

The impact of international forces withdrawal on investment in Herat, Afghanistan

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Abstract. This paper evaluates international forces withdrawal from Afghanistan. This paper has mainly addressed an important question that: what is the impact of the withdrawal of the international forces on investment in Herat, Afghanistan? The primary data was collected through the distribution of questionnaires to different key informants, including professors at Herat University, local investors, and governmental employees. The number of respondents was selected based on using stratified random sampling method. In the past 13 years, Afghanistan saw a massive influx of international aids, to invest in different sectors and development of the country overall. The Government of Afghanistan with the help of the international community has paid attention on attracting domestic and foreign investments. The investment activities were progressing smoothly with comparatively high productivity during the 2003 to 2008 throughout the country. Afterward, the investment activities started its downward due to security problems such as armed robbery and kidnapping. Since 2011, the situation was changing day by day and getting worse. Specially, the announcement of withdrawal of the international forces from Afghanistan in 2014 has negatively impacted on development activities throughout the country.

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INTRODUCTION

In a post-conflict environment, attracting domestic and foreign investments is vital for development of the private sector. Additionally, existing enterprises face many challenges, including unskilled labor, insignificant capital, and management difficulties. In post-conflict countries, investment depends on the availability of five basic factors; clear and unambiguous regulations, skilled workforce, political and economic stability and security, access to finance and infrastructure, and reasonable tax rates that are equitably enforced. Unfortunately, all these conditions are lacking in Afghanistan (World Bank, 2005, p. 1). Recently, due to security problems and the withdrawal of international forces from Afghanistan, investment has been declining throughout Afghanistan. Since last year, after the announcement of departure of international forces, militant violence has increased throughout Afghanistan. It took more than a decade for the Government of

Afghanistan is fighting against the Taliban but still they are a formidable fighting force. (BBC News, 2015). Security is the key elements to attract the investment anywhere. That is why investors are trying to convey their belongings to the secure regions. In a secure manner, most domestic and foreign investors tend to invest and be involved in business activities that are efficient.

After almost three decades of war in Afghanistan, the private investments increased in the country. As it was a good opportunity for high-profit investments, including beverage factories, telecommunication firms and construction companies, but investment has been quite limited. The situation led the moribund companies to be revived as well as encouraged the investors to operate new enterprises (World Bank, 2005, p. 7). Having secure environment is essential for economic development, private sector development, and effective governance. Since Afghanistan faces many serious challenges, it takes long time to take full responsibility for its own security. For example, instability, weak capacity in governance, terrorism and foreign interference prevent the Government of Afghanistan having effective control all over the county, particularly in the South and Southeast part of the county (International Monetary Fund, 2008).

In general, investment effects on creation of job opportunities, economic development and modern technology transfer, improvement of financial and human resources, and increase the competitiveness. According to the above mentioned statements, the main goal of this paper is to present the impact of international forces withdrawal on investments in Herat, Afghanistan. The research is first of all focused on the impact of international forces withdrawal on important issues, including domestic and foreign investments, security, and domestic products. The following questions are formulated in order to evaluate the situation in question:

- Why has the investment declined in Herat province?
- What are the key impacts from withdrawal of international forces on security situation in Herat province?
- What is the impact from international forces withdrawal on domestic and foreign investments in Herat province?

METHODOLOGY

As a whole, this surveys the viewpoints of Afghan people regarding the impact of the withdrawal of international forces on investment in Herat province. In this research paper, two types of data, including primary and secondary has been gathered. Primary data have been collected based on the questionnaire using Likert questions. The questionnaire was randomly distributed to 100 informants, including 45 professors at Herat University, 45 private investors, 5 employees of the Afghanistan Investment Support Agency (AISA), and 5 employees of Afghanistan Chamber of Commerce and Industry (ACCI). The main purpose of selecting these key informants was based on their expert knowledge and experiences. The degree of agreement of the respondents is described in statistical tables and figures. In addition, the education level of questionnaire informants was high: 29% had Master degree, 49% had Bachelor degree, and 22% had Diploma degree. Since the education level of respondents is high, then it can be said that their opinions have outsized influence on policy making. It should also be noted that 87% of respondents were male and 13% of them were female. In addition, Secondary data have been collected according to the review of published reports, documents, and homepages. The data were analyzed by using the descriptive statistic method.

INVESTMENT OVERVIEW

Investment is very important for economic development and plays key role in economic activities. About three centuries ago, the world economy had no stock exchanges or bond markets to speak of and only a handful of banks (Hearth & Zaima, 2004, p. 7). The efficient use of capital and other factors of production combined with the optimal use of limited resources can increase a society's productive capacity and employment opportunities. Jackson (2010) pointed out that: according to the arguments of many economists, free and unlimited international capital flow, including direct investment positively impact on domestic (home) and foreign (host) economies. The important point of such argument is that the foreign direct investment benefits individual foreign firms in the home country. That is because individual firms that invest abroad are trying to perform better and exploit their skills and competitive advantages.

Attracting foreign capital is essential for developing countries in order to finance their growth and get access to new technologies. The Foreign Direct Investment (FDI) effects on productivity, wages, export activity, human resources, and innovation of domestic firms. As a whole, FDI effects on economic growth and creates many opportunities to the society. Demonstration effects on FDI refer to situations in which domestic firms can improve their productive efficiency, managerial methods, or product quality, through formal or informal contact with foreign-invested firms. Demonstration externalities may take place through different channels, such as direct observation of production processes, hiring workers previously trained by foreign affiliates, and business transactions with foreign suppliers or clients (Hale & Long, 2012, p. 5).

FDI liberalization policies in many developing countries rely on FDI promotion efforts of international donors such as the World Bank and the IMF is that FDI inflows foster economic growth. FDI can contribute to economic growth by expanding capital stock, just like any other capital inflow (Colen et al. 2013, p. 80). With rapid expansion of multinational enterprises (MNEs) and FDI within global economy, the effect of FDI on productivity is a contentious issue. By expecting diverse positive impacts on domestic economy, many countries offer special incentives to foreign enterprises, including lower taxes or tax holidays, import-duty exemptions etc. The impacts include employment and capital accumulation, own productivity, productivity spillover, backward and forward spillover effects and competition effects (Sussangkarn et al. 2011, p. 5).

In addition, the process of investing helps create financial markets in which companies can later on raise capital. This function also contributes to further economic growth and welfare (Hearth & Zaima, 2004, p. 5). Moreover, Hearth & Zaima (2004) mentioned that: in order to promote private investment, a secure economic environment is the key in developing countries. When the security situation is well improved, economic improvements occur and let the private investment rise up and contribute to the economic development.

INVESTMENT IN AFGHANISTAN

The long-term internal war and political instability in Afghanistan destroyed all infrastructures throughout the country. Importantly, the economic infrastructure has damaged seriously, which public and private investment were dropped out. In late 2001, the political situation has been changed in Afghanistan, where the new established government with the support of international communities has prioritized human well-being. In addition, individual investors were encouraged to operate their activities with high confidence and desire. There were attractive investment opportunities in necessary sectors, including agriculture, energy, mining, communication, housing, construction, transportation, and hotels. Therefore, the Government of Afghanistan tried to pay attention to private sector development (World Bank, 2005)".

The Afghanistan Investment Support Agency (AISA) acts as a public Investment Promotion Agency (IPA) in Afghanistan to deliver investment license to both domestic and foreign enterprises. The AISA is-

sues the business license to those applicants that start their business performance at a minimum capital of AFN 260,000 (or USD 5,000) in Afghanistan. The business owner is not required to pay that amount of money in a bank account in Afghanistan (Research & Statistics Department, 2012). In order to broaden the business involvement in the market, it is important to remove business barriers to new entry as well support existing firms through creating incentive system. The present investment climate in Afghanistan is appropriate for many factories stand in good stead (World Bank, 2005). According to AISA's statistics, between 2003 and 2014, more than 43,411 businesses registered with the agency, of which almost 2,478 are foreign enterprises. Total initial capital of all registered firms (including those which turned inactive after some period of operation) amounts to US\$7.5 billion. The table below shows the AISA statistics as of April 2014.

Table 1

AISA Key Statistics

AISA Statistics End Of April 2014	
Domestic Registered Companies	40,933
International Registered Companies	2,478
Investment In AFS	403,219,396,204.00
Domestic Hired Human Resource	938,619
International Hired Human Resource	59,114
Industrial Parks	6
Regional Offices	8

Source: AISA webpage (<http://aisa.org.af/>).

WITHDRAWAL OF INTERNATIONAL FORCES FROM AFGHANISTAN

Since the announcement of the withdrawal of international forces from Afghanistan, investment has declined seriously throughout the country. Negative propaganda about the future of Afghanistan is the main reason for declining investment. However, the Afghan officials have signed strategic and security agreement between Kabul and Washington mainly about staying of U.S. troops in Afghanistan in the future, the investors are still fleeing away and losing their confidence. Many domestic and foreign investors shied away and reduced their business activities in Afghanistan.

On the one hand, since late 2011, the investment has declined in Afghanistan. On the other hand, the international aid to Afghanistan has also decreased, which faced Afghanistan many economic problems. Recently, many Afghan investors are interesting to invest abroad than Afghanistan, such as Dubai or at least keep their capital in domestic or foreign banks. As the Herat province is an important industrial hub in Afghanistan, is losing its advantage due to increasing security problems.

During the 2003 to 2010, the people of Afghanistan were satisfied with their dairy life, especially, steady security and stability let the investors perform very well in Herat province. The situation encourages many local investors – those who were fleeing abroad during conflict – return to the country in order to start their business activities in their home town. After few years of profitable business activities, once again, insecurity and instability faced many investors reduce their activities or even stop it completely. The insecurity situation is mainly continuing since 2008 in Herat, which faced the province with some economic crisis, including unemployment, kidnapping, brain drain, and capital flight. Therefore, most of investors paid attention on suitable investment places abroad.

HERAT INDUSTRIAL PARK

In order to support and encourage private investment, the Government of Afghanistan paid attention on establishment of industrial parks in different parts of the country. For example, the Herat Industrial Park as a manufacturing complex was established in 2003. The industrial park is located in the south part of Herat city right in front of Herat airport. In the beginning, there were many investors applied for buying the land (manufacturing area) from the government to establish their factories. Therefore, the government could provide and distribute manufacturing areas for about 400 factories. The manufacturing factories are including the soft drink companies, food processing, plastic products and so on.

In addition, the establishment of AISA in 2006 was another investment opportunity helping and encouraging investors to expand their business activities in Herat. According to the AISA, Herat office, during 2006 to 2012, business enterprises registered and obtained a business license from AISA raised up to 1,636, including manufacturing, construction, agriculture and services. The figure below demonstrates the companies registered by AISA during 2006 to 2012 in Herat province. The data shows that the trend of company registration has started its downward since 2012.

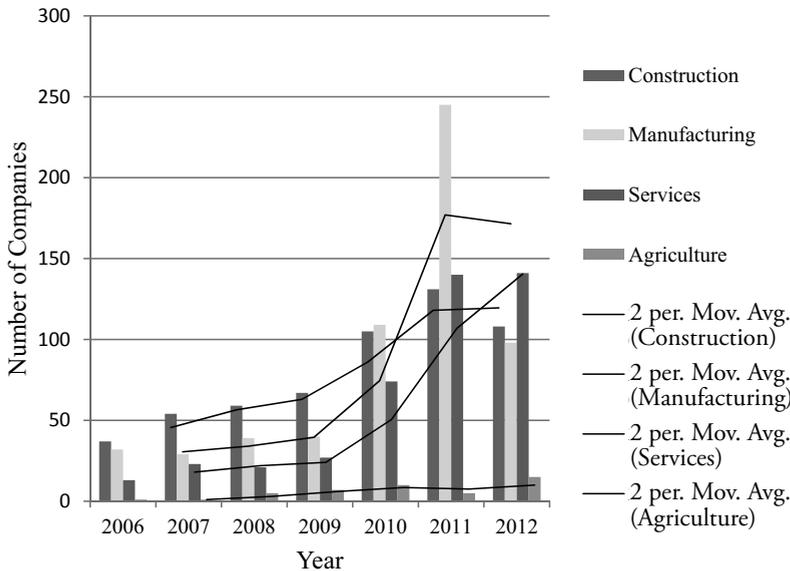


Figure 1. Registered Companies in Herat

Source: Analyzed by author based on data gained from AISA, Herat Office.

Many investors, including domestic and foreign have been attracted to invest in different sectors in Herat province because of its strategic location. Herat province has border with two key countries in the region, which are Iran and Turkmenistan. Moreover, this province is a trade linkage between Afghanistan and other countries. Many goods import or export from these borders to abroad. The table below clearly demonstrates the amount invested by registered companies in Herat. The table also shows that the amount of investment was increased during 2006-2011. But in 2012, the investment has decreased compared to 2011. It is also considered as concerns for the withdrawal of international forces from Afghanistan.

Table 2

The amount invested in Herat (amount USD)

Year	Sector			
	Construction	Manufacturing	Services	Agriculture
2006	1,797,000	3,757,500	6,801,058	20,000
2007	5,014,510	2,998,800	1,902,500	75,700
2008	4,742,000	3,083,800	3,999,600	226,000
2009	18,728,000	5,558,000	3,492,000	321,000
2010	9,172,000	17,794,000	9,066,560	615,000
2011	6,608,346	29,839,800	8,239,530	52,000
2012	26,821,000	22,422,000	15,526,905	2,878,952

Source: AISA, Herat Office.

CURRENT INVESTMENT SITUATION IN HERAT

After the announcement of the departure of international forces from Afghanistan, all media have been discussing issues related to the withdrawal of international forces and its impact on the future of Afghanistan. During my field research and interviewing key informants, I found that all responds refer to the negative impact of withdrawal of international forces on investment in Herat province. The figure below shows impact of the withdrawal of international forces on investment in Herat province. It presents view-points of informants on declining investment, stopping investment, and threatening investment in Herat.

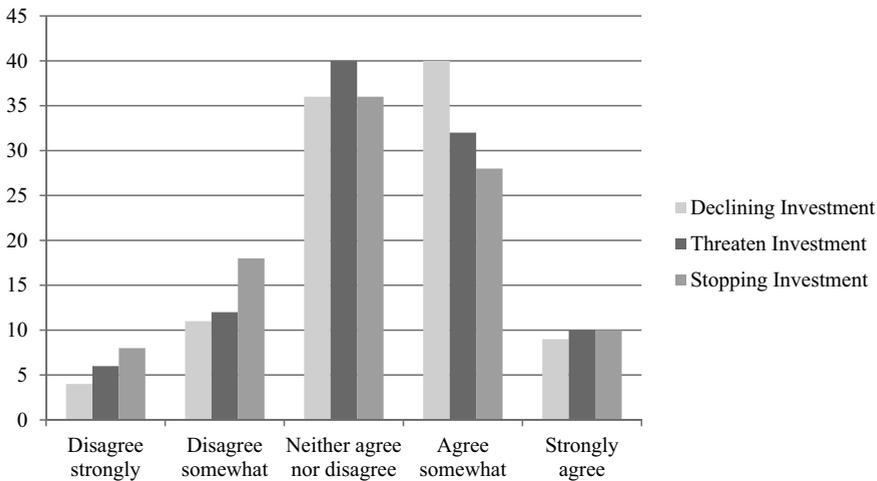


Figure 2. The impact of the withdrawal of international forces on investment in Herat

Source: Analyzed by author.

SECURITY PROBLEM IN HERAT

However, the Herat city is much better in terms of security, comparing with many other provinces located in the east and southeast part the Afghanistan. But incomplete security situation has faced residence many challenges and affects economic activities, especially, investors have suffered more and lost their hope the confidence towards expansion of their business activities. Insecurity and political instability forced many investors stop their business activities or expending much money for their self-security such as hiring body guards.

Kidnapping is one such big problem that private investors have been facing in Herat province. In the past almost 8 years, I have heard and observed that many investors and rich people have kidnapped by unrecognized armed groups in Herat city. The kidnappers were forced to pay a huge amount of money for safety. Therefore, such big problem negatively impacted on economic activities and forces the investors to limit their activities or even complete their business operations in Herat. In addition, armed robbery is another big challenge toward economic activities. There were many evidences that during the day time and even right in front of police, the armed groups attacking a rich person and stolen all his belongings. The figure 3 shows viewpoints of respondents about the impact of the withdrawal of international forces on the security situation, kidnapping and armed robbery in Herat province. Most of the informants mentioned that it is the investors' rights to live in a secure place and their commodities must be protected from robbery and give them confidence and the right to continue their business activities.

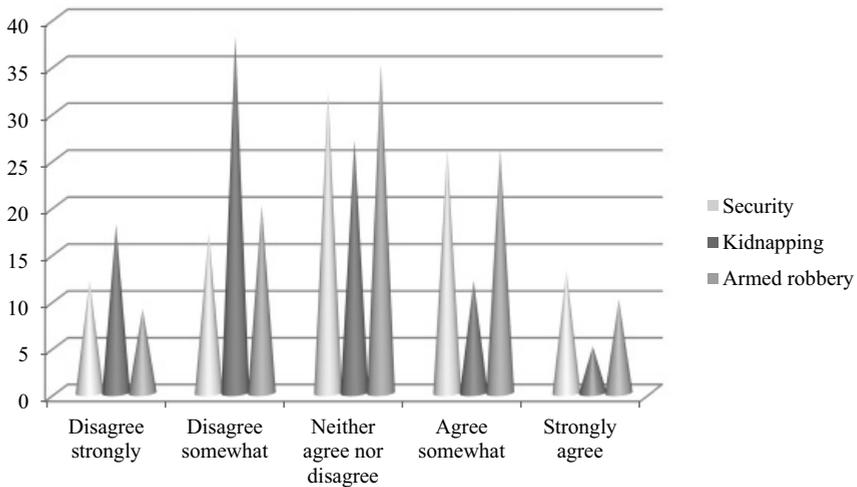


Figure 3. The impact of the withdrawal of international forces on security situation in Herat

Source: Analyzed by author.

DOMESTIC AND FOREIGN INVESTMENT

During the 2006 – 2011, domestic and foreign investments are upward in Afghanistan, especially in Herat province. Increasing the domestic and foreign direct investments in its turn increased the domestic products, and positively impacted on family income and employment. Unfortunately, this trend after 2011, due to insecurity concerns and the withdrawal of international forces from Afghanistan has been reduced

continuously. Right now, this decline has continued and fears that the withdrawal of international forces will obviously reduce the foreign investment and domestic products in the future.

There is no doubt that withdrawal of international forces has caused a negative impact on the production and investments which the country of Afghanistan is getting closer to experiencing and economic recession. The figure below shows that respondents are arguing that after the withdrawal of international forces the domestic and foreign investments will be reduced. Moreover, the declining of investments will reduce the domestic products as well.

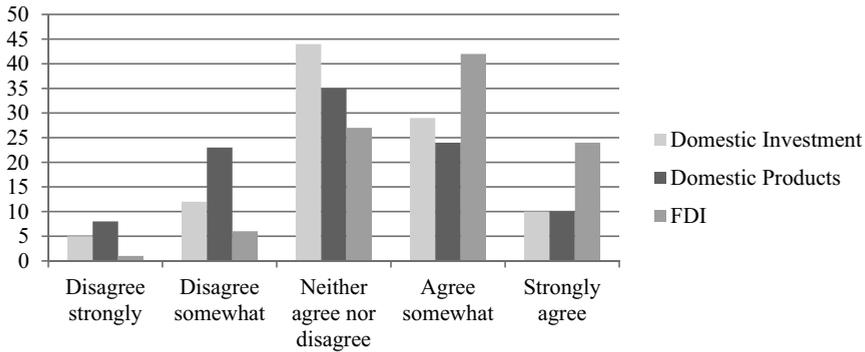


Figure 4. The impact of the withdrawal of international forces on domestic and foreign investment in Herat
 Source: Analyzed by author.

CAPITAL FLIGHT AND BRAIN DRAIN IN HERAT

Capital flight and brain drain are other problems, which Herat province is experiencing after the departure of international forces from Afghanistan. Though, there are many attractive investment opportunities in Herat, investors are fleeing away and transferring their capital abroad. Recently, many local investors started their business activities abroad, such as in United Arab Emirates, Turkey, and India. Additionally, young talent and educated people due to security problem and unemployment challenge are trying to immigrate to other safe countries such as the United States of America, Europe, and Canada. Another bad situation – killing the young lawyers, economists, engineers and doctors – by unknown armed groups has happened in different parts the Herat province. Therefore, young generation is not satisfied with living in Afghanistan at all, that is why they prefer to leave the county.

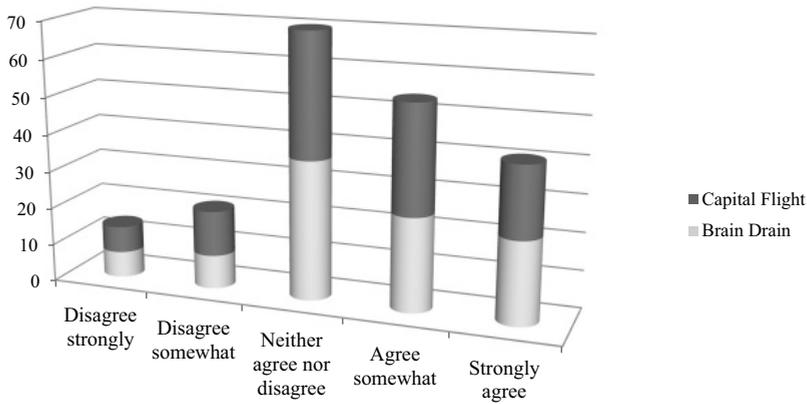


Figure 5. The impact of the withdrawal of international forces on capital flight and brain drain in Herat

Source: Analyzed by author.

MINING AND TECHNOLOGY TRANSFER IN HERAT

Since Afghanistan has huge mineral and it is considered as one of the main sectors attracting investment in the country. Exploration and exploitation of mines in Afghanistan need to attract foreign and domestic investment in order to increase the domestic revenue. If there won't be political and economic stability in the country, domestic and foreign institutions are not willing to simply accept the risks of investing in this sector.

At present, the withdrawal of international forces increases the risk of foreign investment in all sectors since the domestic investment in mining is also not adequate. Moreover, exploitation of mining needs modern mining technologies. According to the information provided in the figure below, the complete withdrawal of international forces will suffer the mining sector in Afghanistan in particular in Herat and fear that illegal armed groups will misuse of this sector.

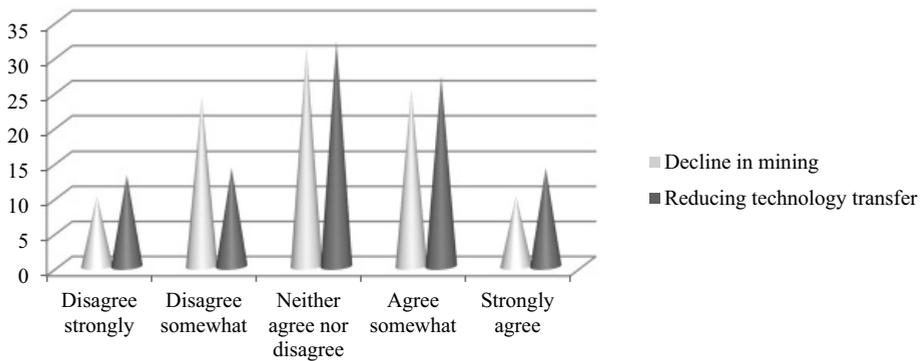


Figure 6. The impact of the withdrawal of international forces on mining and technology transfer in Herat

Source: Analyzed by author.

DISCUSSION

After the 9/11 attack in the United States and the fall of the Taliban regime in 2001, international military forces were sent to Afghanistan. In 2011, the total number of international forces peaked at about 140,000. Since late 2011, the number of NATO forces has been decreased year by year. On the one hand, the NATO countries changed their policy and decided to limit their combat operations in Afghanistan. On the other hand, they committed to support and train Afghan military forces and handing over the security control to Afghan forces. At the present, international forces in Afghanistan are from different countries, including US, Germany, UK, Georgia, Romania, Australia and Turkey (BBC News, 2015). Therefore, the situation of Afghanistan has been changed and brought opportunity for people to live in a secure and stable environment.

According to the BBC News (October 2015): the NATO countries decided to end combat mission in Afghanistan by the end of December 2014, but a total number of 13,000 forces needed to stay in Afghanistan in order to train Afghan military forces as well as be involved in counterterrorism operations. Among all, 9,800 forces will be US troops. Moreover, the United States had planned to withdraw all its military forces from Afghanistan by the end of 2016 except 1,000 troops as embassy-based forces, but since the militant violence has been mainly increased in 2014, Barak Obama, President of United States, has announced that 9,800 US forces will be staying in Afghanistan after 2016. Furthermore, there is another discussion which presents that "By early 2015 there will only be about 12,000 foreign troops in Afghanistan, 95 percent of them American. That's down from over 120,000 in 2010-11." (Afghanistan: Karzais on the run, 2014). In early 2010 there were "119,000" Afghan soldiers available while today that stands at "194,000", plus "149,000" police. The Afghan government would like the country's armed forces to be around 250,000 as National Army Forces and 160,000 National Police Forces.

In my point of view, since the Taliban and Al Qaeda are still in power, Afghanistan's armed forces are not ready to defend the country and fight against them lonely because they (Taliban and Al Qaeda) are biggest threat to the world. Therefore, Afghanistan armed forces need international assistance for many years to train them in order to be sufficient in terms of size and quality of service delivery. Well trained and highly qualified armed forces will bring security and maintain stability throughout the country as well as bring high confidence to investors to improve their activities within the country. Insecurity and political instability forced Afghanistan to be a dangerous place. In order to have a less dangerous situation, it is essential to pay attention on the capability of local military forces instead be relied on foreign and international forces (Jaffe & Nakamura, 2015). Obama first announced last year that 9,800 U.S. troops would remain in Afghanistan by the end of 2014, and that figure which would shrink to 5,400 by the end of 2015. All troops would withdraw by the conclusion of 2016 (Shinkman, 2015).

The NATO countries started handing over control to Afghan military forces in 2014. By doing so, many Afghans were worried about the security of the country that is why economic activities faced a big challenge. Especially, the local and foreign investors changed their policies to limit their business activities in Afghanistan or tried to identify other secure places for investment. Though the Government of Afghanistan signed a security agreement with the United States, stressing the permanent presence of US troops in Afghanistan, but investors still are worried and lost their confidence to continue their economic activities. Therefore, Afghanistan has recently experienced a crisis in terms of capital flight, unemployment, poverty, relying on international aids and no utilization of internal sources.

A huge amount of money has been invested in Afghanistan during 2003 to 2010 by both local and foreign investors in key sectors, including telecommunication, construction, manufacturing, and so forth. In addition, there were many investors interested to invest in the mining sector, but security problems did not allow them to deal with. For example, insecurity has increased since 2011 in Herat province, which negatively impacted on investment trend. Beside the security problem, there were other challenges, declining invest-

ment such as kidnapping, unclear private sector development policy, and lack of adequate infrastructure. In addition, reduction of international assistance to Afghanistan was another challenge toward reconstruction and development of Afghanistan. As a whole, such challenges intensified economic activities in Afghanistan after the announcement of the withdrawal of international forces. Recently, the Afghan currency depreciates day by day and the cost of living is increasing, where most of people are unemployed and jobless.

In such a manner, in my point of view, in order to encourage both domestic and foreign investors the Government of Afghanistan must articulate some policies towards development of the private sector. First of all, to support domestic investors, tariffs must be increased for some imported goods and export tariffs must be dropped off. In addition, land has to be distributed to a large number of domestic investors for the establishment of factories. If the government support investors seriously through policy support to develop and implement a proper way, perhaps, that despite the many concerns of the future fewer incentives to invest after these cuts. Secondly, to support and encourage foreign investors, the government needs to pay more attention to their security and cut off any administrative barrier. Moreover, the Government of Afghanistan must admit its efforts towards anti-corruption for attracting more international aids in the future for building capacity and human resource development as well as job opportunities. The anti-corruption efforts will encourage the donor nations to finance Afghan projects.

CONCLUSION

The international forces withdrawal from Afghanistan in 2014 has shocked many Afghans and other nations about the international communities' development achievements in Afghanistan. The international community had committed at the many international conferences to fully support the Afghan people for having a better life and live in a peaceful situation with development outcomes. Thus, the departure of international forces from Afghanistan leaves the country with many challenges, including security problems, empowerment of contrary militants and intensive poverty. This paper was mainly focused on the impact of the withdrawal of international forces on investment in Herat, Afghanistan. The research findings show that the beginning of the departure of the international forces has negatively impacted on the investment sector in Herat city.

The research indicates key issues happened after the withdrawal of the international forces in Afghanistan, especially, in Herat city. For example, impact of the withdrawal of the international forces on investment, security, kidnapping, armed robbery, mining, capital flight and brain drain, and technology transfer. The research respondents, including investors, professionals, practitioners, and business facilitators are mainly agreed that the withdrawal of the international forces from Afghanistan faced Herat provinces with severe challenges in terms of investment and other economic activities. The Herat city as an industrial hub and partly secure place in the west part of Afghanistan is an attractive investment center because of its strategic location, where it shares its border with two important trade partners, including Iran and Turkmenistan.

On the one hand, investment in different sectors, including manufacturing, construction, agriculture and services has provided many job opportunities for both literate and illiterate manpower during 2003 to 2010 in Herat city. For example, establishment of the Herat Industrial Park was an important center promoting domestic products as well utilizing and processing agricultural products. On the other hand, building capacity projects, financed by different international donors could help private enterprises in terms of management skills, cost-benefit analysis, and marketing promotion. Moreover, a stable security situation and favorable investment atmosphere were key issues for investors. Unfortunately, after a few years of stability, the situation has been changed and forced many investors limit or abandons their business activities and leaves many active employees as job seekers or jobless.

Recently, the high unemployment rate and security problems have seriously impacted on two categories of people throughout Afghanistan as a whole, particularly in Herat city. First of all, many rich persons and investors are fleeing away and transfer their capital abroad. There are many other suitable investment places for them, such as the United Arab Emirates, Europe, Turkey, United States of America and Canada. Secondly, the young generations are also interested to migrate to other countries, especially, Europe, United States, Australia and Canada. Generally, capital flight and immigration have risen up since the announcement and departure of the international forces from Afghanistan.

To end the research conclusion, the Government of Afghanistan needs to pay attention on alternative options instead of relying on international forces for a long term. For example, increasing the number of national military forces and focusing on their quality of operations. At the beginning, it is important to fight against corruption to prevent wasting of billions of dollars. For sure, living in a secure and peaceful environment bring back the hope the willingness of the people coming back from abroad and stay in their home country and take part in economic development. Although the Afghan people are tired of living in such a risky environment, they hope to experience a free, developed and strong Afghanistan.

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