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Afghanistan: The Continuing Economic Slide (U)

An Intelligence Assessment.

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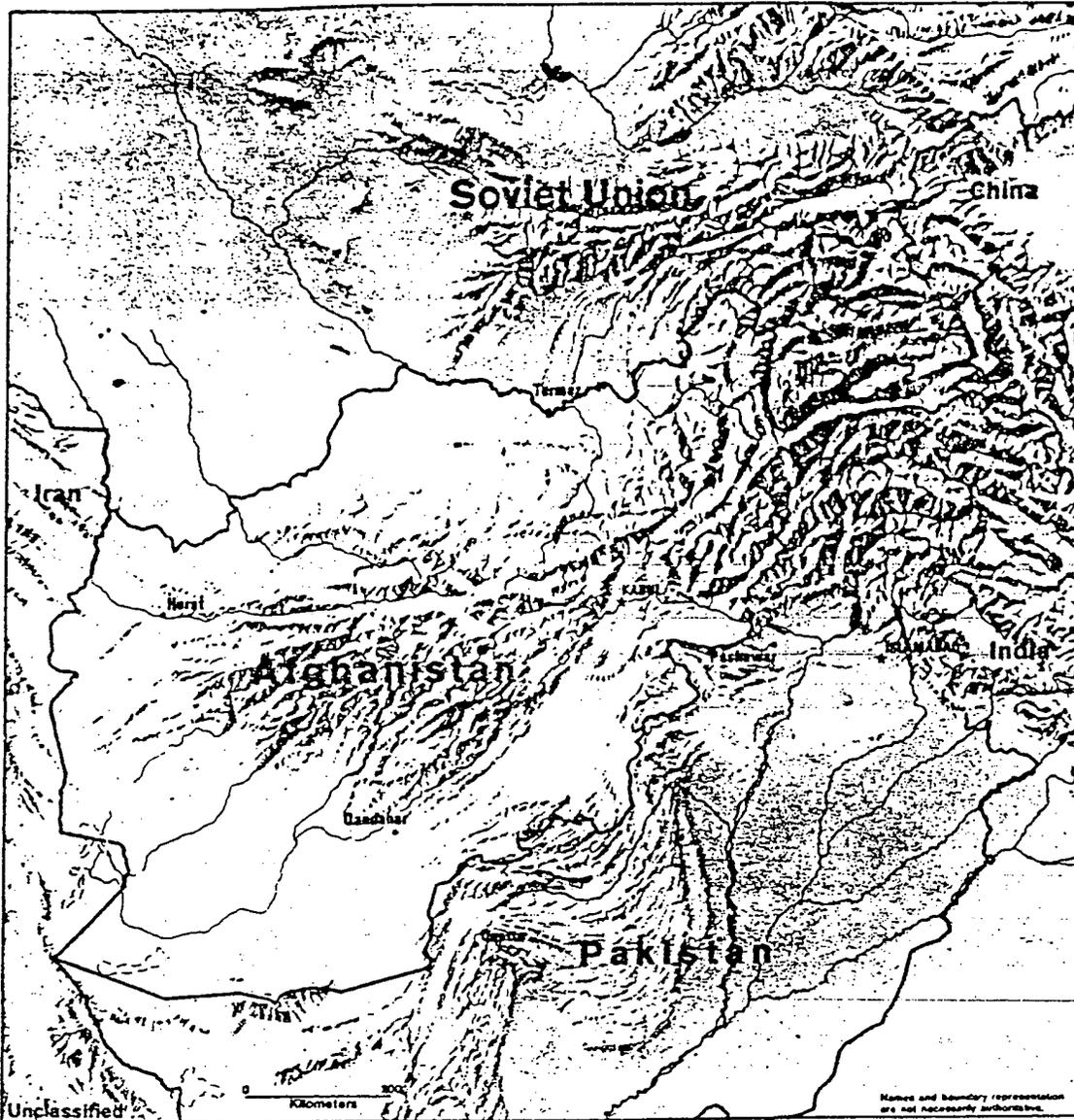
**Afghanistan:
The Continuing Economic Slide (U)**

Key Judgments

The Afghan economy, already depressed before the Soviet invasion in December 1979, has been further disrupted by continuing hostilities and the subsequent exodus of 20 percent of the population. The Babrak government recognizes the country's serious economic problems, but political disarray at top levels of the government prevents the formulation of coherent economic policies, and intermittent purges of the civil service reinforce bureaucratic inertia.

Subsistence farming and industrial activities continue in the face of labor and raw material shortages, frequent power blackouts, and fuel rationing, but economic development plans and recommendations by Western advisers have fallen by the wayside. Activity in the commercial agricultural sector has been mixed, with modest gains in the production of fruits and vegetables, but with severe declines in cotton and sugar beets—the two leading commercial crops. As a result of the fighting, shortages and unemployment are widespread. Basic needs are being met by extended family groups that take care of their own indigent members. Largely cut off from its traditional Western suppliers, Kabul has become increasingly dependent on Moscow for supplies of food and petroleum products. (U)

The military situation in Afghanistan makes an improvement in the economy unlikely any time soon. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan. Insurgent attacks on road convoys have become increasingly effective, causing severe disruption to the transportation system. Even if its military problems disappeared, however, the government would still have difficulty coping with its economic problems.



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Afghanistan: The Continuing Economic Slide (U)

Growing Domestic Problems in 1980

The Babrak government has failed on all fronts to garner domestic support and to move the economy toward modernization. It has also been unable to counter the pervasive perception that it is a Soviet puppet government. Babrak's claim that his is the first government in 50 years to allow religious freedom has not impressed a population that views the government as antireligious and equates Marxism and the USSR with atheism. The unpopularity of the Babrak government and the Soviet occupation were the driving forces behind the exodus of Afghans from the country last year. The flight greatly accelerated between March and September, and by yearend about 3 million Afghan refugees were living in India, Pakistan, and Iran, according to UN estimates. (U)

Insurgent activities forced the Babrak government to back away from the agrarian reform program the Taraki and Amin regimes had pushed in 1978 and 1979. In part, Babrak did not want to further antagonize the handful of large landowners who have chosen to remain in the country. Besides cutting into production of commercial crops such as cotton, opposition to the program also reduced the supply of wheat and rice—the leading staple food crops. As a result, shortages of some food items worsened last year, and boarding—which has always been a rural problem—became widespread. Rationing was introduced in 1980 and included such basic commodities as bread and cooking oil. (U)

In response to growing fuel shortages, the Babrak government also began rationing oil products in mid-1980, including gasoline for private automobiles and kerosene for cooking and home heating. Product allocations for industry were determined on a case-by-case basis. Although the supply of kerosene has improved since the end of 1980, major urban centers are still experiencing shortages of motor oil and diesel and jet fuel.

Another major problem for the government has been demonstrations by bazaar shopkeepers in Kabul, who

have economic as well as political reasons for their protests. They have been hurt by the general decline in economic activity, and government price controls have cut into their profit margins. Their emergence as an opposition force is a serious blow to the government, because although not a major political force, the bazaari could provide strong financial support to a well-organized opposition movement.

Political infighting within the Babrak government has disrupted the economy. The government installed by the Soviets is an unstable alliance of rival factions—Babrak's Parcham (Banner) and the Khalq (People's) of former Presidents Amin and Taraki—patched together by Moscow in hopes that supporters of both factions in the military and the bureaucracy would work together. The major difference between the two groups is in the base of support: the Parchamists tend to attract members of the wealthy urban families, whereas the Khalqists concentrate on recruiting intelligent, poor, young people of both city and rural origins.

Soviet attempts to make the two groups work together have not succeeded. Infighting has grown more intense, and Parchamist senior government officials fire their Khalqi subordinates at every opportunity. To make matters worse, the two factions have carried out assassinations of each other's top officials. As a result, the bureaucracy at lower levels remains ineffective. The situation is further complicated because infighting at top levels of key government departments, such as the Ministries of Planning and Finance, prevents the formulation of coherent economic policies.

Economic Development

Most economic development programs have ground to a halt since the Soviet invasion. Although the Soviets claim satisfactory progress was made in 1980 on several of their projects, the suspension of bilateral aid from Western donors and loans from multilateral institutions has severely curtailed the pace of development. Six projects of the United Nations Develop-

ment Program and the Food and Agriculture Organization have been suspended; only a few technicians remain in Kabul to handle administrative details. Most Western aid technicians and officials have been pulled out of the country and even the Soviets are increasingly concerned about allowing their technicians to travel, particularly in certain areas of southern and western Afghanistan. (U)

To avoid a complete cessation of economic development, the Soviets reportedly have asked the countries of the Council for Mutual Economic Assistance (CEMA) to increase development aid to Afghanistan. In November 1980 the Soviets assigned Czechoslovakia the job of coordinating aid from the CEMA countries for development of Afghanistan's education and administrative systems and for transportation development. Information is not available to indicate what levels of assistance, if any, CEMA countries are providing or what progress Prague has made directing this program.

Agriculture

The agricultural sector has suffered greatly since the invasion. A record number of landowners have fled the country, taking with them valuable machinery and financial and personal assets. New recipients under the land redistribution program—who had traditionally relied on credit from large landholders and moneylenders—are finding it difficult to get loans from the government. In any event, many farmers are afraid to accept government credits, fearing they would be forced to fight against the insurgents as repayment for the loans. The Soviet-backed program to collectivize agriculture has all but failed, especially in rice and wheat production and as of mid-1981 the program was at a standstill.

Since fighting has sharply limited its access to rural areas, even the Babrak government probably does not have reliable crop data. Government data on food-grain production has always been suspect, reflecting the propensity of farmers to falsify crop production data to avoid taxes; bartering and smuggling; and traditional antagonism toward the central government. Since the Soviet invasion, Kabul's efforts to conceal economic deterioration has made the collection of reliable data even more difficult.

During normal years, grain crops such as wheat, rice, barley, and corn make up nearly 90 percent of total cropped areas, with wheat accounting for the largest share. However, there appeared to have been a shift in cropping patterns last year, with farmers moving out of wheat and rice into other crops.

Nevertheless Deputy Prime Minister Soltan Ali Keshtmand, in a speech to the nation last April, announced highly-satisfactory results for agriculture in general last year and for grain production in particular. He estimated total foodgrain output in 1980 of 4.4 million tons compared to 4.2 million tons in 1979. At this level—which may be inflated—1980 output would have come close to the 4.6-million-ton target Kabul set in its 1980 development plan but would be lower than the 4.8 million tons harvested annually during 1975-78. (U)

Commercial crops, which normally account for 10 percent of total arable land, appear to have had a mixed record. Production of fruits and vegetables increased moderately, but there were severe declines in cotton and sugar beet production—the two leading commercial crops. Many farmers growing cotton and sugar beets fled, and irrigation facilities, on which these crops depend heavily, were destroyed or badly damaged in the fighting.

The decline in grain output was serious, and, at Kabul's behest, Moscow increased wheat shipments at the end of the year. Even with the increase, Kabul continued to make frequent requests to Moscow for additional wheat, to no avail. Last May, however, Moscow finally agreed to ship 330,000 tons of wheat on a priority basis to meet food requirements.

Industry

The government announced increased production in the textile, printing, and mining sectors but overall industrial production declined last year for the second consecutive year. The small industrial sector is plagued by abysmal labor productivity, a lack of competent technical and managerial personnel, and increasingly by shortages of raw materials and spare parts. Industry also faced frequent power blackouts and fuel rationing. Because industry contributes such a small share—less than 15 percent—to the gross domestic product, the industrial sector's performance was not a major factor in the overall performance of the economy. (U)

Trade

The Soviet invasion has led to a sharp drop in the volume of commercial imports. The volume of imports from the West through Pakistan's ports—50,000 to 100,000 tons monthly before the invasion—has been cut almost in half. Both the Karachi-Peshawar-Kabul road route and the Karachi-Quetta-Qandahar route, which are used to carry imported Western goods via Pakistan, are frequently blocked for days and have become extremely dangerous.

Some countries are also experiencing difficulties in shipping goods to Afghanistan via Soviet ports at Nakhodka and Vostochnyy. Altogether there has been close to a 50-percent decline in commercial imports from non-Communist countries, with a 23-percent drop in imports from the European Community alone during the first nine months of 1980. (U)

In a political gesture to support Afghanistan's faltering economy, the USSR signed a new trade agreement with Afghanistan in 1980 that called for a 70-percent increase in trade between the two countries. Although no pressure was put on Afghan businessmen and farmers to increase trade with the USSR, transportation difficulties and the loss of markets in nearby India and Pakistan forced Afghan traders to increase their commercial ties with the Soviets. As a result, trade with the USSR now accounts for 60 percent of Afghanistan's total exports, compared to 40 percent in prior years.

Traditionally, Afghanistan had run a large foreign trade deficit with the USSR. The reverse was true in 1980. A 46-percent increase in export receipts—resulting largely from sales of dried and fresh fruits, carpets, and natural gas—more than offset aid-financed imports. By yearend, Afghanistan's foreign trade balance with the USSR reportedly amounted to an estimated \$120 million credit surplus, and the bilateral surplus may have reached \$500 million by mid-1981.

Soviet Economic Ties

Bilateral economic relations between Kabul and Moscow have entered a new stage in the aftermath of the Soviet invasion.

aid consisted of clothing and shoes, textiles, and food for "poverty stricken" Afghans. In addition, the Soviets shipped 115,000 tons of wheat to Afghanistan and increased the price they paid for Afghan natural gas by \$1.33 per thousand cubic feet.

When the Afghans approached the Soviets early this year for more economic aid, they were told that aid had already been greatly increased. Kabul was told that the 202-percent increase in gas prices since 1979 would be counted in Moscow's economic aid package. The matter of repaying economic aid has been worked out using natural gas imports from Afghanistan. Under a new five-year trade agreement (1981-85), the Soviets apparently have agreed to accept a higher level of gas deliveries from Afghanistan in partial repayment of Kabul's bilateral debt. In addition, the Soviets agreed to pay \$3.26 per thousand cubic feet for natural gas imports during the life of the contract.

¹ According to Soviet foreign trade data, Afghanistan had a \$14 million trade surplus with the USSR in 1980. The Soviets reported exports to Afghanistan of \$382 million and imports of \$396 million. Afghanistan reported substantially different totals for its trade with the USSR in 1980. The Afghans announced exports to the Soviets of \$394 million and imports of \$276 million. (U)

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Natural gas is Afghanistan's largest single export item and accounts for roughly a third of total export earnings. Soviet geologists estimate Afghanistan's proved and probable gas reserves at about 5 trillion cubic feet. The gas deposits are concentrated in northern Afghanistan, about 80 kilometers from the Soviet border. Until 1980, the only production came from the Khawaja Gogerdak field, developed by the Soviets and opened in 1967. Between 1970 and 1974, production averaged about 94 billion cubic feet annually, climbed to a peak of 106 billion cubic feet in 1975, but fell to 80 billion cubic feet by 1979. (U)

Natural gas sales are expected to play a larger role in bilateral trade in the 1980s, given the onset of production in February 1980 from a new field at Jarqaduq in northern Afghanistan. Production from this field, which was discovered in the early 1970s and developed with Soviet technical assistance, is expected to increase gas exports to about 100 billion cubic feet annually in the mid-1980s. Gas from the new field is piped by a 30-kilometer pipeline to Khawaja Gogerdak, where it joins the existing 100-kilometer pipeline to the Soviet border. To thwart possible insurgent attacks on the gasfields and pipelines and to ensure an uninterrupted flow of gas from Afghanistan, the Soviets have given military protection to the facilities, a job made easier by the fields' proximity to the Soviet border. (U)

Government Finances

According to the Afghans, the Soviet occupation has led to a severe fall in government revenues. The inability to collect sufficient taxes from domestic sources has wrought havoc with the budget and created a serious problem for Kabul and a nuisance for the Soviets. Nonetheless, in March 1980, the government announced a balanced budget of roughly \$776 million for the new fiscal year that began on 21 March, with 70 percent of revenues originating from domestic sources and 30 percent from Soviet loans and grants.

Receipts from import duties—the principal source of revenue for the government—virtually disappeared last year with the sharp curtailment in commercial activity. Insurgent activities along major roads caused a severe drop in government receipts from transport taxes. Indeed, the insurgents have been collecting

high toll fees from truckers daring enough to travel the partially interdicted roadways. The government also experienced a severe shortfall in property taxes and, as of January 1981, had collected only \$138,000 of the \$5 million in tax payments it had expected. To make matters worse, government receipts from corporate and individual incomes and the tourism industry amounted to a pittance in 1980.

By mid-1980, the Babrak government was scrambling for additional funds for day-to-day government operations. The Soviets increased grants in the form of foodstuffs and other consumer goods, but Kabul was forced to shift development funds to cover shortfalls in current outlays. Current spending was further reduced by the end of the fiscal year because the fighting forced various government offices to close.

Kabul's foreign exchange reserves are in better shape, but the government is concerned about the \$109 million decline in reserves between yearend 1979 and March 1981, to \$301 million. Under normal circumstances, the March 1981 level of reserves would be sufficient to finance about eight months of imports. This ratio has almost certainly increased because cutbacks in commercial imports have reduced pressure on foreign exchange holdings. The reserve decline is partly the result of a sharp drop in the \$50-100 million in annual remittances from Afghans working in Iran and other Persian Gulf countries prior to the invasion. Also contributing to the decline has been the decision of Afghan private exporters to leave their foreign exchange earnings on deposit abroad, instead of remitting earnings to Afghanistan's central bank.

The central bank has experienced some difficulty in managing its foreign credit transactions, largely because foreign banks have been concerned about the political situation in Afghanistan. Indeed, certain foreign banks have decided to grant letters of credit and credit extension based on the creditworthiness of individual traders rather than on the solvency of the country. Kabul's other liquid assets include \$465 million in gold (valued at current market prices) and \$37 million in Special Drawing Rights with the International Monetary Fund.

Afghanistan: Foodgrain Production

Thousand Tons

	1975	1976	1977	1978	1979 ^a	1980 ^a	1981
Total grains	4,744	4,920	4,875	4,775	4,200	4,400	5,000 ^b
Of which							
Wheat	2,800	2,940	2,900	2,800	2,200	2,200	2,400 ^b
Rice	451	457	460	460	455	380	

^a Estimates. The US Department of Agriculture, however, gives lower total grains estimates of 4.1 million tons for 1979 and 3.9 million tons for 1980.

^b Government of Afghanistan's production targets.

This table is Unclassified.

Looking Ahead

As long as most of the remaining population is able to obtain close to present amounts of basic necessities, the Afghans will consider the present economic situation tolerable. Fuel and food shortages again this winter, however, would hurt urban dwellers, the government's main constituency; rural inhabitants would probably suffer little from these problems. (U)

Over the next year, developments in agriculture will likely test the government's staying power. Kabul is estimating this year's foodgrain output at 5 million tons, with 2.4 million tons the target for wheat production, (see table). However, foodgrain output is unlikely to come close to reaching this level. If shortfalls occur, Afghanistan could finance the additional imports required, but prospects for transporting substantial amounts of wheat are uncertain at best, because of insurgent activities involving major road routes used to bring in Western goods.

The military situation in Afghanistan makes an improvement in the economy unlikely. Insurgent attacks on road convoys have become increasingly effective, and in much of the countryside Kabul will be foreclosed from activating development projects and other programs, collecting taxes, or obtaining wheat and other agricultural products. The government lacks both the popular support and the military force it needs to win effective control of much of rural Afghanistan. Under these conditions, it is not surprising that the area under government control has declined since last year. Divided by bitter factionalism in the ruling party, and with much of the bureaucracy either inexperienced or disaffected, the government would have difficulty coping with its economic problems even were its military problems to disappear.