

Afghanistan :

**GEO-ECONOMICS AS AN
INSTRUMENT OF
NEW GEOPOLITICS IN SOUTH ASIA**

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About this study

Afghanistan's economy has severely contracted as a result of the precipitous withdrawal of the United States, the consequent decline in international financial assistance, and the Taliban's incapacity to govern and generate revenue since 2021. Afghanistan has attracted considerable attention from the regional countries due to the looming security threat of terrorism and its unutilised economic potential. In the evolving Great Game, the regional countries aim to use geo-economics as a strategy to increase their influence in that country which will have regional and global implications. This essay is an analysis of the roles played by China, Russia, Iran, the Central Asian States, India, and Pakistan, the growing regional competition and the increasing disconnect between the Global North and South on the prospects for the long-term stabilization of Afghanistan. It offers a specific set of suggestions and pathways for Afghanistan's economic stabilisation by examining several scenarios that could be useful to policymakers, practitioners, academia, business houses, and non-governmental organizations.

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1 | INTRODUCTION

The Taliban's capture of power in Afghanistan on 15 August 2021 brought America's longest war to a close and dramatically transformed the country's geopolitical and economic landscape in multiple ways. The two-decade-long military confrontation of the NATO and Afghan security forces with the insurgents came to an end. The Afghan Republican government of the last twenty years was dislodged and the Taliban installed an Islamic Emirate to govern the country guided by Islamic laws. More important repercussions were evident in the country's economic realm for an aid-dependent rentier state. During the twenty years preceding the Taliban takeover, the main source of income for Afghanistan's economy was dependent on the flow of aid for some 75 per cent of government funds and accounted for over 40 per cent of the GDP when measured in monetary terms¹.

With the exit of the U.S. and NATO countries, the new rulers of the country were faced with a complete collapse of the economy, with its links cut off from the international financial system². International aid dried up with countries having reservations of supporting the Taliban regime. The U.S. froze reserves worth more than \$7 billion of the Afghan Central Bank, depriving the country of vital foreign reserves.

Amid terrorist threats and internal strife situation, brought about by periodic attacks carried out by the Islamic State terrorist group and resistance movements organised by the elements attached to the opposition groups and previous Republican government, Afghanistan has garnered the economic interest of the regional countries, who are either seeking to enhance their presence and profile in Afghanistan, or to increase their leverage at a time when the US and NATO countries had withdrawn leaving behind an economic vacuum.

This paper takes into cognizance the role of China, Russia, Iran, the Central Asian States and South Asian

1 Anthony H. Cordesman, "Reshaping U.S. Aid to Afghanistan: The Challenge of Lasting Progress", Centre for Strategic and International Studies, 23 February 2023, <https://www.csis.org/analysis/reshaping-us-aid-afghanistan-challenge-lasting-progress>.

2 "Afghanistan's banking sector is nearing collapse, UN warns", Devex, 22 November 2021, <https://www.devex.com/news/afghanistan-s-banking-sector-is-nearing-collapse-un-warns-102165>.

countries, notably India and Pakistan. Although these countries had a presence in Afghanistan between 2001 and 2021, some had pursued policies either in alignment with the international community's overall objective of stabilising Afghanistan and its reconstruction, while others were present to fulfil their own strategic objectives, this policy brief primarily examines their role in Afghanistan under the Taliban, post-August 2021.

2 | OVERVIEW

The US/NATO withdrawal from Afghanistan was mostly a unilateral decision that fell short of considering the opinions of the regional countries, many of which had negative opinions of the outcomes of the two decades of the international community's presence in the country. For instance, China welcomed the withdrawal saying that this provided Afghanistan with a new chance to take its destiny into its own hands³. Russian President Vladimir Putin's special envoy to Afghanistan, Zamir Kabulov, declared that it was easier to negotiate with the Taliban than with the "puppet government" of former President Ashraf Ghani⁴. Iran too welcomed the departure of U.S. forces and pledged to work with the Taliban government. The then Iranian President Ebrahim Raisi said, "America's military defeat must become an opportunity to restore life, security, and durable peace in Afghanistan⁵." Pakistan's former Prime Minister Imran Khan welcomed the Taliban's capture of power saying that the insurgents have broken "the shackles of slavery⁶". India, an ally of the U.S., a few months prior to the Taliban capture of power had hoped that the drawdown of American and NATO forces would be "responsible", paving the way for the

3 "China welcomes US withdrawal as a new chance for Afghanistan", AP News, 14 July 2021, <https://apnews.com/article/china-afghanistan-ced04230ae570e324687169cddb45be1>.

4 "Afghan crisis: Russia plans for new era with Taliban rule", 21 August 2021, <https://www.bbc.com/news/world-europe-58265934>.

5 "Iran says U.S. 'failure' in Afghanistan a chance for durable peace", Reuters, 16 August 2021, <https://www.reuters.com/world/middle-east/iran-says-us-failure-afghanistan-chance-durable-peace-2021-08-16/>.

6 "Taliban have broken 'the shackles of slavery,' says Pakistan PM Imran Khan", Independent, 17 August 2021, <https://www.independent.co.uk/asia/south-asia/taliban-pakistan-imran-khan-afghanistan-b1903821.html>.

installation of an inclusive and democratic government and not an abrupt withdrawal⁷.

Further, while examining the developments within Afghanistan, it is also important to take note of the geopolitical changes that were taking place globally. These primarily included the accentuation of the Sino-American competition in the Indo-Pacific and the Ukraine war that juxtaposed the Global North and the Global South. These two developments provided an indication that the U.S. and the West had diminished interest in the affairs of Afghanistan and had shifted their focus to dealing with the challenges posed by an assertive Russia and China. This disinterest may have resulted in a significant shrinkage in humanitarian funds with the United Nations which forced the World Food Programme to drastically cut its food aid for millions of Afghan families⁸.

With this background, the policies of the regional countries in post-August 2021 Afghanistan had significant similarities and notable variations. Almost all the regional countries were concerned about the spectre of instability in Afghanistan that might spill over into their own territories in the form of cross-border terrorism, migration, and drugs. During the Shanghai Cooperation Organization (SCO) foreign ministers' meeting on 14 July 2021 in Dushanbe, Chinese Foreign Minister Wang Yi said, "Afghanistan is once again faced with the grave challenge of moving toward war or peace, chaos or stability". He proposed a five-point initiative, the third point of which was to "working together to boost a reconciliation process to ensure that no-civil war scenario develops in line with the principle of "Afghan-led and Afghan-owned"⁹.

All these countries have kept their diplomatic missions in Kabul open and have also accepted Taliban-appointed representatives to take over affairs in the Afghan embassies in their own countries, but they are yet to

officially recognise the Taliban government. However, the statements from China, Russia, Iran and Pakistan cited above indicate that sans official recognition these countries are willing to do business with the Taliban. On a broader plane, the rationale of not shying away from directly dealing with the Taliban appeared to be adding to the functionality and capability of the Taliban to deal with internal sources of instability which included the economic sphere.

Specifically, "doing business" essentially indicated exploring and expanding existing economic and trade opportunities within Afghanistan (pursued by China, Pakistan, Russia and Iran), entering into deals with the Taliban to extract mineral resources in Afghanistan (pursued by China, Iran and Turkey), and looking for opportunities to integrate Afghanistan in regional connectivity projects (pursued by China, Turkmenistan, Iran, Russia, and Uzbekistan), and involvement in infrastructure projects within Afghanistan (pursued by China, and Iran). India, however, has opted for a wait-and-watch policy—relying on providing humanitarian aid, appointing a technical mission to oversee the disbursal of such aid, and yet at the same time, resisting Taliban offers for upgrading diplomatic ties and broadening the relationship. Each of these strategies pursued by the regional countries has been dealt with in detail in the subsequent sections.

3 | REGIONAL ECONOMIC APPROACHES AND STRATEGIES IN AFGHANISTAN

The state of affairs in Afghanistan, amid the Taliban's quest for total control over Afghanistan's territory and international recognition, is in a state of flux. At the same time, the economic strategies of the regional countries are still in their infancy. Nonetheless, geo-economics, i.e., envisioning the Taliban-ruled Afghanistan as a land of economic as well as geopolitical opportunity, has emerged as a key broad strategy of the regional powers. It is possible to identify four interconnected approaches being pursued by the regional countries

7 "U.S. pullout a big step, must ensure democracy prevails in Afghanistan, says Jaishankar", Hindu, 16 April 2021, <https://www.thehindu.com/news/national/us-pullout-a-big-step-must-ensure-democracy-prevails-in-afghanistan-says-jaishankar/article34338908.ece>.

8 "Afghanistan: WFP forced to cut food aid for 2 million more", United Nations, 5 September 2023, <https://news.un.org/en/story/2023/09/1140372>.

9 "Wang Yi makes five proposals for SCO on Afghanistan", CGTN, 18 July 2021, <https://news.cgtn.com/news/2021-07-18/Wang-Yi-makes-five-proposals-for-SCO-on-Afghanistan-11ZrfsxQkUg/index.html>.

in post-August 2021 Afghanistan. Although some of these have been pursued by individual countries in the past, the new context within which these are being actively pursued makes them worthy of examination.

(i) Humanitarian: There is a seemingly benign, cooperative, and humanitarian approach, which recognises the Taliban's inability to cater to the needs of the Afghan population. As a result, regional countries have continued with their aid and assistance supplies of food and non-food items, either through their missions in Afghanistan or through the UN and other international NGOs. The overall objective is to not let the Islamic Emirate's inability create a situation of poverty and hunger-induced refugee crisis that overwhelms the region. Countries like India, Iran, China, and some of the Central Asian States have been providing such items since the Taliban takeover of power. Of the total incoming funding worth, US\$1,482,090,175, India has contributed US\$6,395,991 and China US\$2,000,000¹⁰. Such provision of humanitarian aid has given these countries some degree of leverage with the Islamic Emirate, with the latter repeatedly requesting expansion in such assistance. While this aid is minuscule in comparison to the aid that still comes into Afghanistan from the U.S., the European Union (EU), Germany and others, for the Taliban such aid and assistance from the regional neighbours is important as it potentially unveils the possibility of expanded engagement with these countries, at a time when the West seems to have diplomatically shunned their regime.

(ii) Ambitious ventures, trade, and joint projects: The Taliban regime has been offered to be included in the Belt Road Initiative (BRI) of China. The proposal, which has been embraced in principle by the Taliban regime, is to extend the China-Pakistan Economic Corridor (CPEC) into Afghanistan¹¹ in order to include the country in a regional transport network and evolving economic cooperation frameworks. The Taliban have shown willingness stating that CPEC will help Afghanistan to become part of the BRI and bring different projects

in energy, railway and other sectors to the country¹². The Taliban have further been lured with promises of economic and infrastructure investment and joint projects by Russia, which has invited the Taliban officials on several occasions to economic forums organised by it. Russia is trying to increase trade ties and also involve Afghanistan in multilateral organizations like the SCO. For instance, in the first known major international economic deal struck by the Taliban, in September 2022 Russia sought to supply gasoline, diesel, gas and wheat at a discounted price to Afghanistan¹³. Moscow believes that membership in the SCO for Kabul could ensure the implementation of transport and energy projects in the region¹⁴. A similar approach to establishing joint ventures and bringing investments has been initiated by Iran. In December 2022, Iran's ambassador stated that Tehran is ready to invest in mines, power and railway sectors in Afghanistan¹⁵. Much of these announcements do indicate the increasing role of regional powers in creating a web of economic dependencies in Afghanistan.

(iii) Attraction of natural resources: Afghanistan's significant but largely unexploited mineral reserves are valued at an estimated \$1-3 trillion¹⁶, although the cost of accessing those reserves could be extraordinarily high owing to the lack of basic infrastructure. A 2019 Afghan mining sector map estimated that the country's reserves include critical resources for the energy transition, like 2.3 billion metric tons (MTs) of iron ore, 30 million MTs of copper, and 1.4 million MTs of rare earth materials. The country is also believed to have significant stores of lithium, potentially rivalling those of Bolivia, which currently has the world's largest reserves. Post-August 2021, the objective of exploiting the Taliban's desperate search for financial revenue and creation of employment

10 "Afghanistan 2023", Financial Tracking Service, UNOCHA, https://fts.unocha.org/countries/1/donors/2023?order=total_funding&sort=desc.

11 "Pakistan, China agree to extend CPEC to Afghanistan; stress on combating terrorism", Economic Times, 9 May 2023, <https://economictimes.indiatimes.com/news/international/world-news/pakistan-china-agree-to-extend-cpec-to-afghanistan-stress-on-combating-terrorism/articleshow/100105596.cms>.

12 "With CPEC extension, Afghanistan to become center of trade: Official", Anadolu Agency, 16 May 2023, <https://www.aa.com.tr/en/asia-pacific/with-cpec-extension-afghanistan-to-become-center-of-trade-official/2898336>.

13 "EXCLUSIVE Afghan Taliban sign deal for Russian oil products, gas and wheat", Reuters, 28 September 2022, <https://www.reuters.com/markets/commodities/exclusive-afghan-taliban-sign-deal-russian-oil-products-gas-wheat-2022-09-27/>.

14 "Russia and Afghanistan: 2023/24 Trade and Investment Ties", Russia Briefing, 12 July 2023, <https://www.russia-briefing.com/news/russia-and-afghanistan-2023-24-trade-and-investment-ties.html/>.

15 "Iran ready to invest in Afghan economic, infrastructure projects", Pajhwok Afghan News, 26 December 2022, <https://pajhwok.com/2022/12/26/iran-ready-to-invest-in-afghan-economic-infrastructure-projects/>.

16 "Mining Sector Roadmap", Ministry of Mines and Petroleum, Islamic Republic of Afghanistan, 2019, <https://momp.gov.af/sites/default/files/2020-07/MoMP%20Roadmap-1-merged.pdf>.

opportunities has brought countries like China, Iran and Turkey to strike deals to mine and trade in Afghanistan's natural resources, such as iron ore, lead, zinc, lithium and gold. In January 2023, the Chinese Xinjiang Central Asia Petroleum and Gas Co (CAPEIC) signed a deal with Taliban-controlled Afghanistan to extract oil from the Amu Darya basin located in the northern part of Afghanistan¹⁷. Back in 2007, China had signed a 30-year contract to extract copper from the Mes Aynak mines in Logar province. However, the development stalled due to security challenges, contract disagreements between the state-owned Chinese company that had won the contract and the Afghan government, and concerns about impacts on the country's archaeological heritage. In September 2023, the Taliban announced the signing of seven contracts worth \$6.5 billion with companies from these three countries in four provinces: Herat, Ghor, Logar and Takhar¹⁸. The Taliban also said that these contracts would create thousands of jobs and significantly improve the economic situation of the country. These numbers could be misleading unless they lead to fully realized mining operations on the ground. In addition, given the lack of bargaining power with the Taliban, these contracts could represent unfair deals that give little to the Afghans.

(iv) A land bridge for regional trade: Afghanistan has traditionally been seen as a land bridge for trade between South Asia and Central Asia, with countries like India and Pakistan, along with China seeking to use the country for both trade and transit activities. Success achieved in this regard by individual countries during 2001-21 was meagre, owing primarily to the Taliban insurgency. China has laid a railway line connecting Kashgar with northern Afghanistan, through Kyrgyzstan and Uzbekistan. The first freight train arrived in the border town of Hairatan in Afghanistan's northern Balkh province in September 2022¹⁹. Similarly, in May 2023, a freight train from Iran arrived in Herat Province on a trial

run²⁰. Media reports indicate that India and Afghanistan could be negotiating reopening the air corridor that had been established between the two countries in 2017. ²¹India is trying to breathe life into the actualization of long delayed Chabahar port. India Ports Global Limited (IPGL) and the Ports and Maritime Organization of Iran signed a 10-year deal on May 13, 2024 that allows New Delhi to develop and operate the Iranian port of Chabahar. Under the agreement, IPGL will invest about \$120 million while there will be an additional \$250 million in financing, bringing the contract's value to \$370 million. The Taliban too have shown interest in accessing the Iranian port of Chabahar through a railway for transnational trade²². However, bigger projects like the construction of the Turkmenistan–Afghanistan–Pakistan–India (TAPI) Gas Pipeline and the Trans-Afghan Railway linking Uzbekistan and Pakistan are a long way from realization, largely because of the security problems in Afghanistan though the Taliban have demonstrated interested in participating in the same. The concept of Afghanistan's potential for being an economic land bridge still remains relevant and appeals immensely to the cash strapped Taliban.

4 | IMPLICATIONS OF REGIONAL ECONOMIC STRATEGIES

Economic prosperity and opportunity have long been argued as effective counters to instability in countries emerging from protracted conflicts. Although significant variations exist among experts on whether Afghanistan is indeed a post-conflict society or is still mired by on-going conflict, there are multiple ways of assessing whether these geo-economic strategies at play would indeed succeed and lead to changing Afghanistan's economic profile and stability. Nevertheless, the ramifications of such geo-economic strategies at play may not be confined to Afghanistan alone. It can be expected to have

17 "China inches closer to Afghanistan's rare Earth reserves with new oil deal", India Today, 23 January 2023, <https://www.indiatoday.in/world/story/china-inches-closer-to-afghanistan-rare-earth-reserves-with-new-oil-deal-2325439-2023-01-23>.

18 "The Taliban say they have signed mining contracts worth \$6.5 billion in Afghanistan", Associated Press, 1 September 2023, <https://apnews.com/article/afghanistan-taliban-mining-contract-dfd109247a44e46a9d41d8e1db76e541>.

19 "Land corridor via rail connects Afghanistan to China as 1st freight arrives", Global Times, 24 September 2022, <https://www.globaltimes.cn/page/202209/1275988.shtml>.

20 "First Freight Train From Iran Arrives in Afghanistan's Herat", Financial Tribune, 10 May 2023, <https://financialtribune.com/articles/domestic-economy/118050/first-freight-train-from-iran-arrives-in-afghanistan-s-herat>

21 "India, Afghanistan ink deal to reopen air corridor: Reports", Wion News, 3 November 2022, <https://www.wionews.com/south-asia/india-afghanistan-ink-deal-to-reopen-air-corridor-reports-530816>.

22 "Afghanistan to be linked with Iranian Chabahar Port soon", Mehr News Agency, 3 September 2023, <https://en.mehrnews.com/news/205556/Afghanistan-to-be-linked-with-Iranian-Chabahar-Port-soon>.

implications on the prospect of stability and economic prosperity in the entire Afghanistan-Pakistan region. The delivery potential of the current geo-economics must be contextualised vis-à-vis three truisms that drive and shape these policies.

(i) Much of the geopolitics and geo-economics witnessed in Afghanistan needs to be seen in the context of the global geo-economic competition between the US and China. The US rivalries with Russia and Iran also play a major role in driving both Moscow and Tehran's policies towards the Taliban regime. While China is seeking lucrative investment and mining opportunities in Afghanistan and could be using the promise of the extension of the China-Pakistan Economic Corridor (CPEC) to Afghanistan as a low-hanging fruit, both Russia and Iran could be looking to use Afghanistan as a parallel transit route, which could offer them the opportunity to bypass the sanctions imposed on them by the US and Western countries. Both these countries are already working on a new transcontinental trade route stretching from the eastern edge of Ukraine to the Indian Ocean, a 3,000-kilometre passage that is beyond the reach of any foreign intervention. They are looking to partner with India, which has kept its distance from the Western-led sanctions against the two countries.²³ Central to this project is the Chabahar port in Iran, which has been used for trade with Afghanistan. The Iranian rail link with Herat could potentially be useful in providing an alternative route through Afghanistan.

(ii) The wide-ranging economic activity proposed by the regional countries in and with Afghanistan should ideally go a long way in fulfilling much of Afghanistan's needs. However, much would depend on their actual intent and delivery potential. While delivering humanitarian aid is relatively an easy option, economic investment in Afghanistan and transforming its economy is a far more challenging task requiring equal capacities and agency from the host nation and the ones that are bringing in investment. The Taliban's attempt to govern the country and provide a hospitable environment for economic revival

and investment has been hampered by the brain drain phenomenon—i.e., the mass exodus of Afghan professionals since the Taliban takeover which has depleted the skilled workforce that Afghanistan had steadily built up over two decades,²⁴ and instability wreaked by the Islamic State terror group's periodic violence.²⁵ These could constitute major impediments in any move to transform its economy. As a result, most of the regional countries could be cautious in undertaking any major economic activity, thereby affecting Afghanistan's prospects and the pace of economic transformation.

(iii) Opportunities for closer economic ties with the Taliban are limited for most countries. It is clear that the strategies pursued are driven by hopes of some sort of permanent entrenchment in Afghanistan with serious gains.²⁶ Moreover, a crucial shortcoming with the geo-economic approaches of the regional powers is that these are fractured without much unity of purpose. Worse still, on many occasions, their strategies are at cross-purposes with one another. There is little in common in the approaches of India, which is apprehensive of the growing Chinese profile in Afghanistan,²⁷ and those of China and Pakistan, which are expected to make efforts to deny New Delhi any space in the Taliban-ruled Afghanistan to regain its lost leverage. Russian, Iranian, and Chinese approaches, in spite of their supposed political proximity, have very different priorities. So it is fair to say that intense competition among the regional powers rather than cooperation characterises the regional geo-economics in Afghanistan today. For most, the Taliban's ideology of opposition to Western values overlaps with the anti-

²³ "Russia and Iran eye trade route with India to bypass sanctions", Nikkei Asia, 11 January 2023, <https://asia.nikkei.com/Politics/International-relations/Russia-and-Iran-eye-trade-route-with-India-to-bypass-sanctions>.

²⁴ "Brain Drained: Exodus Of Professionals Since Taliban Takeover Leaves Afghanistan Starting From Scratch Again", Radio Free Europe Radio Liberty, 12 August 2022, <https://www.rferl.org/a/afghanistan-taliban-brain-drain-workforce-anniversary/31983884.html>.

²⁵ In June 2023, the United Nations said that bombings and other militant violence in Afghanistan had killed more than 1,000 civilians since the Taliban regained control of the country in August 2021. See "UN: Islamic State-Led Violence Kills 1,000 Civilians in Taliban-Run Afghanistan", Voice of America, 27 June 2023, <https://www.voanews.com/a/un-report-more-than-1-000-afghans-killed-in-deliberate-attacks-since-2021-7154474.html>.

²⁶ "Afghanistan in China's Grand Strategy", Diplomat, 4 August 2023, <https://thediplomat.com/2023/08/afghanistan-in-chinas-grand-strategy/>.

²⁷ "India Is Pushing Back Against China in South Asia", Foreign Policy, 16 August 2023, <https://foreignpolicy.com/2023/08/16/india-china-south-asia-geopolitics-competition-strategy-modi-bangladesh-sri-lanka-bhutan-nepal-maldives-afghanistan/>.

Western narratives of China, Russia and Iran. However, that alone is insufficient to transform the region into a thriving arena for economic activity.

The net impact of all these is bound to affect the level and pace of economic development in Afghanistan. This could translate, in the medium and long term, into the continuation and even worsening of the ills that affect Afghanistan today. The country's population would remain completely dependent on the UN and other international NGOs for food and medical assistance. The employment opportunities would remain limited with only marginal scope for expansion, resulting in the persistence of mass-scale hunger, poverty, and impoverishment of ordinary Afghans.

This in turn could continue to fuel displacement and economic migration, a sizeable part of which would attempt to reach the Western countries and another big chunk would try crossing over into the neighbouring countries, especially Pakistan and Iran. Incidentally, both these countries are now averse to receiving any refugees from Afghanistan and have taken measures to stop cross-border migration and pushback refugees, which could potentially result in repeated violent incidents at the border impacting bilateral ties.

Widespread poverty and the lack of economic opportunities for the Afghan farmers could also reverse the recently highlighted Taliban's success in controlling opium cultivation. A mix of abject poverty, as well as a dearth of revenue with the Taliban, may create conditions in which poppy cultivation and opium trade register a comeback. Similarly, continued economic impoverishment could push young Afghans and children into the arms of terror groups like the Islamic State (IS), which has expanded its operations within Afghanistan since the Taliban's capture of power. The IS terror group has a wider objective of orchestrating violence all over South Asia. In addition, existing safe havens for terror groups like the Tehreek Taliban Pakistan (TTP) and Lashkar-e-Taiba (LeT) could further expand. This can have major security implications for Pakistan and India.²⁸ The Taliban's refusal to act on Pakistan's repeated request to rein in the TTP has been

28 "CSTO on Afghanistan: 'Unfavorable Trends' in 'Security Situation'", Tolo News, 28 April 2023, <https://tolonews.com/afghanistan-183149>.

a factor behind the worsening relationship between Islamabad and Kabul, affecting bilateral trade.²⁹

5 | GEO-ECONOMICS IN AFGHANISTAN: GLOBAL SOUTH VERSUS THE WEST

One of the crucial parameters for judging the potential success of regional geo-economics in play in Afghanistan is to assess the extent to which the regional geo-economics is in consonance with the global geo-economics, or is at contention with it.

For two decades, the international community engaged with Afghanistan's reconstruction and economy in multiple ways. For several years, Afghanistan was the largest beneficiary of the European Union (EU)'s development assistance directed at keeping the country on track to political and economic stability, state-building and development. By 2021, the EU and its member states had contributed approximately 11 billion euros to multilateral efforts in rebuilding Afghanistan

However, ever since the Taliban's capture of power, the US and the west are mostly seen as having withdrawn from Afghanistan, both in the physical as well as the economic sense. Although the EU maintains "operational engagement"³⁰ with the Taliban regime, none of the Western countries have recognised the Taliban regime, trying to use the strategy to build pressure on it. In 2023 (till July), the EU has so far allocated c156.5 million in humanitarian aid to Afghanistan. In 2022 and 2021, the amount was €174 million and €222 million in humanitarian funding respectively.³¹ The US and its allies have cut off international funding, crippling the

29 "Bilateral trade between Afghanistan and Pakistan witnesses a sharp decline", Khaama Press, 13 October 2023, <https://www.khaama.com/bilateral-trade-between-afghanistan-and-pakistan-witnesses-a-sharp-decline/>.

30 "EU eyes Kabul presence, sets conditions for 'operational engagement' with Taliban", France 24, 3 September 2021, <https://www.france24.com/en/asia-pacific/20210903-eu-eyes-kabul-presence-sets-conditions-for-operational-engagement-with-taliban>.

31 "Afghanistan, European Civil Protection and Humanitarian Aid Operations", https://civil-protection-humanitarian-aid.ec.europa.eu/where/asia-and-pacific/afghanistan_en.

Afghan economy already heavily dependent on external aid. Post August-2021, global humanitarian appeals have fallen short of the total amount requested. In 2022, the UN humanitarian response plan was budgeted at \$4.4 billion and received around \$3.2 billion.³² The US further refuses to unfreeze assets worth \$9.5 billion belonging to the Afghan Central Bank,³³ citing concerns that the funds could end up in the hands of terrorists. That has remained a bone of contention between Russia, China and the US, with Beijing and Moscow repeatedly demanding that the money which belongs to the Afghan people must be released.³⁴

The pressure tactic of the West, however, hasn't been able to compel the Taliban to change its regressive policies and pave the way for an inclusive government. Intermittent humanitarian aid and assistance from the EU have flowed into Afghanistan. The EU's revamped approach of working with NGOs and the private sector to support vulnerable people to meet their basic needs and build resilience by safeguarding vulnerable livelihoods and improving economic opportunities is a new initiative to help the needy Afghans.³⁵ However, a report of the U.S. Special Inspector General for Afghanistan Reconstruction, released in October 2023, suggests that the Taliban could have been subverting this arrangement by nefarious methods like the establishment of fraudulent NGOs and extorting and infiltrating existing NGOs to obtain or direct international donor aid.³⁶

As mentioned before, even the humanitarian efforts in Afghanistan are falling short of their intended targets. The UN has repeatedly cited concerns about a drastic shortfall of \$2.23 billion for its humanitarian

project in Afghanistan, which has forced the World Food Programme to cut rations to millions of Afghans. This gives a feeling that the West, preoccupied with the Ukraine War, is only peripherally interested in Afghanistan or lacks the capacity to frame a more effective policy than the one which hasn't been successful in the past two years.

In direct contrast to what is being perceived within Afghanistan as abandonment by the West and its reluctance to engage with the country's economic sector, the regional countries including China and Russia appear to be more eager to engage with the Taliban and exploit the economic opportunities Afghanistan potentially offers. While the West's geo-economics remains limited by its wishes for a reformed Taliban and the establishment of an inclusive government, such considerations do not limit the new geo-economics unveiled by the new regional players in Afghanistan.

The new geo-economics at play in Afghanistan is about activating the trade linkages that had been disrupted with the Taliban takeover of power, finding new trade routes and partners, investing in infrastructure and mining projects within Afghanistan, and on a broader plane, the yearning to be seen as allies of the Global South. Both the global and regional geo-economics share the common objective of bringing economic stability to Afghanistan and preventing its security or economic collapse. However, a deep sense of confrontation with the West appears to be the hallmark of the economic strategy pursued in Afghanistan by China, Russia, and Iran. The Chinese and Russian state leaders repeatedly point out to the flawed international intervention of two decades being responsible for the poor state of Afghanistan's economy and society.

32 "Budget for Afghanistan aid plan revised down to \$3.2 billion", Reuters, 5 June 2023, <https://www.reuters.com/world/asia-pacific/budget-afghanistan-aid-plan-revised-down-32-billion-2023-06-05/>.

33 "US freezes Afghan central bank's assets of \$9.5bn", Al Jazeera, 18 August 2021, <https://www.aljazeera.com/economy/2021/8/18/us-freezes-afghan-central-banks-assets-of-9-5bn>.

34 "Russia and China tell US to return \$7bn in frozen Afghan funds", National News, 28 September 2022, <https://www.thenationalnews.com/world/us-news/2022/09/27/russia-and-china-tell-us-to-return-7bn-in-frozen-afghan-funds/>.

35 "Exclusive: EU eyes private sector support in Afghanistan", Devex, 25 November 2022, <https://www.devex.com/news/exclusive-eu-eyes-private-sector-support-in-afghanistan-104511>.

36 "More 'nefarious' methods like the establishment of fraudulent NGOs and extorting and infiltrating existing NGOs to obtain or direct international donor aid.", Associated Press, 23 October 2023, <https://apnews.com/article/afghanistan-taliban-fraudulent-ngos-us-watchdog-sigar-b3234372a0e80e6e9fadb04b3b1b06df>

6 | FUTURE SCENARIOS

An interface between the four following factors, explained in the previous sections, could shape the future of Afghanistan. These are (i) the multiple political and economic challenges faced by the Taliban's Islamic Emirate which include non-recognition by the international community and lack of resources, which affects its leverage while entering into economic deals

with different countries; (ii) the West's current disinterest in getting involved in the affairs of Afghanistan again and restricting itself to providing humanitarian assistance; (iii) Countries like China, Russia and Iran pursuing geopolitical strategy deals with the Taliban without being influenced by the approach of the West, seeking to deepen their trade ties with Afghanistan and build stability to avoid the collapse of the country; and (iv) the lack of unity and any plan for concerted action among regional countries about a roadmap for Afghanistan's economic recovery.

One or more of the following five scenarios could result from the prevailing state of affairs, in the medium to long term.

(1) Neo-colonialism of the East: 'Neo-colonialism' of the West is a common expression in South Asia including Afghanistan. The Western powers and their supposed "ulterior" motives have always been seen with suspicion in the region. In recent years, the neo-colonialism of the West has been replaced by the neo-colonialism of the East in South Asian and African countries. The Chinese Belt and Road Initiative, which largely establishes an iniquitous economic relationship with participating countries, could most likely continue the same strategy in Afghanistan — resulting in notable infrastructure projects and at the same time, pushing the nascent economy into a debt trap. Similar trends are visible in the African continent and in Sri Lanka in South Asia. The resource-starved Taliban have hardly any bargaining power. This may result in the Afghan economy relying mostly on selling its resources and minerals, through unequal and iniquitous deals, and get sucked into a web of dependency.

(2) Reluctant and haphazard economic engagement: Afghanistan has never been a happy hunting ground for any external power. Being historically known as the 'graveyard of empires', it has repeatedly defied attempts of military subjugation. The same could be true for the geo-economics pursued currently by the regional countries. The realisation of this could moderate the extent to which countries like China and Russia would get involved in ambitious projects

in Afghanistan.³⁷ They would mostly limit themselves to profit-seeking projects only, with limited potential to stabilise Afghanistan and build its economic profile. Employment opportunities for the Afghans and the revenue generation from such projects would remain limited. Thus, the near permanence of impoverishment could be Afghanistan's *fait accompli*, with serious humanitarian and security ramifications.

(3) An anti-western zone: Being tied firmly to the economic policies of countries like China, Pakistan, Russia and Iran, would invariably lead to a dependency syndrome in Afghanistan, allowing these countries to have a dominant say over the affairs of the country. While this is unlikely to affect the Taliban's religious worldviews, given the fact that Taliban's orthodox Islamic values have hardly been a deterrent for either Russia and China, or even the Shiite Iran. However, it could transform the Islamic Emirate into an integral part of an anti-American and anti-West zone in the medium to long term. The perceived sense of being abandoned by the US and the West, will further harden the common Afghan's worldview. This is a scenario which may have wider security implications.

(4) A new great game: The clear lack of unity of purpose among the regional countries and the absence of synergy in their economic strategies in Afghanistan may give rise to fierce competition among them, attempting to gain advantage over one another. For instance, India is bound to react to the growing profile of China and Pakistan in Afghanistan. India's policy towards the Taliban seems to be shifting from no business with the Islamic Emirate to establishing issue-based contacts with the Taliban.³⁸ Holding an anti-Taliban stance can jeopardize the execution of all its projects in that country including the task of its "technical mission", thereby providing China and Pakistan with an upper hand in that country. To a limited extent, this competition may benefit Afghanistan, but the danger of the country turning into a battle ground for the intense

37 "China Wooed Taliban With Investment Promises That Haven't Panned Out", Bloomberg, 26 September 2022, <https://www.bloomberg.com/news/articles/2022-09-26/china-s-failure-to-invest-in-afghanistan-is-frustrating-the-taliban#xj4y7vzkg>.

38 Shanthie Mariet D'Souza, "Hobson's Choice for India in Taliban-Held Afghanistan", Diplomat, 19 September 2023, <https://thediplomat.com/2023/09/hobsons-choice-for-india-in-taliban-held-afghanistan/>.

rivalry between India on the one hand and China and Pakistan on the other, with wider ramifications, cannot be underestimated.

(5) Taliban benefiting from the “gold rush”: The Taliban could, in an economic sense, benefit from the “gold rush”—i.e., the competition among the regional partners for Afghanistan’s resources and other economic and investment opportunities. In February 2023, the Taliban-led administration announced the setting up of a consortium of companies, including some from Russia, Iran and Pakistan, to create an investment plan focusing on power, mining and infrastructure.³⁹ However, for this best case scenario to fructify, the Taliban will have to choose its partners strategically, diversify its trading linkages with countries, prioritise sectors that need such investment, and carefully draft agreements that result in maximizing both employment opportunities for Afghans and revenue for the country.

7 | CONCLUSION AND RECOMMENDATIONS

In the last two decades of international intervention, Afghanistan remained aid-dependent. Under the Republican government led by President Ashraf Ghani, 43 percent of Afghanistan’s GDP came from foreign aid according to the World Bank. About 75 percent of public spending was funded by foreign aid grants. Ninety percent of Afghans lived on an income of less than \$2 a day, and an estimated 18.4 million people — nearly half the country’s population — were in need of humanitarian aid.⁴⁰ One primary reason for its inability to generate resources internally was the prevailing instability due to a thriving insurgency. Even the bulk of the external assistance went into the defence and security sector. With the former insurgents becoming the rulers, the situation has hardly changed, albeit due to new factors. Afghanistan’s economy has suffered

39 “Taliban sets up investment consortium with firms from Russia, Iran”, Reuters, 22 February 2023, <https://www.reuters.com/world/middle-east/taliban-sets-up-investment-consortium-with-firms-russia-iran-2023-02-22/>.

40 “Brink of Collapse’: How Frozen Assets & Halted Foreign Aid Are Impacting the Afghan People”, Frontline, 12 October 2021, <https://www.pbs.org/wgbh/frontline/article/taliban-takeover-how-frozen-assets-foreign-aid-impacts-afghanistan/>.

both because of the inability of the new rulers to govern and also due to the indifference of the West, which does not want to legitimise the regressive Taliban.

In these circumstances, the geo-economics unveiled by the regional countries remains the only source of significant economic activity in Afghanistan. However, even in this sphere, the future is uncertain. As explained in the previous sections, opportunistic, profit-seeking, and anti-western ideology-driven deals and short term economic interventions are unlikely to contribute much to the stabilization of Afghanistan’s economy. Therefore, the probability of the new geo-economics in Afghanistan prolonging the country’s economic impoverishment and instability is high. This can have far-reaching implications for the region and also the world. Therefore, it is not in the interest of Germany and other European countries to allow the present situation to continue.

The following recommendations for stakeholders and decision-makers in Berlin and the European Union may be relevant for urgent course correction.

(i) While it is ideal to demand that the Taliban revisit their regressive ideology and set up an inclusive government, the future is uncertain. The dominance of the Taliban hardliners over the moderates is likely to continue for the foreseeable future, with their religious ideology intertwined with the regime’s policies. This truism needs to be factored into the official policies. An engagement without recognition approach needs to be continued.

(ii) The U.S and NATO member states need to reflect on how they floundered to build a revenue-generating and self-sustaining economy in Afghanistan during the 2001-21 period. The EU possibly needs its own comprehensive, independent inquiry to assess its past and present performance in Afghanistan in terms of lessons learnt of its past relevance and present effectiveness.

(iii) Afghanistan must not be allowed to turn into an information black hole. A balance needs to be struck between refusing to recognise the Taliban and being present in the country in some form. The EU re-established its physical presence in Afghanistan

in January 2022 for humanitarian purposes.⁴¹ India's "technical mission" has operated in Kabul since June 2022 to coordinate its aid and assistance programme. These are good examples that can be replicated by Germany.

(iv) India enjoys tremendous goodwill among the Afghan people and the Taliban have been continuously seeking India's return to reconstruction activities and economic investment in the country.⁴² Similarly, the economic activity and commitment of other regional partners to promote stability in Afghanistan could be the starting point for fostering triangular cooperation between Afghanistan, and regional and international partners. India and Germany can cooperate on issues of economic stabilization of Afghanistan. At a time, when the U.S. and China are seeking to manage their confrontationalist relationship,⁴³ such a partnership could be the harbinger for the long-term economic stability of Afghanistan.

(v) Afghans need to be at the centre of any policy of Germany and the EU towards Afghanistan. The overall objective is to stabilise Afghanistan, which may stop or reduce both large-scale displacement and migration and the narco-trade. Humanitarian assistance alone is inadequate to address this as a medium and long-term objective. Some level of participation in reconstruction projects and employment-generating commercial activities needs to be considered. Cooperation with select local partners in order to improve people's livelihoods (e.g., in agriculture and infrastructure) needs to be considered.

(vi) Economic stability cannot return to Afghanistan without a common roadmap with differentiated roles in which the regional countries and the international community are willing partners. For instance, while the regional countries can work of improving infrastructure, the West can take the lead in bringing in the technical know-how of how to lessen

corruption, work on security sector modernisation, banking reforms, etc. The EU/Germany needs to take the lead in trying to evolve a consensus in this regard. The exclusively and separately arranged regional formats and global formats of discussions on Afghanistan must be merged to work towards such consensus.

(vii) A sizeable presence in Afghanistan and involvement in reconstruction and economic activities can be a source of leverage over the Taliban in the medium to long-term horizon, which may translate to moderating the group's worldview and policies. It may strengthen the moderate faction of the Taliban when pitted against the hardliners. Punitive actions have not worked so far as the Taliban have shown a willingness to risk isolation with its domestic policies towards girls, women and minorities, and can only subject the common Afghans to more hardships.

(viii) Afghanistan -- located at the crossroads of Asia, is too important a country to be an exclusive playground for one country or a single group of regional countries. The country's economic needs are multifaceted and are unlikely to be fulfilled by only a few countries. There will always be an opportunity for the Western countries to play a key role in transforming Afghanistan's future by the infusion of funds and technology in sectors such as livelihood, health, education, and agriculture. However, time is of the essence and further delay in activating such intervention may prove to be neither in the interest of the West nor of the region.

41 "Brink of Collapse": How Frozen Assets & Halted Foreign Aid Are Impacting the Afghan People", Frontline, 12 October 2021, <https://www.pbs.org/wgbh/frontline/article/taliban-takeover-how-frozen-assets-foreign-aid-impacts-afghanistan/>

42 "Taliban seek economic support and recognition from India ahead of Kazan meeting under Moscow format", The Hindu, 27 September 2023, <https://www.thehindu.com/news/national/taliban-seek-economic-support-and-recognition-from-india-ahead-of-kazan-meeting-under-moscow-format/article67350213.ece>.

43 "China praises 'warm' Xi-Biden meeting in change of rhetoric", The Guardian, 16 November 2023, <https://www.theguardian.com/world/2023/nov/16/china-praises-warm-xi-biden-meeting-in-change-of-rhetoric>

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