



Economic Development in Afghanistan During the Soviet Period, 1979-1989: *Lessons Learned from the Soviet Experience in Afghanistan*

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Abstract

This Technical Memorandum provides an overview of the major economic policies implemented in Afghanistan during the Soviet period, 1979-1989, and their results. Its objective is to inform the current NATO-ISAF engagement in Afghanistan about the importance of building the economic capacity of the state and the integration of the agricultural sector into the national economy. The research was done using both Russian and English sources. The study shows that the main reasons behind the fall of the pro-Moscow regime in Kabul were not defeat on the battlefield nor military superiority of the resistance but the regime's failure to achieve economic sustainability and its over-reliance on foreign aid.

Résumé

Cette note technique dresse un tour d'horizon des grandes politiques économiques mises en œuvre en Afghanistan depuis la présence soviétique, entre 1979 et 1989, et de leurs résultats. Il s'agit ici de faire ressortir l'importance de renforcer les capacités économiques de ce pays, y compris l'intégration du secteur agricole à l'économie nationale, tout particulièrement dans le cadre de la présence actuelle de la Force internationale d'assistance à la sécurité (FIAS), déployée sous l'égide de l'OTAN. Ce document se fonde sur des sources publiées en russe et en anglais. Il est en outre démontré que la chute du régime favorable à Moscou alors en place à Kaboul est attribuable, d'abord et avant tout, non pas à un échec militaire ni à la supériorité des forces de résistance, mais plutôt à l'incapacité d'instaurer une croissance économique durable, ainsi qu'à une trop grande dépendance à l'égard de l'aide étrangère.

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Executive summary

In 1979, the Soviet Union invaded Afghanistan to ensure that the Afghan government maintained a pro-Soviet orientation.¹ Soviet combat forces stayed in Afghanistan until 1989. Throughout this period, the Soviet and Afghan governments faced a widespread and multifaceted insurgency. In addition to employing pure military measures, the Soviets and their Afghan allies put significant efforts into social and economic development in efforts to defeat the insurgency and gain the support of the population. This study investigates the major economic trends, successes and failures during this period.

The Soviet Union had significant economic engagement with Afghanistan prior to 1978. The USSR had built Afghanistan's main roads and, by 1978, provided more than \$1.2 billion U.S. in economic aid. After the invasion, the core Soviet strategy to stabilize the regime was to build the capacity of its security forces. Thus, military aid was one of the most important aspects of Soviet involvement in Afghanistan. Direct military aid increased sevenfold compared to the pre-1978 period, and then doubled from 1979 to 1986, when efforts to build the Afghan army were stepped up. The most significant increase, however, occurred in 1988 when the Soviet army began its withdrawal. In that year military aid amounted to 4 billion rubles. Given the relatively successful performance of the Afghan army after the Soviet withdrawal, it can be argued that Soviet military aid achieved its objective of creating a force capable of providing security for the regime.

The question raised by this study is whether the government of Afghanistan could sustain the high costs of the security forces given the overall state of the Afghan economy during the Soviet period.

Until 1986, the main thrusts of economic development in Afghanistan were the expansion of the state sector of the economy and the increase in bilateral trade with the Soviet Union. Eventually, both the state share of the Gross Domestic Product (GDP) and the trade with the Soviet Union were doubled compared to the figures for 1978. Sales of natural gas, which constituted the most significant part of Afghanistan's revenue, were especially important. After 1986, under the influence of Gorbachev's new economic policies, the Government of Afghanistan emphasized greater cooperation with the private sector.

With respect to incorporating the agricultural economy with the state, the Afghan regime implemented Soviet economic practices in land redistribution and introduced state farms and agricultural cooperatives. These practices, however, collided with traditional Afghan and Islamic values and only served to alienate the farmers and the landed elite. Furthermore, the integration of the agricultural sector suffered from the Soviet counter-insurgency strategy of indiscriminate bombing of villages, cultivated

¹ In April 1978 the pro-Moscow People's Democratic Party of Afghanistan staged a coup d'état overthrowing the regime of Mohammad Daoud.

fields and livestock. Huge tracks of land were abandoned by their owners, who became refugees in Iran and Pakistan. As a result, food shortages ensued, which could only be alleviated through imports from the USSR. After 1986, agriculture seemed to have rebounded, but had done so in favour of cash crops such as opium poppies.

Overall, analysis of Afghan revenues and expenditures shows that despite the massive foreign aid, the Afghan government could balance its budgets only until 1982. Afterwards, and at bay especially after 1986, when the policy of national reconciliation was initiated, the expenditures were met by simply printing money. The collapse of the natural gas sales and most Soviet-Afghan joint ventures after the Soviet withdrawal were particularly damaging for the economy. Until 1992, however, Soviet foreign aid was able to maintain the government military machine and therefore keep the resistance at bay. The importance of foreign aid and the failure to establish economic sustainability was revealed in 1992 when, after the collapse of the USSR and the cut off of Soviet aid, the Afghan government collapsed as well.

The study concludes that the emphasis on the security situation in Afghanistan compromised sound economic development during the period 1979-89. No domestic skilled labour pool was developed to carry on with the new industrial enterprises and the agricultural sector was destroyed. Thus, the Afghan economy continued to be overly dependent on foreign aid. The study argues that without breaking this dependency no long-term solution to stabilize Afghanistan is possible.

The lessons for the current NATO-ISAF engagement in Afghanistan that can be drawn from the Soviet experience include the following:

- The implementation of an economic model, in this case communist, that is not in tune with local cultural and historical conditions will not work. Soviet initiatives collided with traditional Afghan values and undermined state legitimacy in the countryside.
- Soviet economic policies in Afghanistan could not break the traditional dependence of Afghan governments on foreign aid. Despite significant advances of the public sector, domestic revenue suffered from an overdependence on trade relations with one country only (the USSR) and especially from the inability to make any gains in obtaining proceeds from the agricultural sector. Rapidly increasing expenditures could not be covered by domestic revenues. Afghanistan must have a tax base that will allow it to become less dependent on foreign aid, and Afghan trade should be diversified.
- Revenues from the sale of natural gas were a substantial part of Afghan state income until 1986. The development of oil and natural gas industries has great potential to benefit the Afghan economy.
- The failure to develop a domestic skilled labour pool able to operate the crucial gas and mining sectors also contributed to the economic dependence of the Afghan regime. A skilled Afghan labour force must be developed.

- Developing greater economic independence and countrywide market cohesion will be the most successful tools of state building.

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Sommaire

En 1979, l'Union soviétique a envahi l'Afghanistan pour s'assurer que le gouvernement afghan maintienne une orientation pro-soviétique.² Les forces soviétiques sont demeurées en Afghanistan jusqu'en 1989. Tout au long de cette période, les gouvernements soviétique et afghan ont dû faire face à une résistance généralisée et multiforme. Outre les moyens strictement militaires, l'Union soviétique et ses alliés afghans ont consenti des efforts importants pour le développement social et économique du pays. Ils voulaient ainsi mettre fin à l'insurrection et obtenir l'appui de la population. La présente étude porte sur les principales tendances économiques, les réalisations ainsi que les échecs au cours de cette période.

Dès avant 1978, l'Union soviétique apportait une contribution économique importante en Afghanistan. C'est elle qui avait construit les grandes routes du pays et, jusqu'en 1978, elle avait fourni plus de 1,2 milliard de dollars américains en aide économique. Après l'invasion, pour stabiliser le régime, la stratégie soviétique visait surtout à renforcer les capacités de ses forces de sécurité. Ce faisant, l'aide militaire est devenue l'un des éléments les plus importants de la contribution soviétique en Afghanistan. C'est ainsi que l'aide militaire directe a septuplé par rapport à la période qui a précédé 1978, puis doublé de 1979 à 1986, avec l'intensification des efforts pour renforcer l'armée afghane. Toutefois, c'est en 1988 que l'aide a atteint son niveau le plus élevé, lorsqu'a commencé le retrait de l'armée soviétique. Au cours de cette année seulement, l'aide militaire s'est chiffrée à 4 milliards de roubles. Étant donné l'efficacité relative de l'armée afghane après le départ des Soviétiques, force est de conclure que l'aide militaire soviétique a atteint son objectif, à savoir créer une force capable de protéger le régime en place.

La question est cependant de savoir si le gouvernement afghan avait les moyens d'assumer les coûts élevés liés aux forces de sécurité, et cela, étant donné l'état général de l'économie afghane pendant la période soviétique.

Jusqu'en 1986, le développement économique dépendait, dans une très large mesure, du renforcement de l'activité économique étatique et de l'accroissement des échanges bilatéraux avec l'Union soviétique. Au fil des ans, la contribution de l'État au produit intérieur brut (PIB) et le commerce avec l'Union soviétique ont fini par doubler par rapport aux chiffres de 1978. Les revenus provenant de la vente du gaz naturel, premier poste de recettes de l'économie afghane, se sont avérés particulièrement importants. Passé 1986, sous l'effet des nouvelles politiques économiques de Gorbatchev, le gouvernement de l'Afghanistan a mis l'accent sur une coopération accrue avec le secteur privé.

S'agissant de l'intégration du secteur agricole à l'activité économique de l'État, le régime afghan a appliqué les pratiques soviétiques, à savoir la redistribution des terres

² En avril 1978, le Parti populaire démocratique d'Afghanistan, favorable à Moscou, a renversé le régime du président Mohammad Daoud lors d'un coup d'État.

et la mise sur pied de fermes et de coopératives agricoles dirigées par l'État. Ces pratiques entraient cependant en conflit avec les valeurs afghanes et islamiques traditionnelles, de sorte qu'elles n'ont fait qu'aliéner les agriculteurs et les grands propriétaires terriens. Qui plus est, l'intégration du secteur agricole a subi les affres de la stratégie soviétique de lutte contre l'insurrection, qui s'est traduite par le bombardement aveugle des villages, des terres cultivées et du bétail. C'est ainsi que des superficies importantes ont été abandonnées par leurs propriétaires, partis se réfugier en Iran et au Pakistan. Par conséquent, il s'en est suivi des pénuries alimentaires auxquelles seules des importations en provenance de l'Union soviétique ont porté remède. Après 1986, l'agriculture a connu un regain apparent, mais au profit de cultures strictement lucratives, comme celle du pavot.

De manière générale, l'analyse des recettes et des dépenses afghanes révèle que, malgré une aide internationale considérable, le gouvernement afghan n'est parvenu à l'équilibre budgétaire qu'en 1982. Par la suite, et surtout après 1986, avec la mise en œuvre de la politique de réconciliation nationale, le gouvernement afghan a simplement imprimé de la monnaie pour subvenir à ses dépenses. La chute des exportations de gaz naturel et l'implosion de la plupart des entreprises russo-afghanes, après le retrait des forces soviétiques, ont été particulièrement dommageables pour l'économie. Jusqu'en 1992, cependant, l'aide soviétique a permis le maintien de l'appareil militaire gouvernemental et, par là même, de faire obstacle aux forces de résistance. L'importance de l'aide étrangère et l'absence de bases économiques solides sont apparues particulièrement évidentes en 1992, après l'effondrement de l'Union soviétique et le tarissement de l'aide russe. Dans la foulée, cela a entraîné la chute du gouvernement afghan.

Les auteurs de l'étude concluent que l'accent sur la sécurité en Afghanistan a été préjudiciable à un développement économique sain de 1979 à 1989. Aucune main-d'œuvre qualifiée n'a été formée pour assurer le fonctionnement des entreprises industrielles nouvellement créées. À cela s'ajoute la débâcle du secteur agricole. Par conséquent, l'économie afghane est demeurée fortement tributaire de l'aide étrangère. Selon cette étude, pour que l'Afghanistan puisse aspirer à une certaine stabilité, il faudra absolument mettre fin à cette dépendance.

L'expérience soviétique permet de tirer certains enseignements utiles pour la mission de la FIAS, sous l'égide de l'OTAN, en Afghanistan. Ces leçons comprennent, notamment :

- l'implantation d'un modèle économique, dans ce cas-ci communiste, mal adapté à la réalité culturelle et historique locale, ne fonctionnera pas. Les initiatives soviétiques entraient en conflit avec les valeurs traditionnelles afghanes, de sorte qu'elles ont nui à la légitimité de l'État dans les régions rurales.
- Les politiques économiques soviétiques en Afghanistan ne sont pas parvenues à rompre la dépendance traditionnelle de l'État afghan à l'égard de l'aide étrangère. Malgré des progrès importants du secteur public, les revenus nationaux ont aussi souffert d'une dépendance exagérée à l'égard des

relations commerciales avec un seul pays (c.-à-d. l'Union soviétique). À cela s'ajoute, tout particulièrement, l'incapacité à tirer des recettes de l'activité du secteur agricole. Face à l'augmentation rapide des dépenses, le revenu national s'est vite révélé insuffisant. L'Afghanistan doit se doter d'un régime fiscal qui permettra de réduire la dépendance à l'égard de l'aide étrangère. Enfin, il convient de diversifier les exportations afghanes.

- Jusqu'en 1986, une partie importante des recettes de l'État afghan provenait de l'exportation du gaz naturel. La mise en valeur des ressources pétrolières et gazières pourrait s'avérer extrêmement bénéfique pour l'économie afghane.
- L'Afghanistan n'a pas formé les travailleurs qualifiés nécessaires au bon fonctionnement de ses secteurs gaziers et miniers d'une importance cruciale. Cela a également eu pour effet d'aggraver la dépendance économique du régime afghan. Il est absolument nécessaire de former une main-d'œuvre afghane qualifiée.
- Le meilleur moyen de conforter l'État afghan consiste à renforcer l'indépendance économique du pays et la cohérence des marchés à l'échelle nationale.

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1. Introduction

After a pro-communist coup took place in April 1978, it looked like the new government of Afghanistan was poised to bring the country fully into the Soviet bloc. By the end of 1979, however, a popular uprising against the regime and its policies threatened to reverse the “revolution.” The Marxist-Leninist reforms introduced by the new regime alienated a cross-section of conservative Afghan society and stimulated the rise of armed insurgent groups. Even worse, from Soviet point of view, a power struggle within the communist People’s Democratic Party of Afghanistan brought the US educated Hafizullah Amin to the Afghan presidency. Fearing a shift in Afghanistan’s foreign policy, Soviet troops entered Afghanistan in December 1979 to effect a regime change and set the conditions for continued implementation of the April revolution’s principles. The invasion was executed with precision and speed on the eve of December 25th. Soviet troops neutralized any resistance offered by the Afghan army around Kabul, captured the presidential palace and installed Babrak Karmal as a new party leader and president. Within two weeks, government institutions, critical infrastructure and the larger Afghan cities were under the control of the Red Army and the new regime. What the Soviet leaders had not anticipated was that such a strategy, which worked quite well in Eastern Europe in 1956 and 1968 in the cases respectively of Hungary and Czechoslovakia, would not be very applicable to Afghanistan. Traditional divisions between countryside and urban centers, state institutions and tribal society ensured that the insurgency remained unaffected by the Soviet operation. In some ways, the intervention even produced counterproductive results. It undermined the legitimacy of the new regime, and it allowed insurgents to invoke the Islamic principle of jihad—a defensive action against invading infidel forces. The Soviet invasion provided ideological legitimacy to the insurgents.

What was anticipated only as a brief operation turned into a prolonged effort to stabilize the regime, necessitating the continuous presence of Soviet troops, massive economic investment and financial aid, and direct engagement in the internal and external affairs of Afghanistan. Soviet troops withdrew from the territory of Afghanistan only in February 1989, after a change in the Soviet leadership’s strategy and foreign policy had occurred a few years earlier.

While combat engagements between Soviet troops and mujahidin fighters remained perhaps the most visible aspect of the Soviet presence in Afghanistan during the period December 1979 – February 1989, a significant amount of social and economic development also took place. In fact, it was not on the battlefield where Soviet strategy failed but in their efforts to influence Afghan social dynamics and to address crucial economic sustainability issues facing the government of Afghanistan.

Paradoxically, economic development in Afghanistan during the 1980s is largely overlooked by analysts and rarely discussed in the extant literature. The economic impact of the Soviet presence is usually narrowed down to mention of Afghan villages and agricultural fields destroyed by the Red Army and colonial dependence on the Soviet economy. While the destruction of the rural population’s livelihood,

leading to depopulation and agricultural decline, and reliance on Soviet aid to supplement the Afghan economy are certainly valid statements, very few authors have actually made the effort to substantiate them and to explore their consequences.

Given the current NATO-ISAF mission in Afghanistan, a survey of the Soviet successes and failures in the economic sphere would be beneficial to, first, raise the awareness about the importance of this area, and second, to inform current development efforts. This paper will analyze the available economic data from secondary sources and provide an assessment of the economic impact of the Soviet presence in Afghanistan.

1.1 State of Research

The most comprehensive effort to capture Afghan economic development during the Soviet period is the economic overview in the Afghanistan country study produced by the American University, Washington, D.C.³ Unfortunately, it only covers the first half of the period, namely until 1985. Two other important articles by M.S. Noorzoy, Grant Farr and Azam Gul also deal with the first few years of the 1980s only.⁴ The two studies which cover the whole period and present a significant amount of economic data remain Barnett R. Rubin's *Fragmentation of Afghanistan* and Antonio Giustozzi's *War, Politics and Society in Afghanistan*.⁵ Typically, Russian authors do not deal with economic information.⁶

³ Richard F. Nyrop, Donald M. Seekins, ed. *Afghanistan: A Country Study*, Foreign Area Studies, American University (Washington, 1986), 141-207.

⁴ M.S. Noorzoy, "Long-term Economic Relations between Afghanistan and the Soviet Union: An Interpretive Study," *IJMES*, 17 (1985), 151-173; Grant Farr, Azam Gul, "Afghan Agricultural Production, 1978-1982," *Journal of South Asian and Middle Eastern Studies*, 8, 1 (Fall, 1984), 65-79.

⁵ Barnett R. Rubin, *The Fragmentation of Afghanistan: State Formation and Collapse in the International System* (Yale UP: New Haven, London, 1992); Antonio Giustozzi, *War, Politics and Society in Afghanistan 1978-1992* (Washington, 2000).

⁶ Such can be occasionally found in M.A. Gareev, *Afganskaya strada* [The Difficult Battle for Afghanistan] (Moscow, 1999).

2. Soviet Economic Investment Prior to the Invasion

First, it should be stressed that Soviet-Afghan economic ties did not start in 1979. In fact, the two countries had a long history of trade relations.⁷ The Cold War increased the value of Afghan friendship in the eyes of the USSR. In 1955, an Afghan – Soviet treaty was renewed, giving the Soviet Union more influence in the former’s economic and political sphere. By 1978, Afghanistan was the third largest recipient of Soviet aid.⁸ In comparison, US aid to Afghanistan – \$471 million – was only one third of the Soviet aid, which stood at \$1,265 billion in 1978.⁹ In 1978, 2,000 Soviet technical and economic experts and advisers were present in Afghanistan.¹⁰ The Soviet Union was involved in both small, but publicly visible projects, such as building apartment complexes, as well as in large economic development projects such as building the concrete highway system connecting the Soviet border with Kabul and Kandahar, including the longest highway tunnel in the world, the Salang Tunnel.¹¹

Soviet economic ties with satellite countries have always been subordinated or at least aligned to overall Soviet geopolitical policies and objectives. According to Noorzoy, these overall strategic interests are typically manifested in the economic sphere by expanding bilateral trade, expanding economic and technical influence tied with aid programs, and ultimately creating a complimentary economy.¹² In Afghanistan, the purchases of Soviet military equipment and supplies were especially conspicuous. By 1966, the Afghan army relied exclusively on the USSR for military support and logistics.¹³ The Soviet Union also substantially benefited from the import of natural gas from Afghanistan at below market prices. Nevertheless, until 1978, Afghanistan remained relatively open to international markets with exports to the Soviet Union constituting between 30% - 40% of all exports and imports actually decreasing from a peak of 53% of all imports in 1966/67.

The coming to power of the Peoples’ Democratic Party of Afghanistan (PDPA) regime in 1978 and especially the 1979 military intervention dramatically changed Soviet strategic objectives and the corresponding economic policies. The Soviet leadership quickly realized that the general Afghan upheaval of 1978-79 against Amin’s regime could not be fixed by a quick military intervention and by installing a new regime. Long term commitment and support in both the military and economic spheres would be necessary to stabilize the new government.

⁷ See Noorzoy, “Economic Relations,” for detailed overview of Soviet-Afghan economic relations from 1917 to 1978.

⁸ Ibid., 159.

⁹ Ibid., 160. It should be pointed out that while US aid consisted of grants, Soviet aid consisted of loans to be repaid later in commodities –see Nyrop, Seekins: *Country Study*, 147.

¹⁰ Noorzoy, “Economic Relations,” 160-161.

¹¹ That the highway was constructed to handle heavy military traffic with the possibility of facilitating a future invasion has been a longstanding speculation among historians.

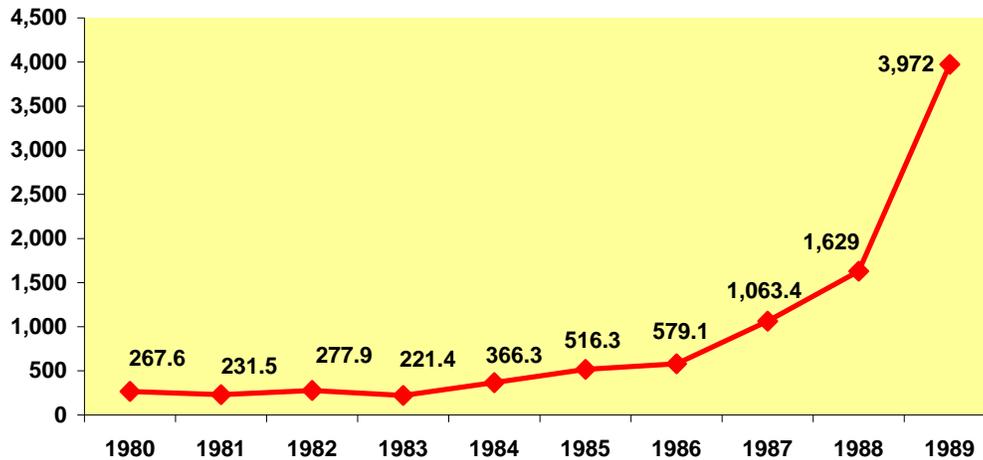
¹² Noorzoy, “Economic Relations,” 153.

¹³ Ibid, 160.

3. Military Aid and Defence Spending

The core of the Soviet strategy to strengthen the Afghan regime was to rebuild and increase the capabilities of the Democratic Republic of Afghanistan (DRA) security forces. Therefore, military aid was the most important aspect of Soviet assistance. In the period 1968-79, total Soviet aid to Afghanistan was \$695 million U.S., i.e. an average of 69.5 million per year.¹⁴ In 1980, only the military aid was valued at 267.6 million rubles (approximately 370 million dollars¹⁵) – more than 7 times the pre-1978 aid. The military aid gradually increased until 1984, when it reached 366.3 million rubles – a 37% increase from 1980. Between 1985 and 1988, with stepped up efforts for transferring the security responsibilities to the Afghan army and Red Army's withdrawal of active combat, the military aid increased fourfold compared to that of 1984 to 1,629 million rubles. The most significant increase, however, occurred between 1988 and 1989 when military aid was increased by 2,343 million rubles and stood at 3,972 million rubles - more than the entire amount for the period 1980-1987.¹⁶

Graph 1: Soviet Military Aid (in millions of rubles), 1980-1989



¹⁴ Ibid., 159.

¹⁵ According to Noorzoy, the exchange rate in 1979-80 was \$1.38 for 1 ruble – see Ibid., p. 165.

¹⁶ Gareev, *Strada*, 258.

The 1989 aid included a significant amount of military equipment and supplies left by the withdrawing Red Army.¹⁷ According to Gareev, the objective was to maintain the military balance after the Soviet troops' withdrawal.¹⁸

In addition to Soviet military aid, a significant portion of DRA's budget was devoted to military expenses as well.¹⁹ Furthermore, for the period 1979-82, the only one for which statistics exist about DRA's budgets, defence expenditures increased from \$3,575 million to \$6,370, a 178% increase.²⁰ As another indicator for increased military spending, Noorzoy points out the increased value of Soviet exports of aircraft and trucks to Afghanistan in the period 1979-82. Non-existent as an export category prior to 1979, the purchase of aircraft by Afghanistan in 1979 was valued at \$1 million and rose to \$125 million in 1982. Purchase of trucks increased from around \$18 million in 1979 to \$46 million in 1982. According to Noorzoy, this situation was related to the military needs of the Afghan army.²¹ A further indication of the DRA governments' growing defence spending in the 1979-1989 period is the decreasing portion of economic development projects and the increased portion of state support expenses (including the defence budget)²². The DRA's defence budgets increased especially after 1986 with the efforts to strengthen the army and buy off resistance leaders. By 1988, defence expenditures constituted 60% of total government expenditures and 15% of the GDP.²³

Given the relatively successful performance of the DRA army after the Soviet withdrawal, it can be argued that the immense military aid and defense spending helped to achieve the objective of strengthening DRA's regime survivability and ensured that it had, if not total monopoly over the means of violence, at least as sufficient military power to provide security to the regime.²⁴ The large number of mujahidin giving allegiance to the government after 1989, is an indication that the latter's military power and capacity of military coercion were recognized by many insurgents.²⁵

The question of defence spending in relation to the health of the economy as whole, however, is whether such spending can be sustained and for how long. Obviously, increased spending necessitates increased revenues from both internal and external

¹⁷ The more significant weapon systems left behind included 767 tanks, 1,338 armed personnel carriers, 76 fighter jets and 36 helicopters – Ibid., p. 259.

¹⁸ The cost of maintaining the 40th army, as the Soviet army in Afghanistan was known, was 7.5 billion rubbles per year – see Ibid., p. 259.

¹⁹ Around 24% of all expenditures during 1979-82 – see Nyrop, Seekins, *Country study*, 345-46.

²⁰ Ibid.

²¹ The Afghan army lost 4,199 trucks and 289 aircraft during the 1979-80 period – see A.A. Lyakhovskii, *Tragedia i doblest Afghana* [The Tragedy and Heroism of the Afghans] (Moscow, 1994), Appendix 14.

²² See Barnet Rubin, *Fragmentation*, p. 113.

²³ Ibid., 161. Gareev, *Strada*, 98.

²⁴ See Mark Urban, *War in Afghanistan* (London, 1990), 273-277, Gareev, *Strada*, 186-218.

²⁵ According to Giustozzi (*Afghanistan*, 189 and 281), by the end of 1990, 25% of non-government armed groups have signed reconciliation agreements with the government and 40% have signed ceasefire agreements.

sources. The discussion of economic development below will be largely focused on whether DRA was able to boost revenues and solve the sustainability issue.

4. The “Rentier” State

When approaching the Afghan economy, it should be noted that state institutions and the state as a whole never became stable or deeply rooted.²⁶ The Afghan state developed as a nation-state enclave, insulated from the traditional society. As a result, the rural economy had very little interaction with the state controlled sphere of economic activity. In order to function, government and state institutions were forced to rely to a significant degree on foreign aid and exports of resource commodities and less on domestic revenue from taxes. Middle East scholars have classified states that derive most of their income from foreign sources as “rentier” states.²⁷

The “rentier” status of Afghanistan was affirmed especially after 1919, when efforts to centralize the state and introduce the use of currency to facilitate the exchange of goods in the rural economy under King Amanullah were abandoned. It was not until after World War II that the Cold War competition between the US and the USSR brought significant amounts of foreign aid into the country.²⁸ Since then revenue has been comprised primarily of foreign aid, profits from government enterprises, taxes on foreign trade and very small amounts from agricultural taxes, despite the fact that the agricultural sector constituted the largest part of the GNP.²⁹ In 1975, for example, 40% of state’s domestic revenue came from taxes on foreign trade, 7.8% from government run industries and only 0.7% from agricultural taxes.³⁰ In the same year, domestic revenue was only sufficient to cover 63% of state expenditures, while foreign aid and sales of natural gas paid for 43% of all expenditures.³¹ The missing 4% were supplied by internal borrowing, an instrument also often used by Afghan governments to meet their expenses.³²

As it will be demonstrated below, the economic policies of Afghan governments during the Soviet period were not able to break the country’s dependence on foreign aid and make greater inroads into deriving income from the rural economy.

²⁶ Barnett Rubin, “Lineages of the State in Afghanistan,” *Asian Survey*, Vol. 28, 11 (1988), 1189.

²⁷ See for example Mahdavy, Hussein. “The Patterns and Problems of Economic Development in Rentier States: The Case of Iran.” *Studies in Economic History of the Middle East*. Ed. M.A. Cook. London: Oxford University Press, 1970.

²⁸ Barnett Rubin, “Political Elites in Afghanistan: Rentier State Building, Rentier State Wrecking,” *IJMES*, 24 (1992), 78.

²⁹ Even in the 1970s, agricultural activities contributed to 60% of GDP—Noorzoy, “Economic Relations,” 167.

³⁰ Rubin, “Lineages,” 1203.

³¹ Rubin, *Fragmentation*, Appendix C.

³² For the 26 year period starting in 1952, on only six occasions the Afghan government has not needed to resort to internal borrowing. See Rubin, *Fragmentation*, Appendix C.

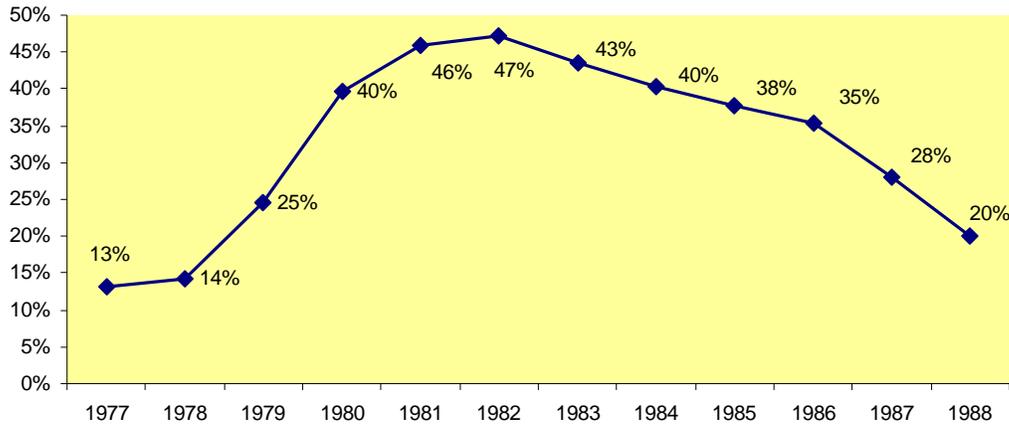
5. Enhancing the Public Sector

The economic strategies of the Peoples' Democratic Party of Afghanistan (PDPA) regime were largely influenced by Soviet economic theory and experience. In addition to adopting economic planning based on the five-year cycles used in the USSR, the two major thrusts of economic development initially (at least until 1986) were to increase the state share of national income³³ and to increase the bilateral trade between the two countries.³⁴

Pursuing state control over the economy, the DRA expanded control over the mining and manufacturing sectors, and was relatively successful in these areas. State control in manufacturing eventually reached 80%,³⁵ in the construction sector – 90% and in transportation – 60%.³⁶ In trade, the expansion of public sector was less pronounced. The state share of international trade was 45% and in domestic trade only 15%.³⁷

The oil and gas industry was also controlled entirely by the government. The importance of gas sales revenues to the government, especially until mid 1980s is evident in Graph 2.

Graph 2: Sales of Natural Gas as Percentage of Total Domestic Revenue³⁸



³³ In 1975, domestic revenues represented only 9.5% of GNP. See Rubin, "Lineages," 1203.

³⁴ Noorzoy, "Economic Relations," 166. See also Rubin, *Fragmentation*, 169.

³⁵ However, manufacturing seems to have been discouraged by the USSR, so that it can import its own manufactured goods into Afghanistan – see Noorzoy, "Economic Relations," 168.

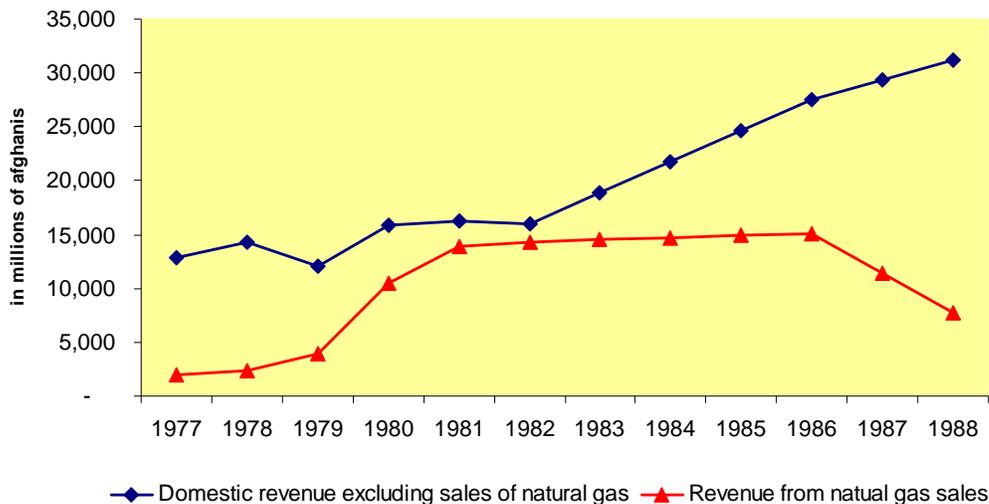
³⁶ Gareev, *Strada*, 98.

³⁷ *Ibid.*

³⁸ Data extrapolated from Rubin, *Fragmentation*, Table 5.1, p. 113.

However, natural resource exploration was controlled by Soviet cadres and gas was exported exclusively to the Soviet Union.³⁹ When Soviet technicians, however, began to leave the country after 1986, income from the sales of gas declined and after 1989 essentially disappeared. Still, domestic revenue, excluding sales of natural gas, increased from 12,893 million afghanis in 1977 to 31,176 million in 1989, representing a growth of 142 % for the period or 13 % per year. The share of public sector as part of GNP increased from 9.5% in 1975 to roughly 20% in 1989.⁴⁰

Graph 3: Growth of State Revenue and Sales of Natural Gas, 1977-1988⁴¹



Most of the growth of the public sector was achieved through the development of joint ventures with the Soviet Union. In 1986, Afghan-Soviet ventures represented 75% of all state industry and produced 60% of the electricity production.⁴² These joint ventures were primarily established in Northern Afghanistan where the security situation was better and economic linkages with the USSR, whose bordering Soviet republics' population was of the same ethnic background, were easier. These projects produced 75% of the domestic revenue, with the rest coming from taxes and custom duties.⁴³ According to Rubin, the Afghan economy was to a large extent integrated with the Soviet economy.

Efforts to increase the state presence in the industrial sector were relatively successful. The shortcomings of this approach, however, were realized after the

³⁹ In fact, metering of the production happened on the Soviet side of the border – Rubin, *Fragmentation*, 130.

⁴⁰ Rubin, "Lineages," 1202; Gareev, *Strada*, 98.

⁴¹ Data extrapolated from Rubin, *Fragmentation*, Table 5.1, p. 113. See also Annex A below.

⁴² Rubin, *Fragmentation*, 169. Most probably the joint natural gas ventures are also included here.

⁴³ Giustozzi, *Afghanistan*, 234.

Soviet withdrawal when, as in the case of gas production, these enterprises collapsed because of the lack of technical personnel.⁴⁴

After Gorbachev came to power in 1985, the shift of economic policies in the Soviet Union towards joint public-private ventures was almost immediately echoed in Afghanistan as well. In 1986, the new Afghan leader Najibullah changed the overall direction of the economy towards greater representation of the private sector. In addition to building guarantees for private property into the new constitution, a green light was given to private investors. A number of private-sector projects were exempted from customs duties, while 100% of foreign investment was permitted in private enterprises. Now the government publicized the fact that 80% of the economy was privately owned.⁴⁵

At the end of the 1980s, the government announced intentions to privatize some state corporations proposed a free trade zone in the region.⁴⁶ Obviously these measures were undertaken to appease the influential merchant class, which controlled 85% of domestic trade and 45% of international trade.⁴⁷ Efforts to strengthen the private sector may have been initiated also with the objective to limit DRA's economic dependency on USSR.

⁴⁴ Ibid., p. 234. It is not clear why the 90,000 experts and technicians who Kabul claimed at the time to have trained to work in these ventures (see Rubin, *Fragmentation*, p. 169) were not able to continue production.

⁴⁵ Ibid., 169.

⁴⁶ Ibid.

⁴⁷ Gareev, *Strada*, 98.

6. Agricultural Development

The PDPA government and its Soviet advisers also recognized the importance of the agricultural sector, which not only produced a significant part of the GDP but which also became the centre of mujahidin economy. Nevertheless, efforts to expand the public sector in agriculture failed. The land reforms introduced in 1978 antagonized farmers and landlords and limited state control of the sector. The first reform – canceling agricultural loans – did not eliminate the farmer’s need for credit. Yet by failing to establish an alternative, this reform actually led to a worsening of the farmers’ financial conditions.⁴⁸ The second initiative aiming to reform the agricultural sector was an imposition of ceilings on land ownership and the distribution of the excess land to small owners or landless peasants. It too was met with various practical difficulties, such as scarcity of arable land over all, lack of information on ownership and lack of compensation for the expropriated land.⁴⁹ The reform disturbed the social structure in agricultural areas and further fueled the opposition against the regime. A large amount of expropriated land was not cultivated by the peasants who received it because of the sanctity of ownership in Islamic law. Thus these measures contributed to agricultural decline.⁵⁰

Efforts to create co-operatives and state farms, following the Soviet model, received a disproportionate amount of development money. However, the grandiose plans to create thousands of cooperatives could not be fulfilled. In 1982 their number stood at 1,217 and only grew to 1,274 in 1984. According to the data gathered by Giustozzi, the creation of new farms declined sharply in 1986, and again after 1988.⁵¹ In 1989, cooperatives only generated 1% of all agricultural produce.⁵²

The position of the agricultural sector as a key element in the struggle between the regime and the insurgency prevented any economic development there. On one side, farmers were being pressured by the government to grow cash crops (cotton) in order to bring them in its sphere of influence and, at the same time, to decrease the availability of supplies for the insurgents. The insurgents, for their part, pressured the farmers to do the opposite, i.e., grow foodstuffs.

The most serious damage to the agricultural sector, however, was the Red Army’s decision to destroy the mujahidin economy as part of its counterinsurgency strategy.⁵³

⁴⁸ See for discussion Nyrop, Seekins, *Country study*, 185. Giustozzi, however, reports that state credit was offered to farmers on a large scale from 1982 on – see *Giustozzi, Afghanistan*, 25.

⁴⁹ *Ibid.* 185-188.

⁵⁰ According to a government survey only 53% of the peasants who received land, actually cultivated it – see *Giustozzi, Afghanistan*, 25.

⁵¹ *Ibid.*, 294,

⁵² *Giustozzi, Afghanistan*, 169.

⁵³ The Soviet policy of deliberately targeting farmers was consistent with the Soviet ideological predisposition against peasants, who were regarded as petty owners and reactionary. The displacement of rural population and its migration to the large cities may have been expected to eventually produce a proletariat class in Afghanistan and thus enlarge the social base of PDPA. See Barnett R. Rubin,

Although military operations by the Red Army to prevent the mujahidin from relying on the countryside as an economic and supply base were successful⁵⁴, they also led to hundreds of thousands of casualties,⁵⁵ the migration of 5 million people to Pakistan and Iran as refugees, the migration of additional 2 million to urban centers, and the destruction of 20% of rural villages. As a result of this destruction, the abandonment of farms and the loss of labour, by 1983 the production of wheat declined by 80%, that of rice by 65%, barley – 40%, corn – 37% and cotton – 30%.⁵⁶ Yields decreased by 50% for dry-land wheat and 33% for irrigated wheat while numbers of livestock decreased between one to two thirds.⁵⁷

The implications of the agricultural decline can be seen in the amount of revenue which the government was able to collect from land taxes. Revenue from land taxes declined from 280 million afghanis in 1979 to 16 million in 1982, which could only cover 0.04% of government expenditures in that year.⁵⁸

Faced with a deteriorating agricultural sector and an antagonized rural population, the regime gradually softened its land reform policies. After 1986, when it launched the National Reconciliation program, the ceiling of land ownership was raised to the point that rendered land redistribution policies almost irrelevant. After 1989, all efforts at land reforms were officially abandoned and a guarantee of land ownership was built into the constitution.⁵⁹ With the decrease of major military operations after 1985, it is believed that the agricultural sector was able to rebound, however no data exists to demonstrate this.⁶⁰ It should be noted that by that time, the rural economy no longer provided the economic base to the resistance. This role was assumed by the foreign aid supplied by the US and Saudi Arabia and distributed through Pakistan. This aid made the insurgency independent of the local economy.⁶¹

Fragmentation, 231 on the effect of Soviet operations on rural Afghans. On peasant in Leninist theory see Esther Kingston-Mann, "Proletarian Theory and Peasant Practice: Lenin 1901-1904," in Soviet Studies, Vol. XXVI, No. 4, October 1974, pp. 522-540; Esther Kingston-Mann, "A Strategy for Marxist Bourgeois Revolution: Lenin and the Peasantry, 1907-1916," in The Journal of Peasant Studies, Vol. 7, Number 2, January 1980, pp.131-158; S.P. Trapeznikov, *Leninism and the Agrarian and Peasant Question* (Moscow: Progress Publishers, 1981), translated from Russia; Dmitri Volkogonov, Lenin, A New Biography (New York: The Free Press, 1994), translated and edited by Harold Shukman; Adam B. Ulam, The Bolsheviks: The Intellectual and Political History of the Triumph of Communism in Russia (New York: Collier Books, 1965).

⁵⁴ See Rubin, *Fragmentation*, 180-181, for discussion of the effects of Soviet counterinsurgency efforts on the resistance.

⁵⁵ It is estimated that 1.3 million Afghans died during the period. See Marek Sliwinski, "Afghanistan: The Decimation of a People," *Orbis* (Winter, 1989).

⁵⁶ Farr and Gul, "Decline," 67.

⁵⁷ Rubin estimates that about one third of the land was abandoned –Rubin, *Fragmentation*, 227.

⁵⁸ *Ibid.*, 129.

⁵⁹ Giustozzi, *Afghanistan*, 169.

⁶⁰ However, since cheap bread made from free flour provided by USAID was widely available, the new agricultural revival was based on opium growing. The latter was at least 10 times more profitable for farmers than growing wheat. See Rubin, *Fragmentation*, 183 and 261-62.

⁶¹ *Ibid.*, 181 and 231-32. The only exception was the Helmand province, where the local warlord Mullah Nasim, developed his supply base on the poppy growing economy – see Rubin, *Fragmentation*, 245

While the figures presented above demonstrate that government revenues increased and the share of public sector was enhanced without the agrarian economy's participation, such a situation still created substantial difficulties for the government of Afghanistan. The decreased agricultural output, combined with the inability of the government to exert control over the rural economy as a whole, reflected on the state's capacity to feed its primarily urban population. Prior to 1978, Afghanistan produced sufficient wheat and other foodstuffs for domestic consumption.⁶² In the 1980s, however, it relied primarily on imports of wheat from the USSR and occasionally India. The wheat imports increased from 74,000 tons in 1982 to about 250,000 tons in 1985. Government efforts to buy wheat locally only contributed around 40,000 tons per year until 1987, when as a result of the national reconciliation process and, perhaps, a rebounding agricultural economy, the amount of domestically purchased wheat increased to 140,000 tons and 150,000 tons in 1988.⁶³ Still, the latter figures were estimated to represent between 5 and 10% of the total wheat available in the country in 1986.⁶⁴

The scarcity of food was used by the government to increase the population's dependency on the regime. Most of the imported wheat was distributed through a coupon system that benefited those loyal to the regime or those living in areas controlled by the government. It was estimated that 80% of Kabul's population received such coupons.⁶⁵ The question of food supply was so important that Najibullah created a commission on food supply as part of the Homeland High Defence Council.⁶⁶

⁶² Noorzoy, "Economic Relations," 167.

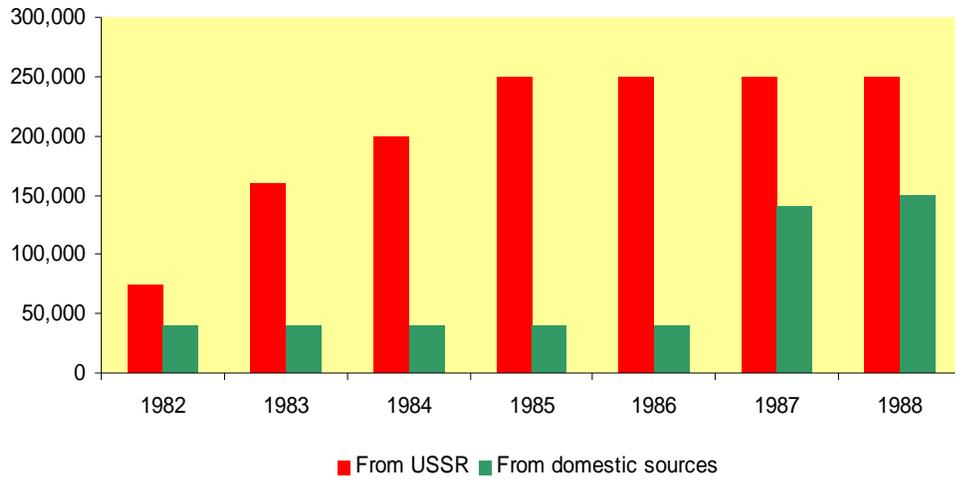
⁶³ Giustozzi, *Afghanistan*, 223.

⁶⁴ *Ibid.*

⁶⁵ Rubin, *Fragmentation*, 170.

⁶⁶ *Ibid.*

Graph 4: Wheat Supply to DRA, 1982-1988 (in tons)⁶⁷



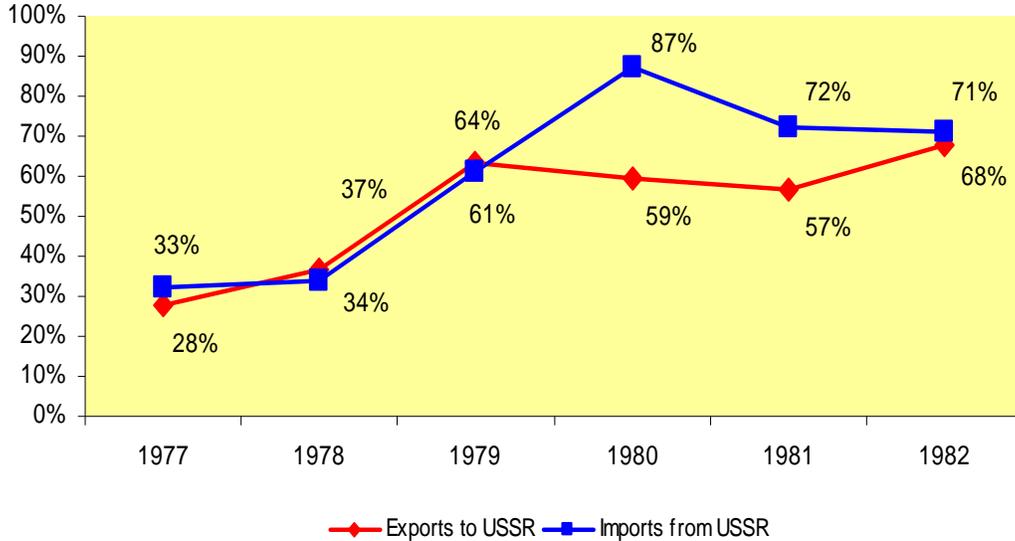
⁶⁷ Data from Giustozzi, 223.

7. Economic Integration with the Soviet Union

The other vector of Afghan economic policy development during the 1980s – to increase bilateral trade with the Soviet Union – was also consistently followed. Numerous bilateral trade agreements were signed. Exports to USSR involved agricultural products and resources such as gas and copper. Imports consisted primarily of manufactured products and military equipment. Combined with the number of joint venture projects, the rate of increases in Soviet-Afghan trade reflects the economic integration of the Soviet and Afghan economies.

Before the PDPA came to power in 1978, Afghan – Soviet bilateral trade, although significant, represented only around 30% of Afghanistan’s overall international trade. As evident from Graph 5, after the 1978 revolution, the share of exchange with the Soviet Union jumped to about 60% and 70% by 1982. Most likely the trend continued in the subsequent years.⁶⁸ The brief peak of imports and decrease of exports in 1979-81, observed in the graph, is most probably due to the overall lack of control by Afghan government on the economic resources of the country in the period and the need for external compensation.

Graph 5: Afghan - Soviet Trade Pataterns, 1977-1982⁶⁹



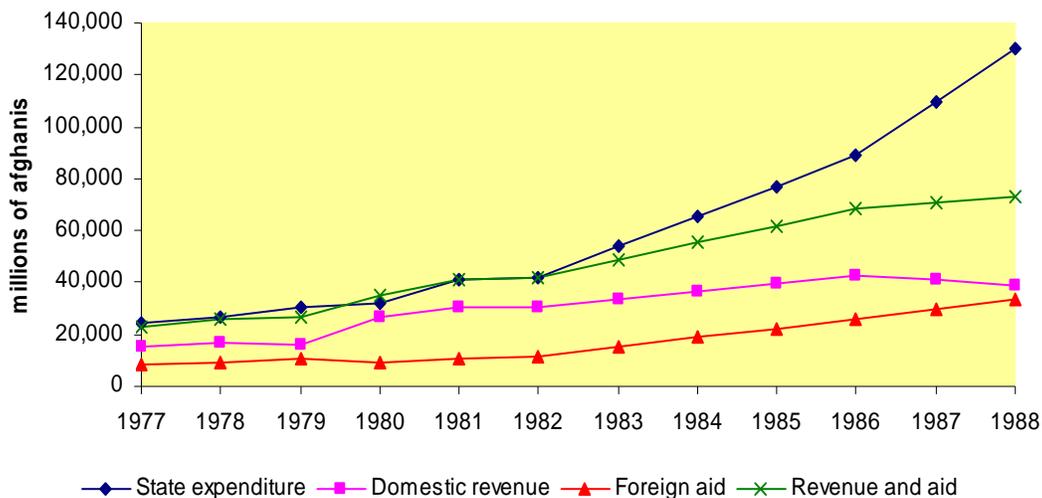
⁶⁸ For 1983/84 there was a proposal for further increase of the bilateral trade volume with 15% — Noorzoy, “Economic Relations,” 164.

⁶⁹ Ibid.

8. Foreign Aid

Despite obvious achievements in pursuing Soviet-Afghan economic goals, the PDPA regime could not solve the fundamental challenge to the Afghan economy – the reliance on foreign aid. With the exception of 1980, when total domestic revenue was only 17% less than all state expenditures, from 1978 to 1988 expenditures exceeded revenue by a significant margin. The efforts to build up the army’s capabilities and costs associated with the national reconciliation process made state expenditures rise sharply. In 1986, all domestic revenues covered only 48% of expenditures and by 1988, only 30%. Until 1992, the difference was covered by foreign aid from the Soviet Union and some Eastern European countries.⁷⁰

Graph 6: State Expenditure Compared to Domestic Revenue and Foreign Aid, 1977-88⁷¹



Despite the steady increase of foreign aid from 8,874 million afghanis in 1980 to 33,774 million by 1988, representing a 380% increase, the deficit in 1988 could not be covered by foreign aid anymore. The government increasingly resorted to internal borrowing which increased more than 10 fold from 1983 to 1988. The deficit associated with the increased spending resulted in the printing of money and inflation. Official consumer price inflation was reported as being 30% - 40% per year in 1987-89. On the open market, however, food prices increased 500% to 1,000%. So much

⁷⁰ Foreign aid included financial aid, commodities aid and loans.

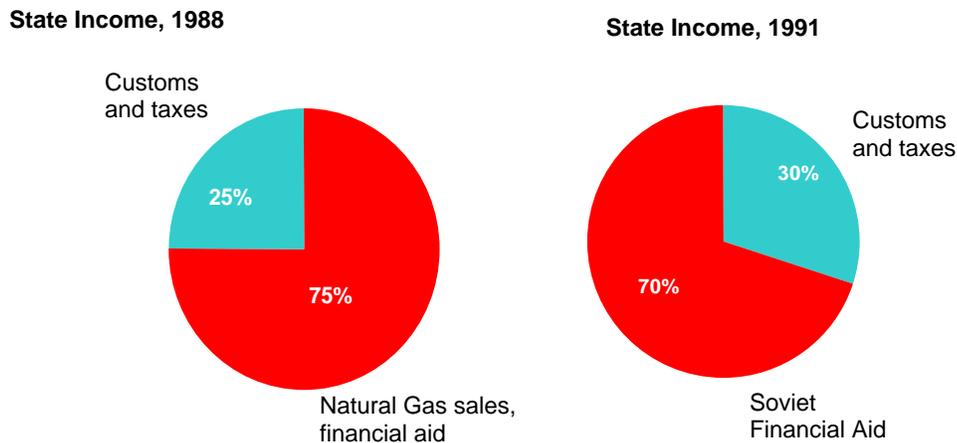
⁷¹ Data for this graph was extrapolated from Rubin, *Fragmentation*, Table 5.1, 113, where domestic revenue and foreign aid are presented as a percentage of expenditures. Detailed figures for this graph are presented in Annex A below.

money was required for daily needs that banknotes were actually carried in sacks and were weighed rather than counted.⁷²

An inherent problem connected with large amount of foreign aid and its control by small elite within the PDPA party was corruption. Reportedly, high-ranking party functionaries diverted hundreds of trucks of Soviet aid to Pakistan, claimed that these were being captured by mujahidin, while in reality they benefited personally from the proceeds of the goods sold in Pakistan.⁷³

The central role that foreign aid and rentier income in general played in the overall stability of the regime can be illustrated by Graph 7. In 1988, 75% of the state's revenues were derived from sales of natural gas and financial aid and only 25% from direct and indirect taxes.⁷⁴

Graph 7: Composition of State Income in 1988 and 1991⁷⁵



With the Soviet withdrawal and the collapse of the joint venture projects, the small revenue from taxes could only be supplemented by foreign aid. After the collapse of the Soviet Union, Russian president Boris Yeltsin halted aid to Najibullah's government at the end of 1991. This precipitated the collapse of the pro-Moscow regime in Afghanistan. The lack of basic resources decapitated the huge state military machine.⁷⁶ The economic dependence of the population and some commanders on the redistribution of Soviet aid disappeared and the latter promptly turned against the regime.⁷⁷ At the end, the alliance between former government forces and mujahidin commanders was too strong for a regime, that no longer had control over the means of violence in Afghanistan.

⁷² Rubin, *Fragmentation*, 164.

⁷³ *Ibid.*, 129.

⁷⁴ Giustozzi, *Afghanistan*, 234.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*, 235.

⁷⁷ Rubin, *Fragmentation*, 265.

9. Conclusion

During the 1980s, the Soviet Union committed significant economic resources and exported its economic models to Afghanistan in order to stabilize the pro-communist Afghan regime. In the context of a weak state and the supremacy of the traditional rural economy in Afghanistan, however, Soviet economic models proved to be even less effective than they were in the USSR.

Especially damaging were the regime's land reforms and efforts to collectivize the farmers. Both initiatives collided with traditional Afghan values. As argued above, Soviet counter-insurgency strategies effectively destroyed the Afghan agricultural sector.

Economic policies used during the Soviet presence in Afghanistan could not break the traditional dependence of Afghan governments on foreign aid. Despite the growth of the public sector, domestic revenue suffered from an overdependence on trade relations with one country only (the USSR) and especially from the inability to make any gains in obtaining proceeds from the agricultural sector. The rapidly increasing expenditures, needed to counter the resistance, and to maintain the population living on government controlled territory, and the money needed to accommodate resistance commanders after 1986, could not be covered by domestic revenues. Even the lifeline of foreign aid had its limitations.

The failure to develop a domestic skilled labour pool able to operate the crucial gas and mining sectors also contributed to the economic dependence of the Afghan regime.

The military situation between the government of Afghanistan and the insurgents from the middle of the 1980s was not significantly affected by the withdrawal of the Soviet Army or by combat operations. Simply, inadequate economic and fiscal policies and the end of Soviet aid were the factors that led to the collapse of the regime.

There is a pattern of dependence on foreign aid in the history of the Afghan state. It is difficult in the long term to envision any progress towards Afghan stability without resolving this dependency and putting the Afghan state's economy on sound grounds. Developing greater economic independence and countrywide market cohesion will be the most successful tools of state building.

The lessons for the current NATO-ISAF engagement in Afghanistan that can be drawn from the Soviet experience include the following:

- The implementation of an economic model, in this case communist, that is not in tune with local cultural and historical conditions will not work. Soviet initiatives collided with traditional Afghan values and undermined state legitimacy in the countryside.

- Soviet economic policies in Afghanistan could not break the traditional dependence of Afghan governments on foreign aid. Despite significant advances of the public sector, domestic revenue suffered from an overdependence on trade relations with one country only (the USSR) and especially from the inability to make any gains in obtaining proceeds from the agricultural sector. Rapidly increasing expenditures could not be covered by domestic revenues. Afghanistan must have a tax base that will allow it to become less dependent on foreign aid, and Afghan trade should be diversified.
- Revenues from the sale of natural gas were substantial part of Afghan state income until 1986. The development of oil and natural gas industries has great potential to benefit the Afghan economy.
- The failure to develop a domestic skilled labour pool able to operate the crucial gas and mining sectors also contributed to the economic dependence of the Afghan regime. A skilled Afghan labour force must be developed.
- Developing greater economic independence and countrywide market cohesion will be the most successful tools of state building.

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Annex A - Afghan Revenues and Expenditures, 1977-88

The table below is a modified version of Rubin, *Fragmentation*, Table 5.1, 113. Figures for domestic revenue and foreign aid were extrapolated from his expenditure amounts and the other figures presented only as a percentage of expenditures. Whereas Rubin does not provide data for 1983-85 and 87, we estimated them based on average growth of revenue and aid from 1982-86 and 1986-88 respectively. Rubin has several calculating and other errors in his table, such as switching the domestic dept balances for 1981 and 82 and wrong totals for domestic taxes for 1978, 1979 and 1982, which are corrected here. All amounts are in millions of afghanis.

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
State expenditure	24,326	26,397	30,173	31,692	40,751	42,119	5,764	65,410	77,055	88,700	109,300	129,300
Total domestic revenue	14,839	16,630	15,992	26,304	30,156	30,326	33,388	36,451	39,513	42,576	40,773	38,970
Taxes and customs	12,893	14,254	12,069	15,846	16,30	16,005	18,878	21,751	24,624	27,497	29,337	31,176
Natural gas sales	1,946	2,376	3,922	10,458	13,855	14,320	14,510	14,700	14,889	15,079	11,437	7,794
Foreign aid	8,271	8,975	10,862	8,874	10,595	11,793	15,276	18,758	22,241	25,723	29,749	33,774
Internal Borrowing (Dept)	(1,216)	(792)	(3,319)	3,486	-	-	(5,100)	(10,201)	(15,301)	(20,401)	(38,779)	(57,156)

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This Technical Memorandum provides an overview of the major economic policies implemented in Afghanistan during the Soviet period, 1979-1989, and their results. Its objective is to inform the current NATO-ISAF engagement in Afghanistan about the importance of building the economic capacity of the state and the integration of the agricultural sector into the national economy. The research was done using both Russian and English sources. The study shows that the main reasons behind the fall of the pro-Moscow regime in Kabul were not defeat on the battlefield, or military superiority of the resistance but the regime's failure to achieve economic sustainability and its over-reliance on foreign aid.

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