



Afghanistan and Trade

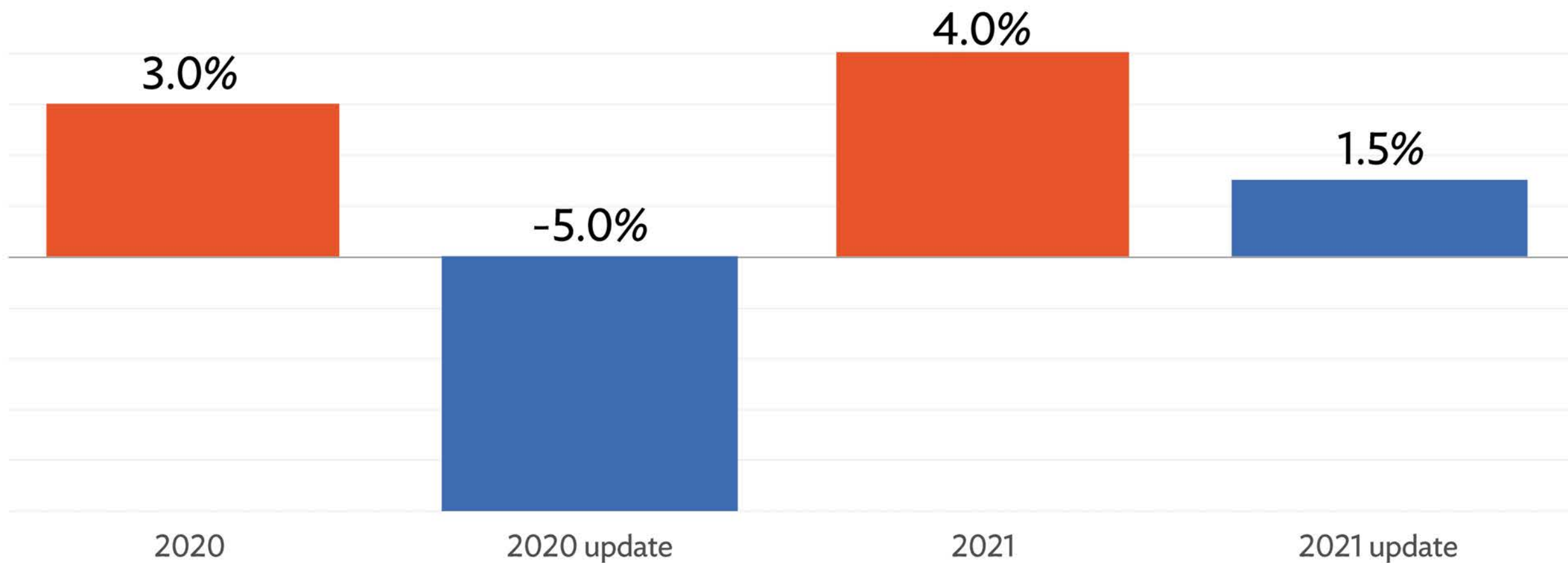
Trade School

Mento LLC and TAPA Americas

Friday August 26th, 2021

Afghanistan

GDP growth forecast update



Source: Asian Development Bank. *Asian Development Outlook 2020 Update* (September 2020)

#ADOU2020



Timeline of War (Afghan History)



330 BC

Alexander the Great conquers Afghanistan on his way to India. He founded the city of Kandahar which was initially named Alexandria.



642 CE

The Arabs conquer Afghanistan and introduce Islam. The eastern portion of the region remains a number of independent tribes.



1219

Genghis Khan leads the Mongols in an invasion of Afghanistan. Many cities are sacked and destroyed.



1370

Afghanistan becomes part of Tamerlane's Mongol Empire. Herat becomes a major city in the empire. Tamerlane rebuilds much of what Genghis Khan destroyed.



1504

Babur conquers Kabul. He will later form the Mughal Empire which will control the land from Afghanistan to southern India.



1738

Nader Shah leads the Afghans to victory at Kandahar.



1839

War breaks out between Afghanistan and the British East India Company.



1979

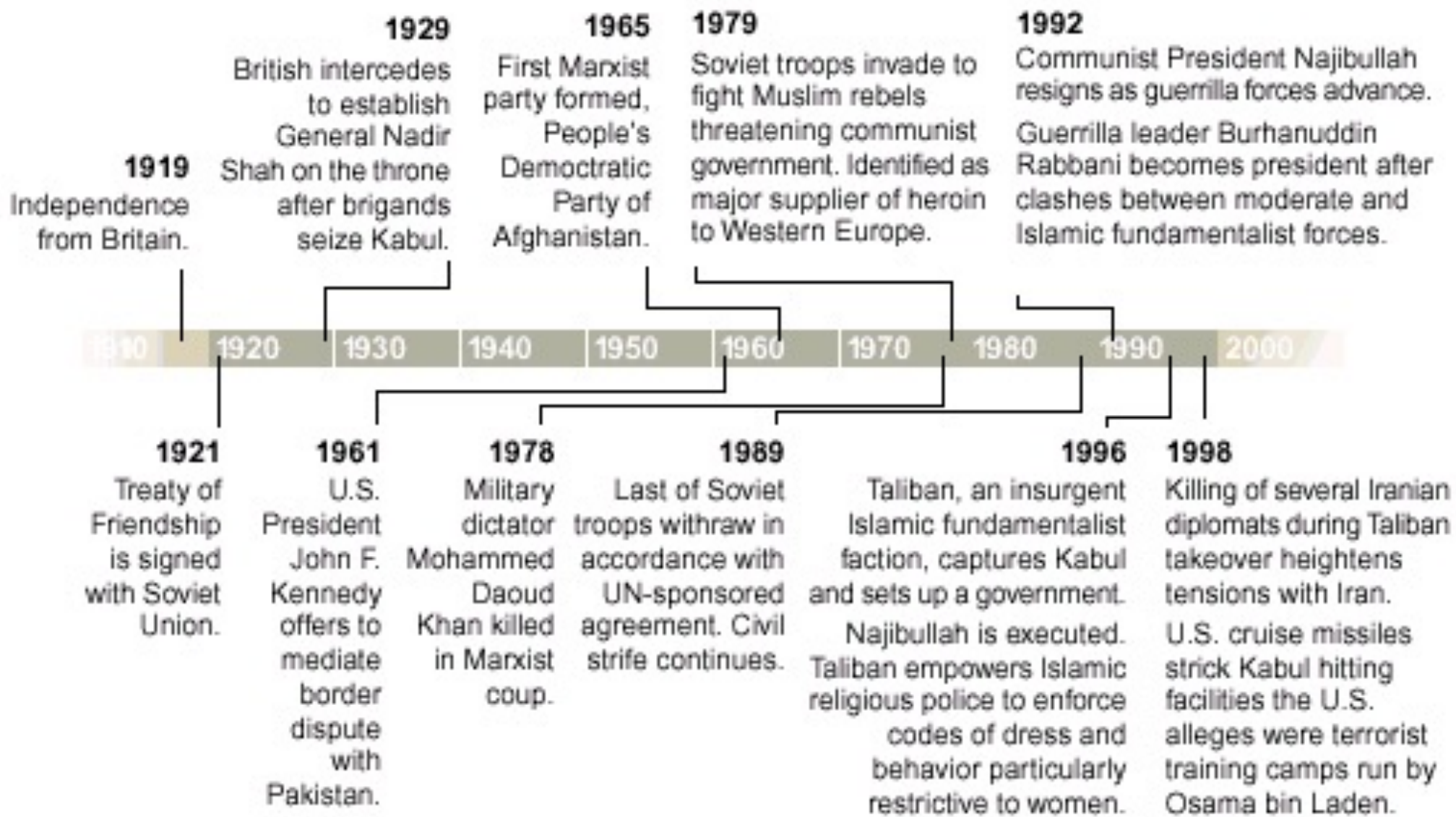
The Soviet Union invades Afghanistan in support of the communist government. They have President Amin killed.



2001

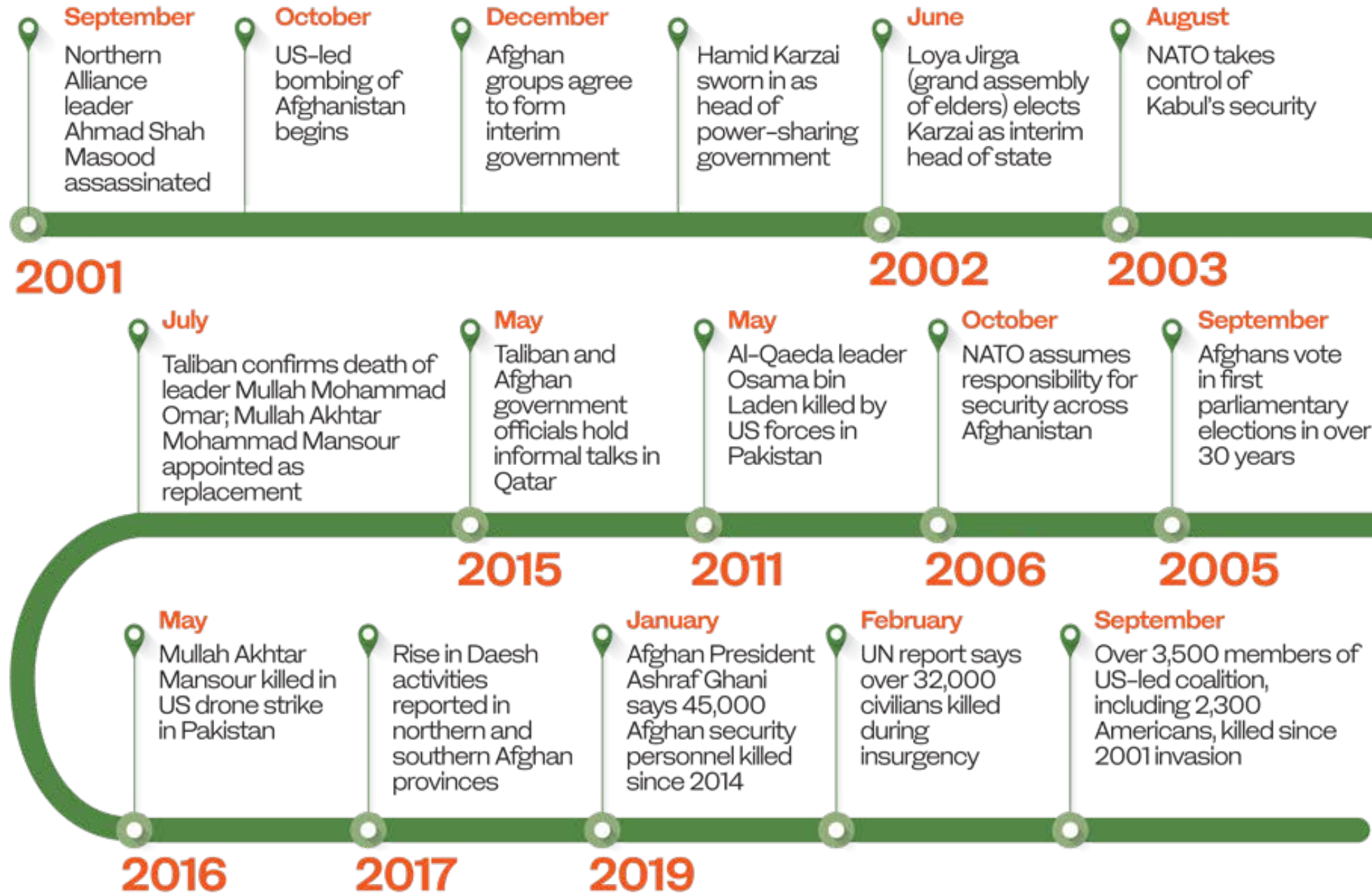
United States and the United Nations begin bombing Afghanistan.

Afghanistan: A history of resistance



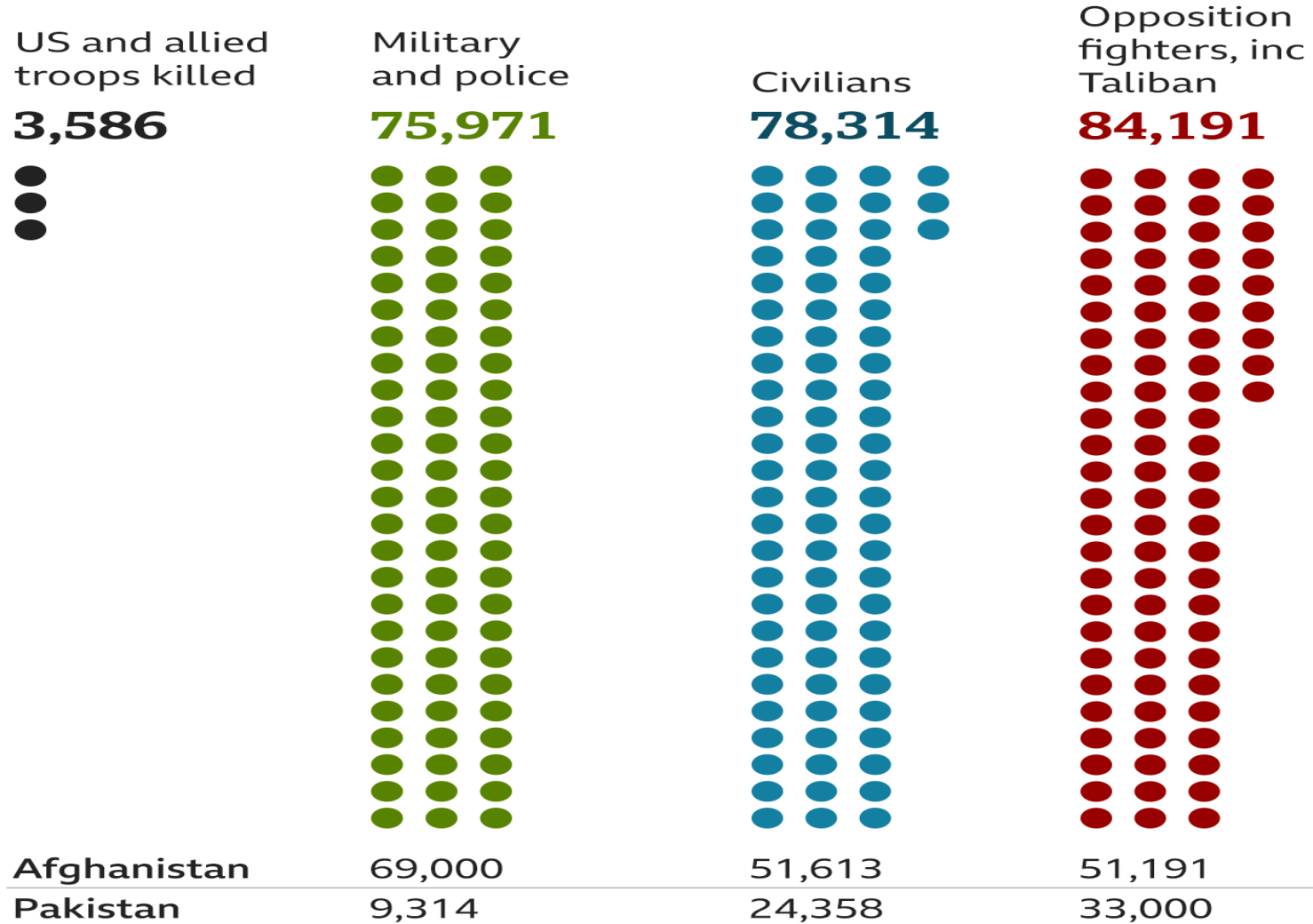
KEY DATES: AFGHANISTAN AFTER 9/11

The Asian country has seen unabated violence since the toppling of the Taliban regime nearly 18 years ago



Thousands of civilians in Afghanistan and Pakistan have died in the conflict, 2001-21

● 1 = 1,000 victims



Note: Civilian numbers include aid workers/journalists/contractors

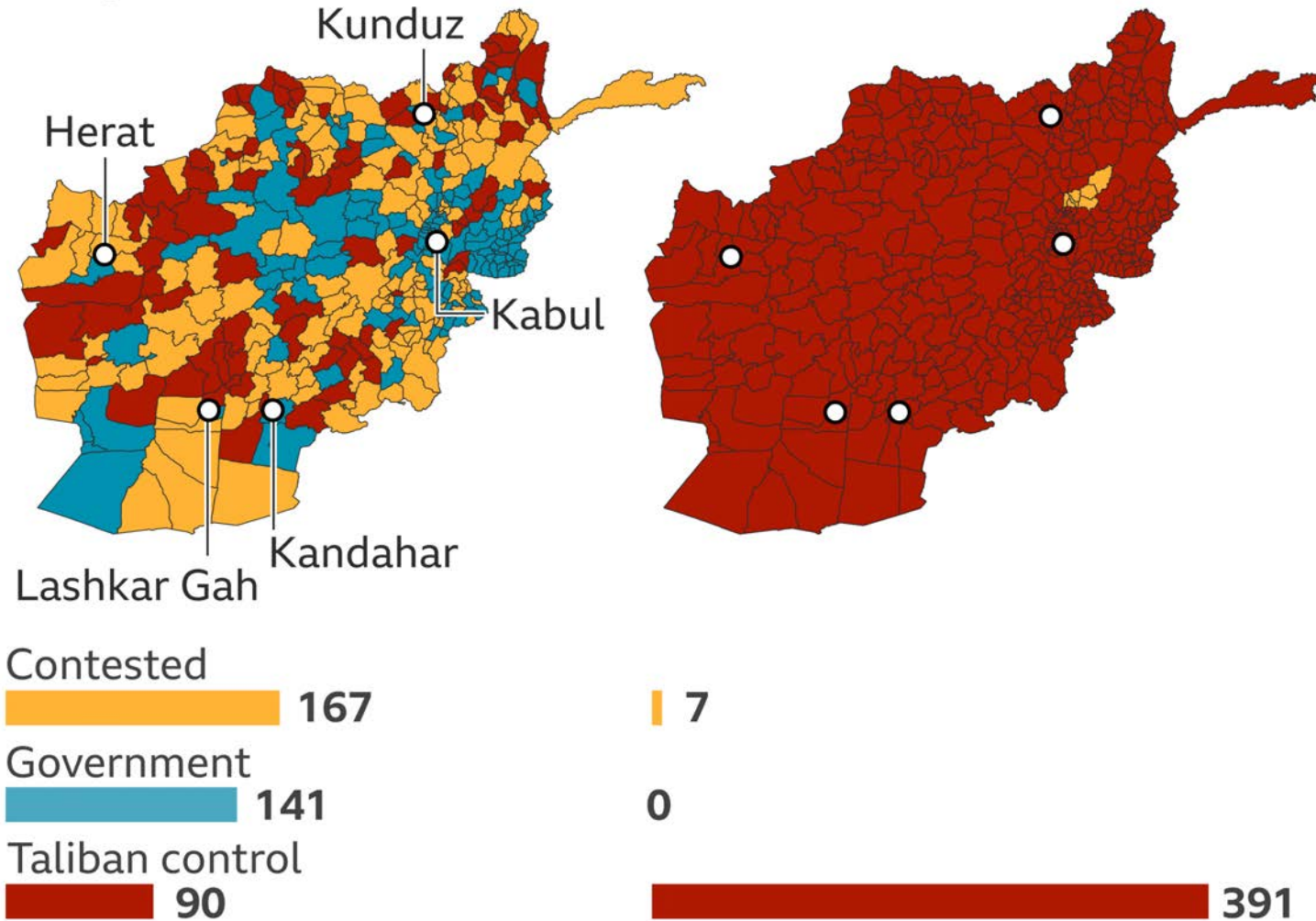
Source: Watson Institute for International and Public Affairs, Brown University (All numbers are estimates)

Taliban now control nearly all of the country

Militants made huge gains in just over a month of fighting

9 July

16 August



*Contested is where fighting is ongoing or strong Taliban presence

Source: BBC Research. Districts according to 2005 government boundaries



New Leadership of the Taliban

Mawlawi Hibatullah
Akhundzada is a political
and religious leader who
is the third Supreme
Commander of the
Taliban

Backslide?

- A major fear is that the country will once again become a training ground for terrorism.
- Taliban officials insist that they will fully adhere to the US deal and prevent any group from using Afghan soil as a base for attacks against the US and its allies.
- They say they aim only to implement an "Islamic government" and will not pose a threat to any other country.

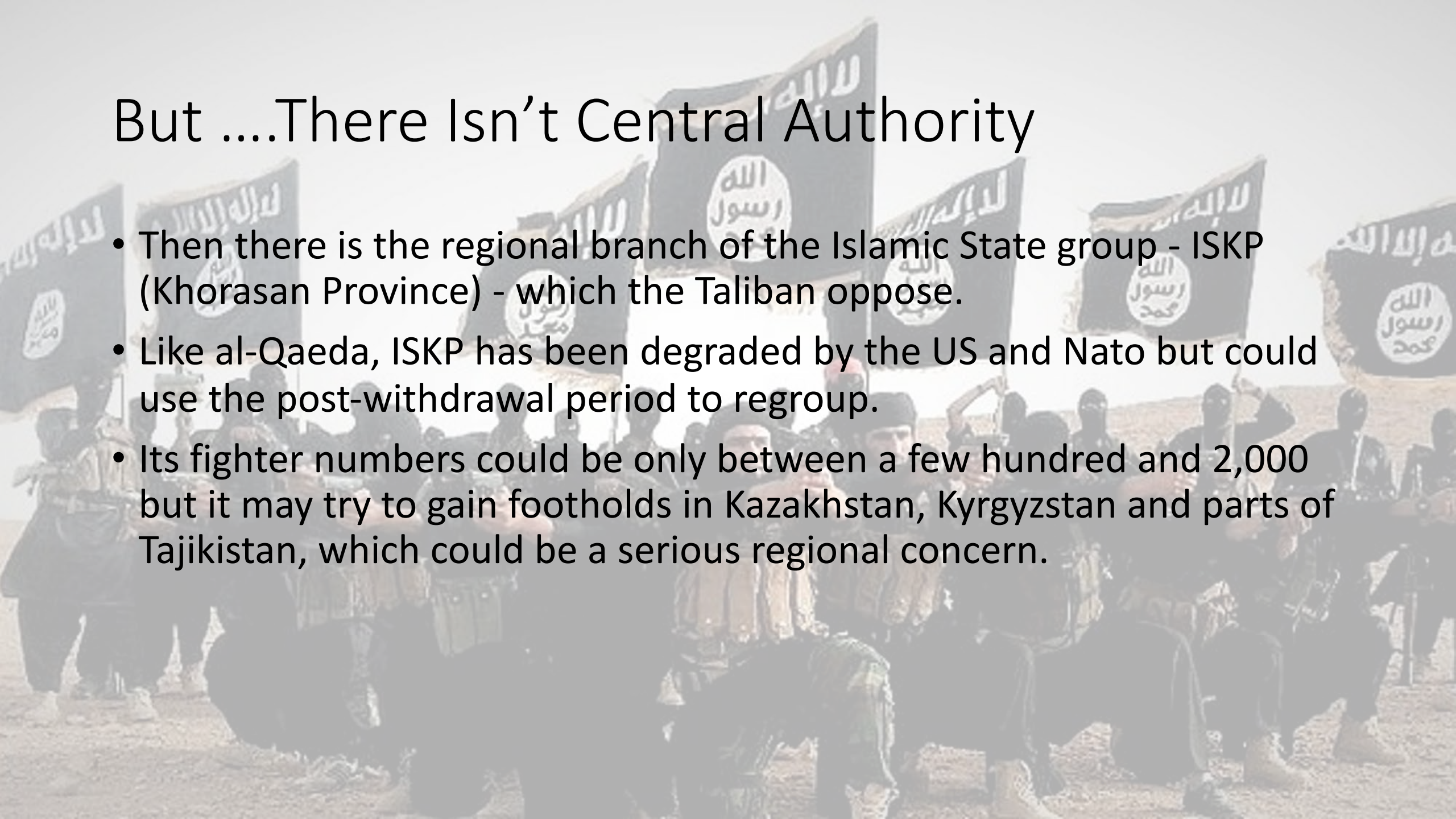


Staying Under The Radar?

- But many analysts say the Taliban and al-Qaeda are inseparable, with the latter's fighters heavily embedded and engaged in training activity.
- It is also important to remember that the Taliban are not a centralized and unified force. Some leaders may want to keep the West muted by not stirring up trouble, but hardliners may be reluctant to break links with al-Qaeda.
- Just how powerful al-Qaeda is and whether it could now rebuild its global network is also unclear.

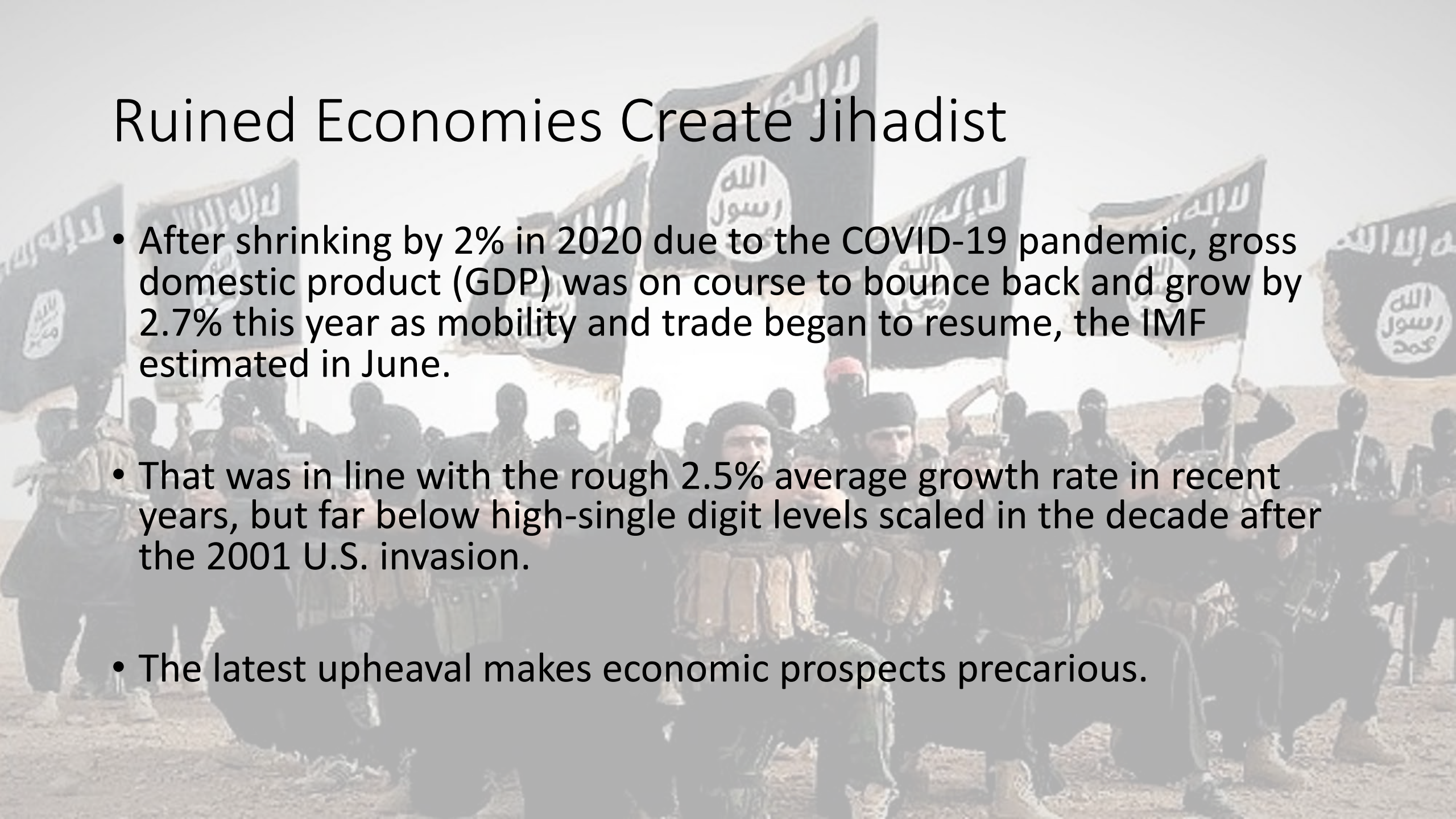
ButThere Isn't Central Authority

- Then there is the regional branch of the Islamic State group - ISKP (Khorasan Province) - which the Taliban oppose.
- Like al-Qaeda, ISKP has been degraded by the US and Nato but could use the post-withdrawal period to regroup.
- Its fighter numbers could be only between a few hundred and 2,000 but it may try to gain footholds in Kazakhstan, Kyrgyzstan and parts of Tajikistan, which could be a serious regional concern.



Ruined Economies Create Jihadist

- After shrinking by 2% in 2020 due to the COVID-19 pandemic, gross domestic product (GDP) was on course to bounce back and grow by 2.7% this year as mobility and trade began to resume, the IMF estimated in June.
- That was in line with the rough 2.5% average growth rate in recent years, but far below high-single digit levels scaled in the decade after the 2001 U.S. invasion.
- The latest upheaval makes economic prospects precarious.

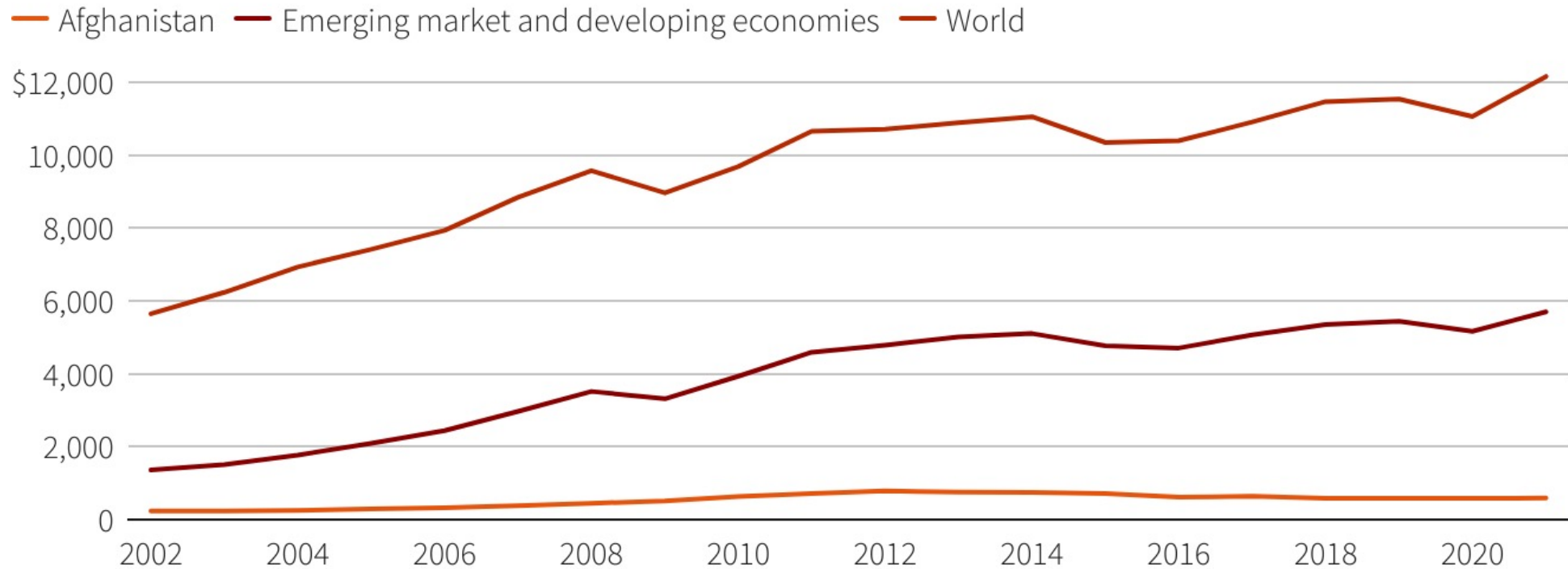


Aid and Recovery

- Now, we expect a contraction of GDP by 20%
- Critically, the future flow of remittances and international aid Afghanistan relies upon may now be more uncertain. Remittances reached \$789 million in 2020, around 4% of GDP, the World Bank estimated.

No convergence

Afghanistan has one of the world's lowest GDP per capita. The gap to the world average and even to other developing countries grew in the last decade as turmoil hurt the economy.



Note:

Source: IMF

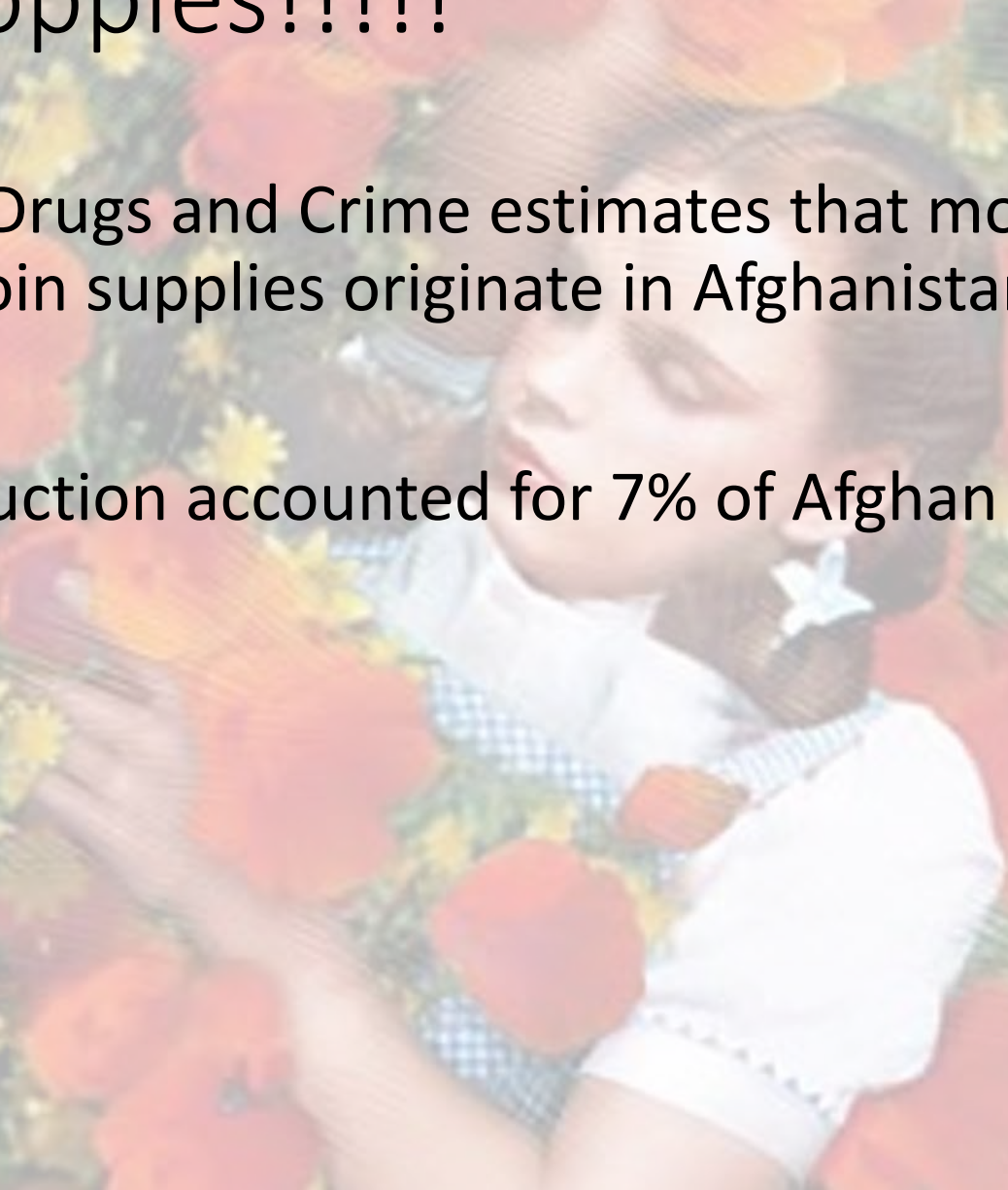
A man with a beard, wearing a white turban and a white shirt, is working in a field of green plants. He is looking towards the camera. The background is a blurred field of similar plants under a clear sky.

Harvesting a Bounce Back

- Agriculture is the main source of income for the majority of Afghans and the country's main export.
- According to the World Trade Organization, Afghanistan exported \$783 million of goods in 2020, a near-10% drop on 2019.
- Dried fruits, nuts and medicinal herbs make up the bulk of exports, mainly to India and Pakistan.
- But large imports of oil, food and machinery mean Afghanistan has a big trade deficit.

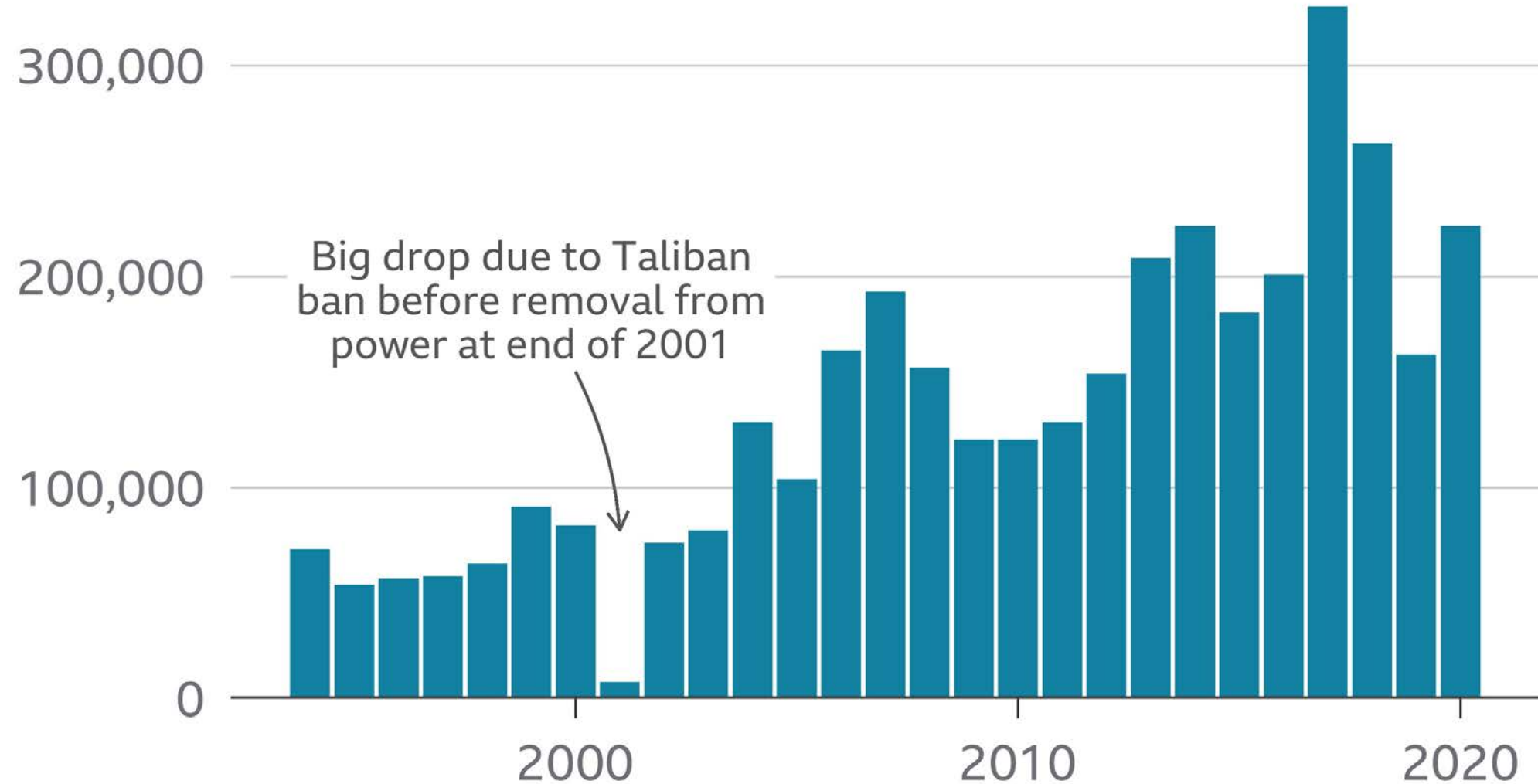
Poppies, Poppies, Poppies!!!!

- The United Nations Office of Drugs and Crime estimates that more 80% of global opium and heroin supplies originate in Afghanistan.
- At its 2017 peak, opium production accounted for 7% of Afghan GDP.



Afghan opium poppy farming has increased

Cultivation in Afghanistan in hectares (1994-2020)



Source: UNODC / Afghan government opium surveys

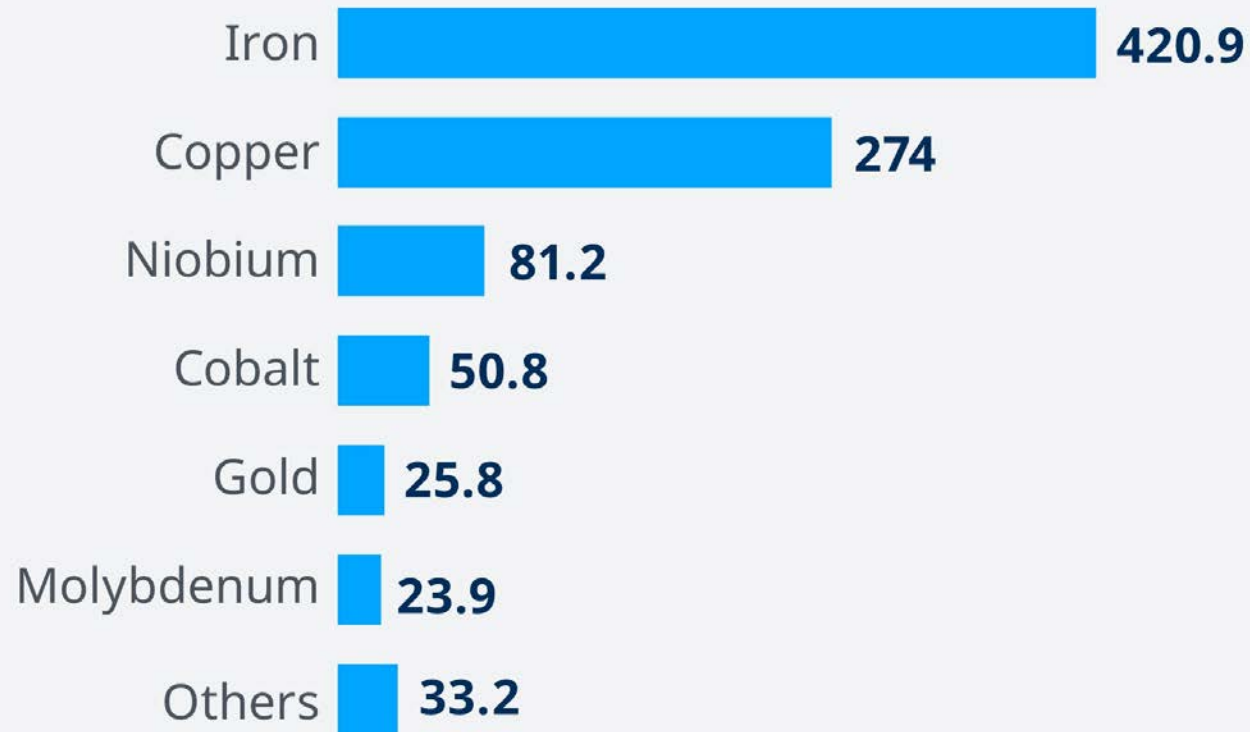
BBC

Lithium

- The country also sits on an estimated \$1 trillion worth of mineral deposits such as iron, copper, gold and lithium, a rare earth metal essential for electric vehicle battery production, according to a 2010 Pentagon study.
- The nation had the potential to become the "Saudi Arabia of lithium," a Pentagon memo said.

Afghanistan's mineral wealth

in \$ billions

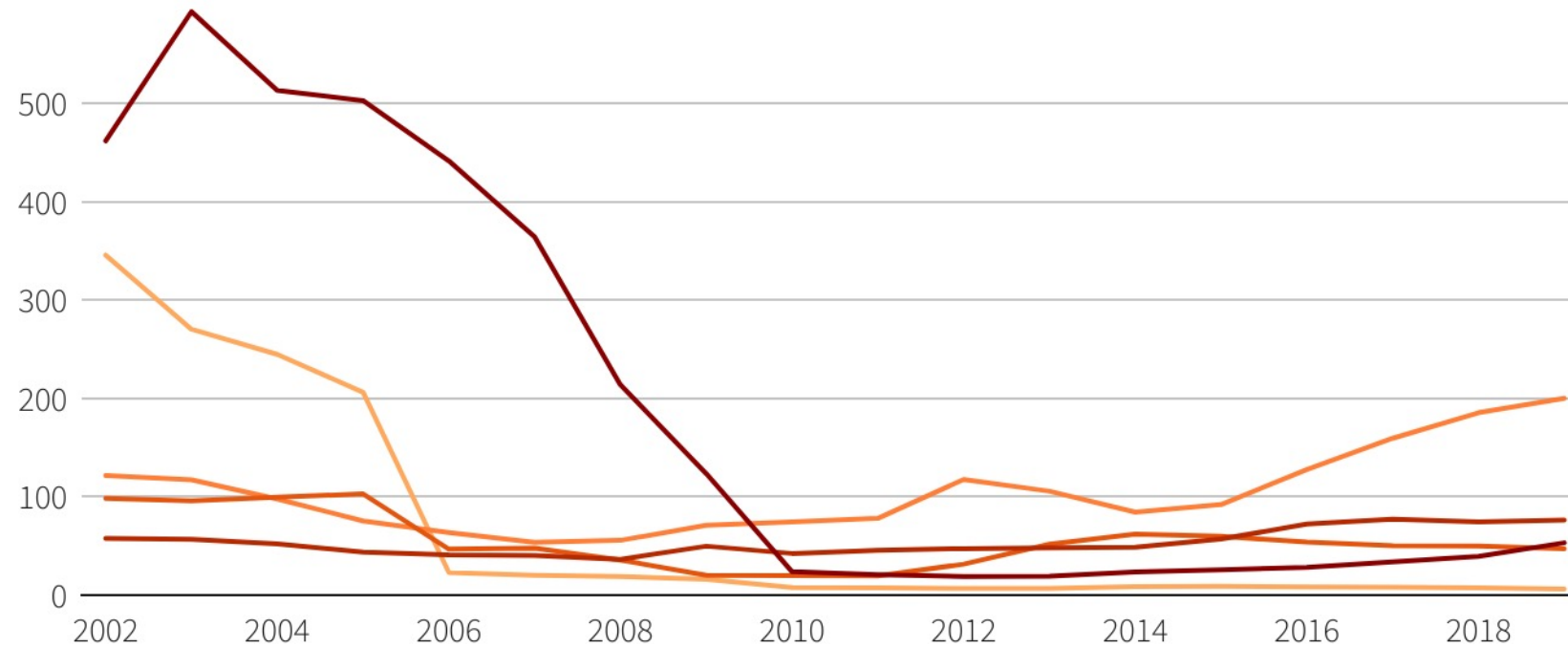


Lithium deposits may be as large as Bolivia, which currently has one of the largest known reserves

Afghanistan's debt to GDP versus other low-income countries

% of central government debt to GDP

Afghanistan Central African Republic Liberia Sudan Yemen



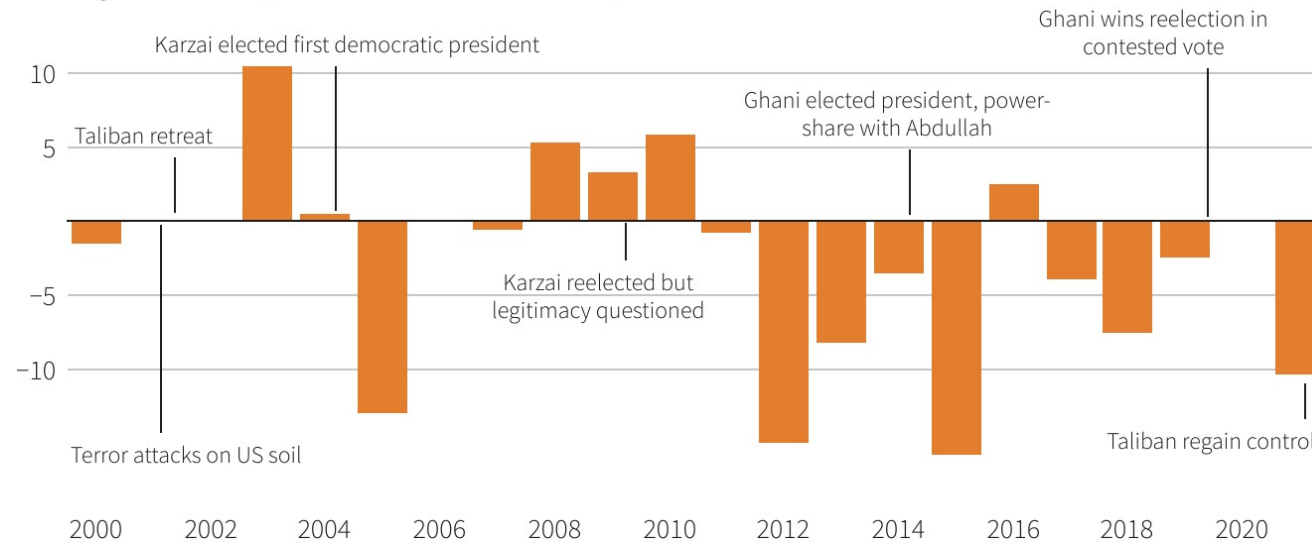
Graphic: Tom Arnold at Reuters

Source: IMF

CURRENCY & INFLATION PRESSURES

Yearly percent change in afghani versus USD

The Afghan currency lost half its value over the past decade

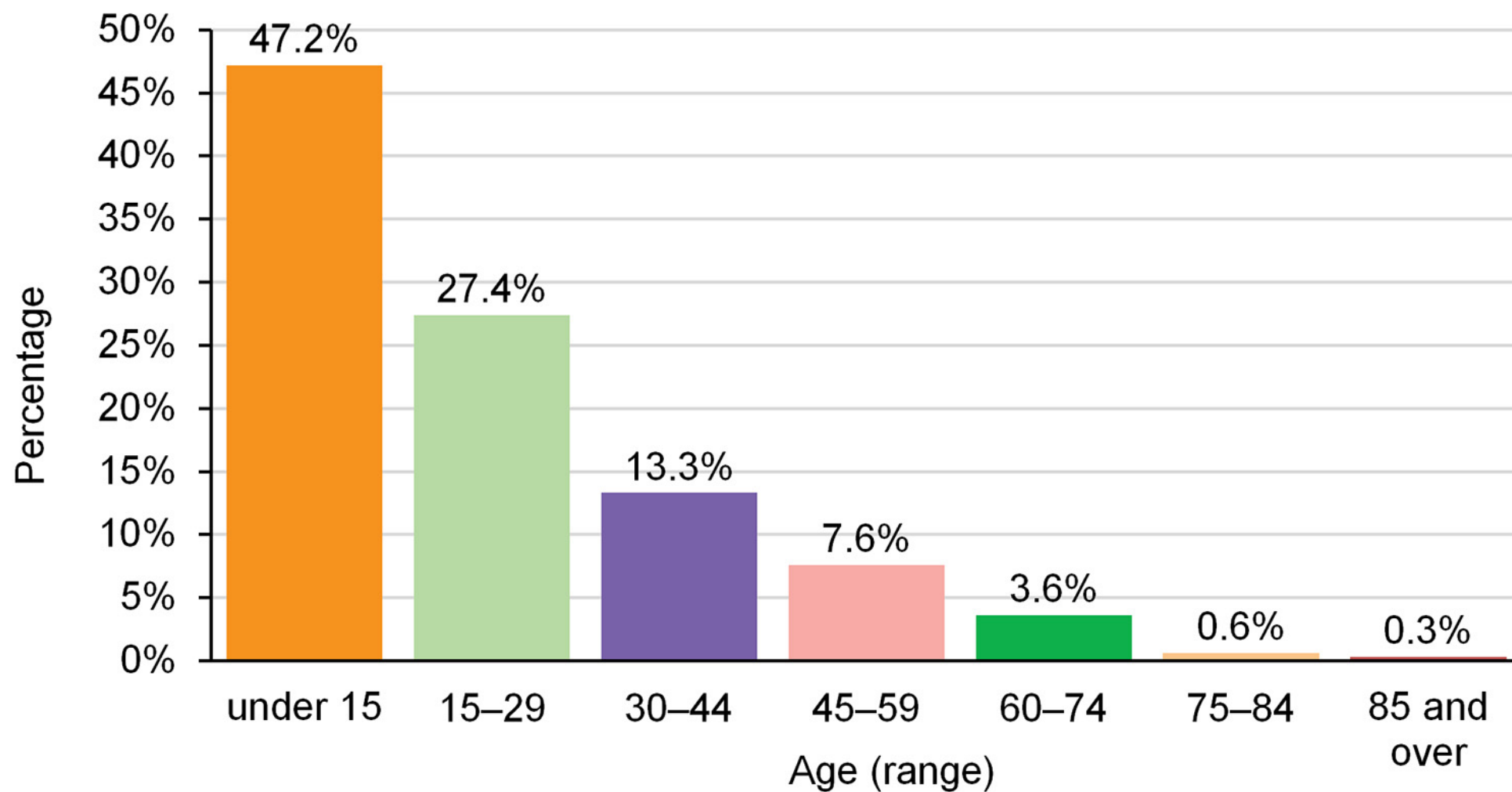


Sources: Refinitiv / Reuters / CFR

Graphic: O'Reilly Research

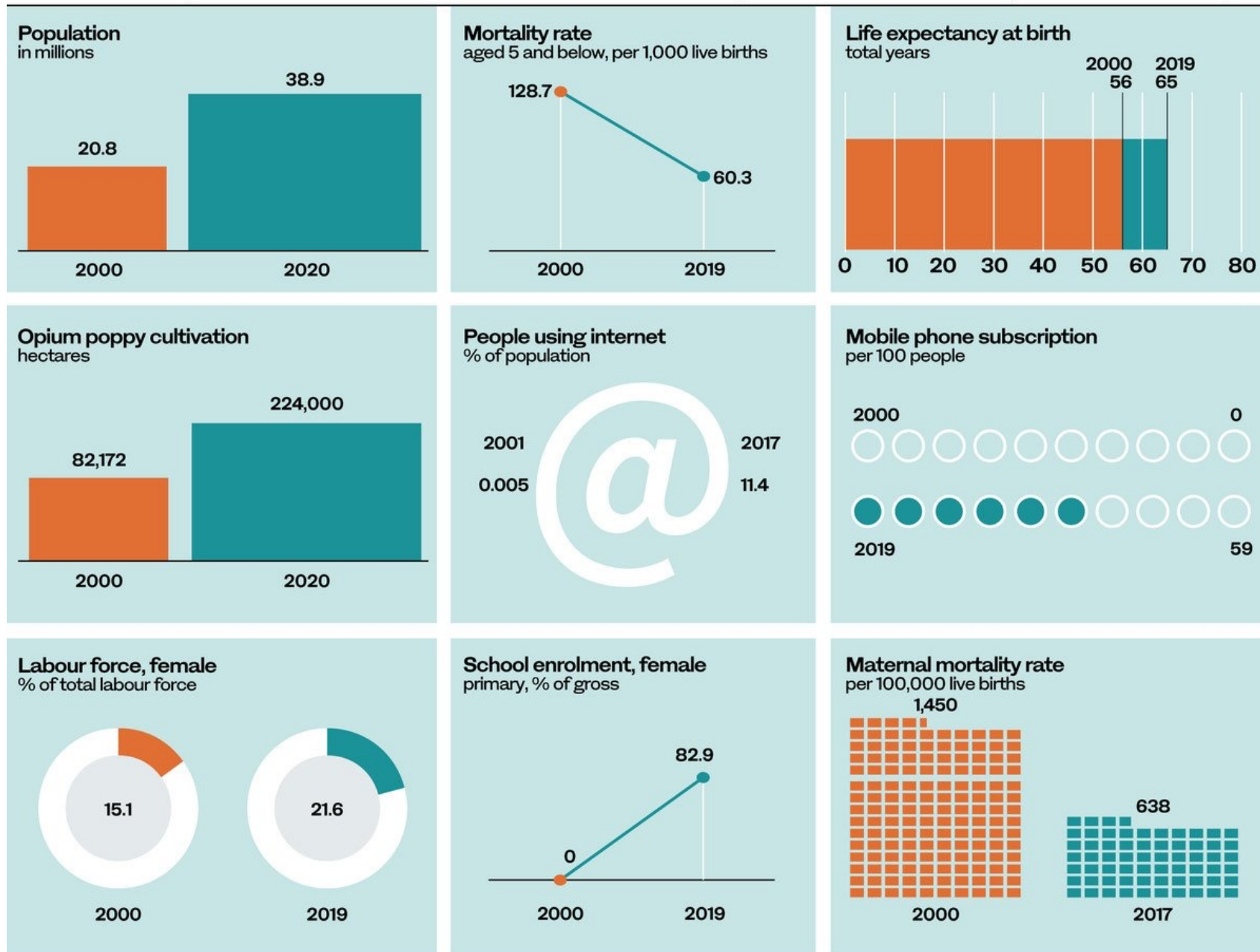
- The afghani weakened nearly 6% this week on the expectation that dollars will be scarce following the reported halt of physical dollar shipments.
- While Afghanistan's hard-currency reserves parked in the United States and with the IMF are out of reach of the Taliban.

Afghanistan age breakdown (2020–21)



AFGHANISTAN THEN AND NOW

A selection of key socio-economic indicators under the Taliban* compared to recent situation (latest data available)



Source: World Bank *Taliban ruled from 1996–2001, at the helm of power again after taking provincial capitals and entering Kabul on Aug. 15, 2021

AFGHANISTAN

War has cost the US \$2.26 trillion

It will **continue to pay** for the war even after it leaves.



\$933bn

Defense Department war budget



\$530bn

Estimated interest on war borrowing



\$443bn

Additions to Defense Department budget



\$296bn

Veteran's medical and disability care



\$59bn

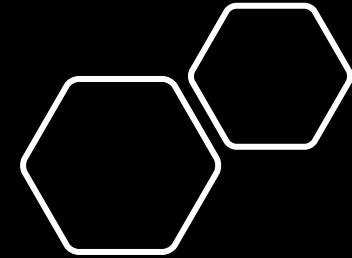
State Department war budget

Does not include lifetime care for veterans or future interest payments



Figures include operations in both Afghanistan and Pakistan

Source: Costs of War Project at Brown University's Watson Institute of International & Public Affairs @AJLabs ALJAZEERA



Spending and Loss

Since 2001, the US has spent \$2.26 trillion in Afghanistan, the Costs of War Project at Brown University calculates.

The biggest chunk – nearly \$1 trillion – was consumed by the Overseas Contingency Operations budget for the Department of Defense.

The second biggest line item – \$530bn – is the estimated interest payments on the money the US government borrowed to fund the war.

Tiny Economy Massive Problem

- Yet for all those trillions, Afghanistan still has one of the smallest formal economies on the planet.
- Last year, President Ashraf Ghani said 90 percent of the population was living on less than \$2 a day.
- The illicit economy, meanwhile, has boomed. After US forces drove the Taliban from power in 2001, Afghanistan cemented its place as the leading global supplier of opium and heroin – a crown it is likely to keep as the Taliban emerge victorious again.

SIGAR – the Special Inspector General for Afghanistan Reconstruction.

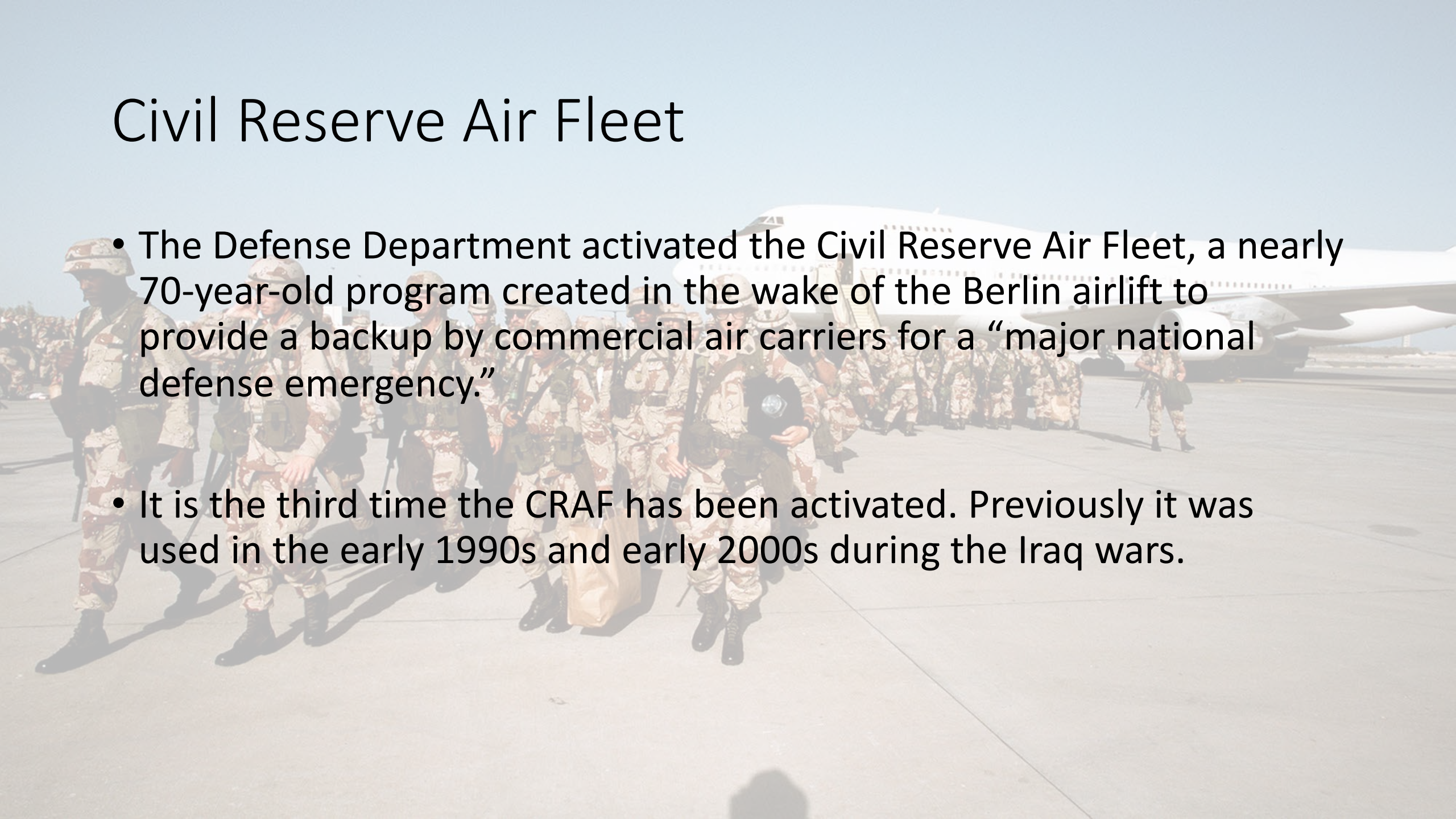
Since 2008, it has been auditing and assessing Washington's reconstruction efforts in Afghanistan.

The reports it churns out have been notable for their prescience and their propensity to pull no punches when it comes to highlighting waste, fraud and abuse.

One major critique is the lack of transportation and logistics infrastructure as a result of years of promised investment.

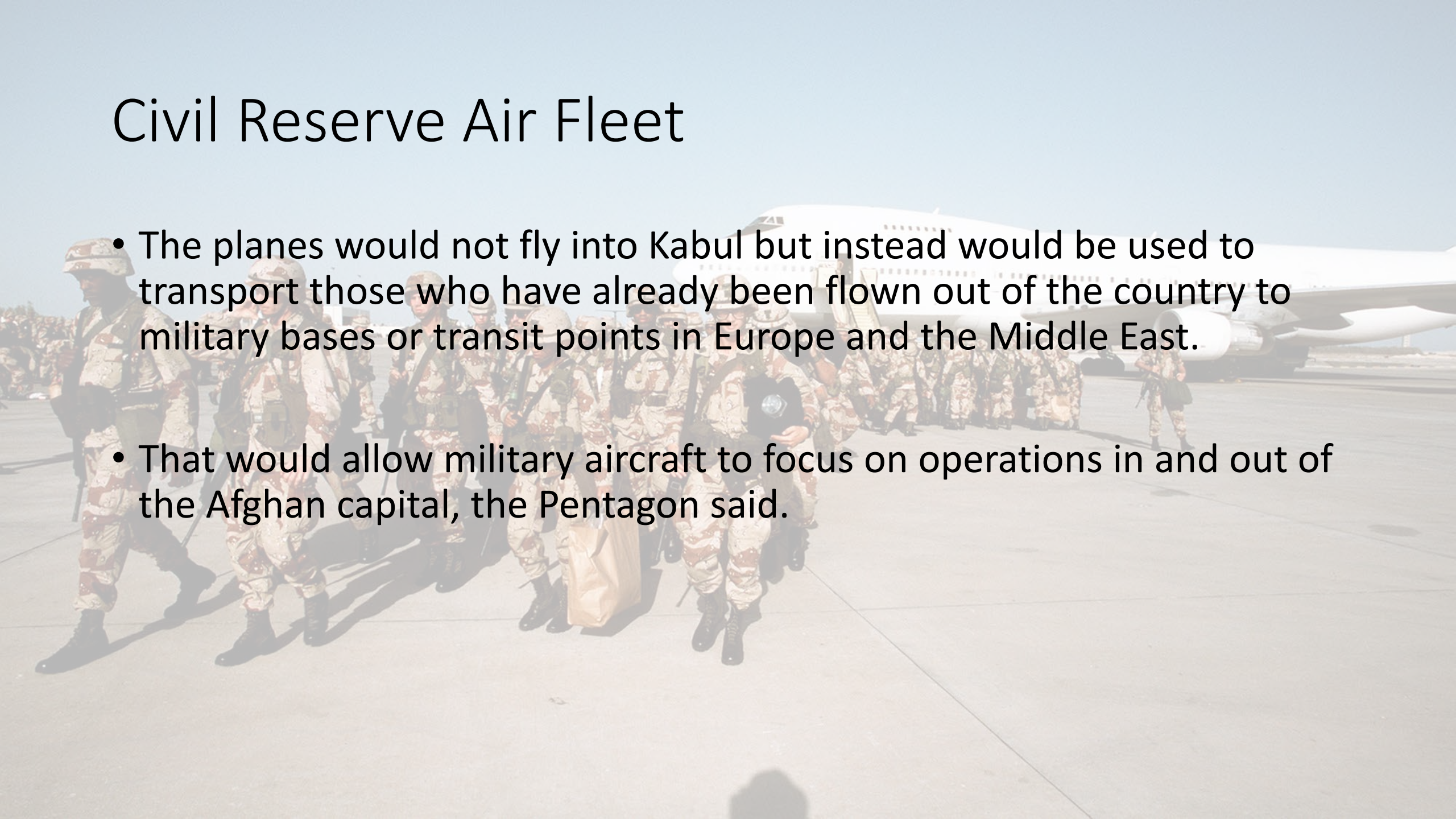
Civil Reserve Air Fleet

- The Defense Department activated the Civil Reserve Air Fleet, a nearly 70-year-old program created in the wake of the Berlin airlift to provide a backup by commercial air carriers for a “major national defense emergency.”
- It is the third time the CRAF has been activated. Previously it was used in the early 1990s and early 2000s during the Iraq wars.



Civil Reserve Air Fleet

- The planes would not fly into Kabul but instead would be used to transport those who have already been flown out of the country to military bases or transit points in Europe and the Middle East.
- That would allow military aircraft to focus on operations in and out of the Afghan capital, the Pentagon said.



Gulf Shipping a Concern

- Protection of shipping may well be a critical issue going forward. Safe access to the Suez Canal requires that countries surrounding the Red Sea—Egypt, Saudi Arabia, Yemen, Djibouti, Eritrea and Sudan—not interfere.
- This is an issue important not just to the United States but also Europe and China (most of whose exports to Europe pass through the canal).
- Most likely all of the interested countries will support whatever action is needed to protect shipping.

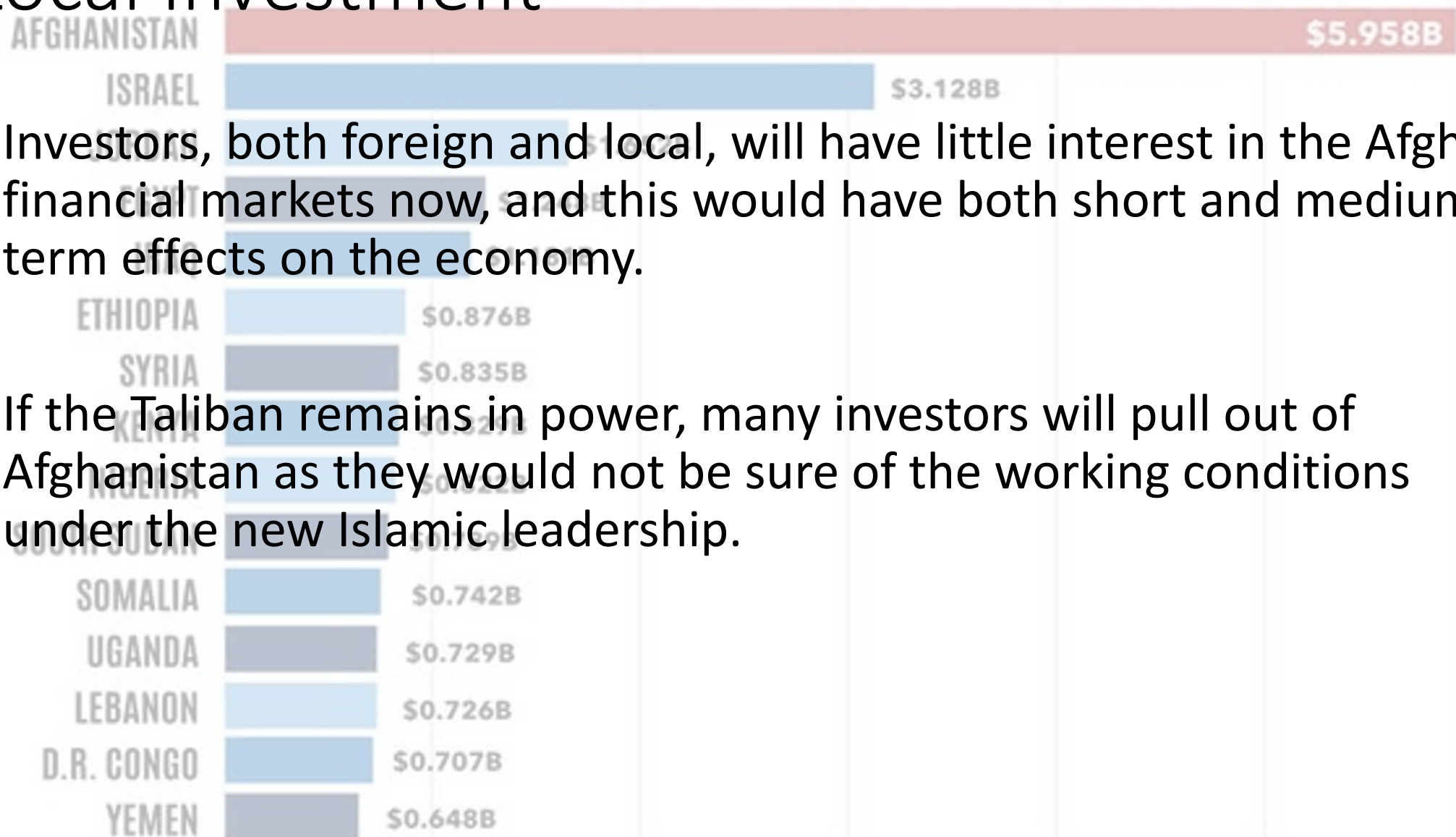
Gulf Shipping a Concern

- Similarly, one can imagine China demanding the right to inspect Taiwan-bound vessels passing near their country.
- This could be a first step toward exerting more control over Taiwan. U.S. failure to stand up to China would put Taiwan in the same position that the Afghan military was in.
- Without the big ally's help, defeat is certain. And if defeat is certain, early surrender is better than late surrender.

TOP COUNTRIES RECEIVING U.S. FOREIGN AID SPENDING (FY2018)

Local Investment

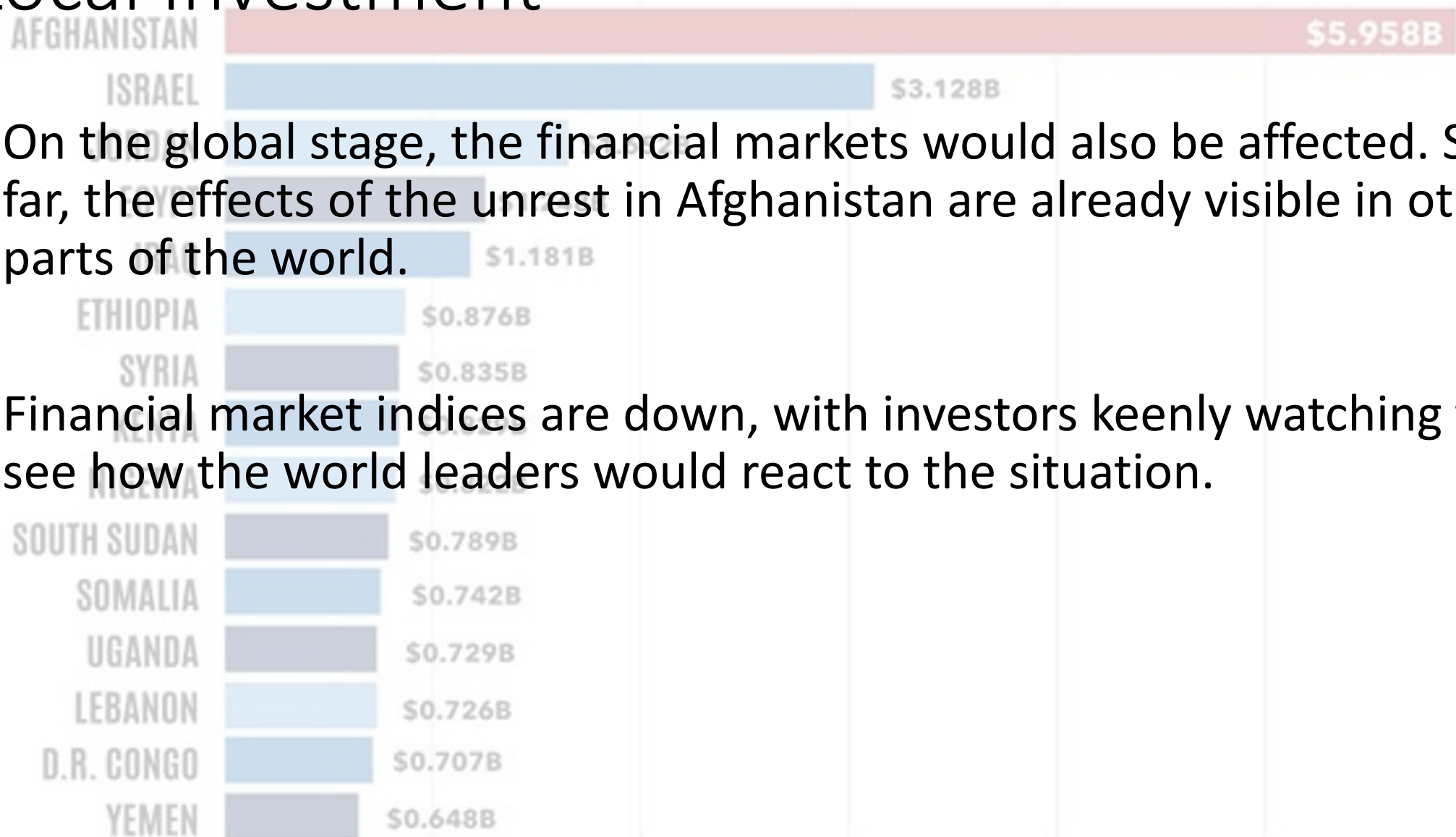
- Investors, both foreign and local, will have little interest in the Afghan financial markets now, and this would have both short and medium-term effects on the economy.
- If the Taliban remains in power, many investors will pull out of Afghanistan as they would not be sure of the working conditions under the new Islamic leadership.



TOP COUNTRIES RECEIVING U.S. FOREIGN AID SPENDING (FY2018)

Local Investment

- On the global stage, the financial markets would also be affected. So far, the effects of the unrest in Afghanistan are already visible in other parts of the world.
- Financial market indices are down, with investors keenly watching to see how the world leaders would react to the situation.



China and Russia

- Afghanistan is at the center of several trade routes linking Europe and countries of the Middle and Far East, including China's Belt and Road Initiative .
- China prefers to work with incumbent governments regardless of regime type. It has worked with both the Taliban and the recent Afghan government and will attempt to do so to keep the BRI on track.
- The larger threat to China's interests in the country and regionally could be non-Uyghur jihadist groups, which are increasingly outraged by the treatment of Uyghurs in China and could pose a threat to Chinese projects regionally.

China and Russia

- While the US, UK and other Western countries have shuttered their diplomatic missions and withdrawn from the country, China and Russia have indicated they have no plans to close their embassies and are not evacuating citizens.
- Taliban representatives visited Beijing last month, meeting foreign minister Wang Yi, and the country could recognize the new regime.
- There are some indications that the Taliban could be less hardline than the version that oversaw the country in the Nineties.

Ports Half Completed

- A knock-on effect of the Taliban's rise could be to make India's investment in Chabahar Port in Iran, dead money.
- Landlocked Afghanistan is reliant on ports in other countries for imports and export. India has invested heavily in Chabahar to allow a route to Afghanistan that sidestepped Pakistan.
- However, the development has moved slowly and the US has backed alternative connectivity projects with Uzbekistan and Pakistan.
- Pakistan is also developing its own Chinese-backed port at Gwadar, although progress has been troubled.

China and Russia

- There's legitimate concern in Beijing about what a resurgence of the Taliban and other extremist groups might mean trouble for China's own domestic stability as "it's hard to imagine this won't spill over the border in some fashion or the other."
- Nature sure hate's a vacuum.

