive present at the dialogue differentiated security into two categories, national versus operational. While business owners can cope with operational security challenges such as kidnapping by hiring additional guards or travelling in convoys, national security challenges create untenable difficulties. As he put it, "if you think the country is going to war, you are not going to spend 2 million dollars to build an office."

There was consensus on one matter: The government lacks a vision for the private sector and according to an investment professional, "has not enumerated specific plans for the economy beyond platitudes like turning Afghanistan into a regional trade hub." This lack of direction is not without consequences: First, it creates contradictions between the needs of the fragile domestic economy and the terms of international trade agreements that have made Afghanistan a dumping ground for Chinese, Pakistani, and Iranian goods. As one participant noted, China now makes traditional Afghan clothing cheaper and faster. Second, where policymakers in Kabul lack an economic vision for the country, provincial officials fill the vacuum. As one scholar explained, some provincial officials/warlords engage in racketeering, bullying traders to pay protection money and illegal taxes. Yet, in the process they have created a secure space for entrepreneurship and a vision for how the economy of their particular province should develop. In this respect, organizations trying to promote a unified and stable investment climate in the country face tough challenges at multiple levels.

Culture in Action

The dialogue themes included cultural identity, education, and the preservation of Afghanistan’s cultural heritage. Afghan participants engaged in a spirited debate on identity that was highly insightful for American participants. Some expressed the view that the country was becoming increasingly polarized, especially with the return of millions of refugees and expats from Iran, Pakistan, and the Gulf. Others see Afghanistan on the cusp of a cultural rebirth and argue that religious, ethnic, and ideological divisions can be surmounted through sports, music, and education—provided that security does not further deteriorate.

When discussing education, participants were measured. Primary and secondary educational attainment has reached unprecedented heights for boys and—to a lesser extent—girls, despite the usual news stories of Taliban burning schools. But rising high-school graduation rates are a success with problematic consequences; universities can only accommodate 70,000 of the 8 million graduates. Some Afghans argued that the curriculum’s emphasis on Sunni Islam comes at the expense of teaching Afghanistan’s 5000-year history, which predates Islam and could be a vehicle for promoting national identity. This triggered some disagreement and eventually the conversation shifted to the Taliban. In a sobering juxtaposition, one participant noted that 1% of the national budget goes to the lumbering Ministry of Culture in Kabul, while another said that the Taliban have established cultural centers in 25 of 34 provinces in order to disseminate an alternative to the government’s brand of culture.

While not all participants agreed on issues concerning the Taliban, peace and reconciliation talks, and security, there was consensus that there have been many successful cultural initiatives across Afghanistan. The sports industry has made major strides since 2004. Every federation has a women’s team, although money and venues for women’s sports remain severely limited. Afghan music and TV have undergone significant revival. Once exclusively featuring Indian singers, Afghan radio stations now feature 50% content with Afghan singers. Afghan-produced television shows in Dari and Pashto are fast replacing shows imported from neighboring countries.

Afghans believe that the United States will abandon Afghanistan. Indeed, President Obama’s May 2011 Middle East speech and his joint briefing with British Prime Minister Cameron confirmed Afghans’ worst expectations.

Notably, there have been substantial if quiet strides in the preservation of historical heritage sites across Afghanistan with the help of U.S. and international aid. The national museum in Kabul and archaeological digs have been bankrolled by the U.S. government. Kabul’s historic Murad Khane district, whose buildings were once crumbling and heaping with trash, is now being lovingly restored with international support. Its buildings host Afghan-run organizations that promote training in local crafts. On a related issue, one preservation expert noted that traditional houses in Afghanistan are destroyed and replaced with unsightly concrete structures that are more modern but less earthquake-proof, more expensive to cool and heat, and require importing concrete from neighboring Pakistan. A suggestion was made to create incentives to build with local material. This would reduce dependence on Pakistan, resuscitate traditional building techniques and carpentry, and reverse the destruction of Afghan architecture.

Some argued that private sector philanthropy should be the chief mechanism to promote culture, while others insisted that the government should be at the forefront of cultural preservation. One participant cautioned that the government has a sully effect and may not be the best place for aspiring Afghans

to invest their talents. Despite the overwhelming interest in cultural projects, many participants worried that these could simply not be prioritized given the major security problems and state-building issues in the country. Trade-offs are inevitable.

In the Shadow of 2014

Dialogue participants acknowledged the frustration of the international community but noted that media coverage and policy discussions ignore years of progress in the non-government sector. As one participant put it, “whatever we think of development in Afghanistan, we have to think of where we came from 10 years ago. There were no privately owned cars, no electricity, no food, and all the streets were filled with Indian, Pakistani, and Iranian goods—now life is going on.” At the same time, many participants emphasized that progress is threatened because Afghans believe that the United States will abandon Afghanistan. Indeed, President Obama’s May 19th Middle East speech and his May 25th joint briefing with British Prime Minister Cameron confirmed Afghans’ worst expectations. Obama reiterated the planned U.S. troop withdrawal, emphasized the need to transition security responsibilities to Afghan forces, but he remained silent on what further strategic and economic relationship, if any, the United States will have with Afghanistan.

While the monetary and troop commitment of the United States will necessarily decrease in the short-term, it is possible to preserve the U.S.-Afghan relationship in order to protect and encourage gains made in the private sector and cultural heritage. Here is how:

The U.S. government should:

- *Assure the Afghan people that they will not be abandoned in 2014.* The Obama Administration must give stronger assurances and ramp up visits to Afghanistan that feature meetings with private sector representatives.
- *Increase vocational scholarships for Afghans.* The United States should increase scholarships for Afghan students with more flexible criteria that emphasize vocational training to better serve Afghanistan’s labor market. Many participants noted that Pakistan will continue to enjoy the largest Fulbright program in the world with hundreds of fellowship slots, while only 60 go to Afghanistan.
- *Ramp up the Afghan First Program.* This U.S. initiative is crucial for enabling the private sector, but it lacks complementary components to bring small and medium-sized Afghan companies up to speed and allow them to qualify for procurement contracts. Creating nurturing programs for Afghan companies who wish to be part of the program may build confidence in the Afghan private sector.

The Afghan private sector should:

- *Form a lobby of civil society and business professionals to improve Afghanistan’s international brand.* Afghanistan needs to offset negative coverage with economic and cultural success stories, particularly at a time when U.S. and international assistance will be getting the chop. The American public and policymakers are skeptical of the Afghan government but will likely react well to stories of Afghans’ entrepreneurial success.

- *Convene a Business Jirga and draft a national development plan that realistically builds on the country's comparative advantages.* A business association can pool the resources of successful entrepreneurs. Its plan should include a vision for the most promising sectors and a strategy for developing the domestic market. The plan should not be a grab bag of all economic sectors, should not wait on the Karzai government, and should not anticipate similar levels of development aid flowing into the country.



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The Hollings Center for International Dialogue is a non-profit, non-governmental organization dedicated to fostering dialogue between the United States and countries with predominantly Muslim populations in the Middle East, North Africa, South Asia, Eurasia and Europe. In pursuit of its mission, the Hollings Center convenes dialogue conferences that generate new thinking on important international issues and deepen channels of communication across opinion leaders and experts. The Hollings Center is headquartered in Washington, D.C. and maintains a representative office in Istanbul, Turkey. Its core programs take place in Istanbul—a city whose historic role as a crossroads makes it an ideal venue for multinational dialogue.

To learn more about the Hollings Center's mission, history, and funding:

<http://www.hollingscenter.org/about/mission-and-approach>

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