Abstract

Taking the theoretical framework of rentier states, this paper attempts to understand the making and unmaking of the Afghan state in the light of growth of capital and statehood. In Europe, where the modern statehood concept first took shape, state making and growth of capital based on domestic resource extraction, coercion and legitimacy went hand in hand. Afghanistan’s historical brush with state making suggests that unlike the European state making experience, the Afghan elite’s failure to mobilize effectively domestic economic resources for financing state building needs led resultantly to a continuous dependence since its early days of inception on foreign sources of income, including tributes from outlying provinces and subsidies as well as development aid from regional and international power players. Economic problems compounded by harsh geographical terrain, low infrastructural growth, inept economic policies and persistent conflict provided a very low extractable base to the economy and gave a rentier character to the state income. Dependence on rentier income in turn, stunted bureaucratization and institutionalization, removed compulsion from rulers to develop effective state institutions and destabilized regimes whenever rentier sources of income dried up. This paper argues that such rentier status of Afghan economy and polity continues unabated in the post 2001 period. With around 90% of the state budget contributed by foreign sources, the historical pattern of Afghanistan relapsing into conflict in the case of withdrawal of such rentier income presents a stark challenge to the current Afghan state builders.

Key Words: capital, rentier statehood, Afghan state making, state building, economy.
Introduction

The introduction focuses on the question of how a rentier state is theorized in literature and what pathological disorders are associated with such a state. A rentier state’s unearned income comes from either natural resources (oil rents as royalties, taxes, surpluses from state corporations), or from rents received for strategic purposes and in the form of military or development aid. The rentier statehood theory argues that rentier states fail to develop strong and stable bureaucracies and accountable, representative governments and suffer from a number of negative political and economic pathologies that increase their propensity to violent conflicts and wars.¹

Rentier income, it is argued, turns a state from extractive (extracts its operating revenue from the society) to distributive one (decides on rent distribution among groups), prohibits bureaucratic growth and discourages public participation in policy making and accountability mechanisms. Among rentier varieties, oil dependent regimes become more undemocratic and unaccountable because revenue comes from concentrated sources like few oil companies or public mining enterprises, making it difficult to ensure transparency in revenue and expenditure accounts. Jobs under such regimes, it is highlighted are distributed on patronage basis and concentrated in coercive apparatus including the police and army. These security forces are relied on by such regimes for arresting unrest, thereby prolonging the reign of authoritarian regimes. It is also argued that regimes in rentier states act in predatory ways and buy security by investing in patron client networks rather than through a social contract based on the exchange of public goods financed through domestic taxation. Since the major world powers interests are focused on strategic gains and oil, therefore such authoritarian regimes face less external pressures to liberalize. However, such regimes are vulnerable to instability, because their abilities to patronize groups (especially dissident ones) during bust periods, when strategic interest diminishes or when oil revenues fall, bring their legitimacy into question. Resulting reduced coercive strength, unequal distribution of rent revenues in oil and development aid rents as spoils, may cause rebels to indulge in violent resistance against the regime.²


² Ibid.
Economically, such states are afflicted by ‘Dutch disease’—oil raises a country’s value of currency, increases the prices of agricultural and manufacturing exports at the international level and discourages the viability of non-oil economic sectors. This results in economy suffering even during boom periods. Non-transparency in oil transactions results in corrupt practices, negatively affecting resource allocation and investment and slowing economic growth. And dependence on single resource makes the economy vulnerable to price volatility at the international level.\(^3\)

There are some scholars who raise limitations in the rentier state theory’s argument of oil dependent authoritarian regimes being less stable. Several state failure/fragility indexes place autocracies at a higher order of possessing stable state structures.\(^4\) Smith’s study, find longer durability for oil regimes and their stability, unaffected even during bust periods.\(^5\) Di John, criticizes the rentier theory’s assumption that natural resources may be managed, or owned individually. To him this ignores the aspect of collective actors imposing domestic conditionality over ruler’s power and authority. He cites figures to stress that low growth rates and corruption are not synonym to rentier states. For example in the period 1965-80, the average annual GDP growth of oil exporting economies was 6.7% faster than the average figures for all developing countries except East Asia and the Pacific.\(^6\) More than natural resource rents, dependence on strategic rents in the form of foreign aid and development makes state’s stability dependent on major power’s interest in their strategic position. Withdrawal or absence

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\(^3\) Ibid.


\(^5\) When oil prices collapsed in 1986, patronage rents dried off by more than two-thirds, but regime stability was not affected in oil exporting countries, suggesting an investment not just in coercive apparatus but also other state building institutions. See Smith, “*Oil Wealth,*” pp 232-46.

\(^6\) Subjective corruption rates were also similar in mineral resource abundant and mineral resource scarce economies. See di John, “*Oil Abundance,*” pp 970-75.
of such interest is marked by rapid pulling out of rentier income, leading to destabilization in host states.

Rentier Statehood and Afghanistan

Though Afghanistan was born in 1747 to fill out the regional vacuum of power created by the decline of the Mughal (Indian) and Safavid (Persian) dynasties, under whose control it lingered for more than two hundred years before independence, its dependence on unearned external income has been perpetual. The socio-political milieu of the areas which constituted later day Afghanistan were impacted by successive and varied migrations, invasions and incorporations by empires, giving it religious heterogeneity and political and economic volatility. Greater political unity, cultural richness and trade growth accompanied the Arab conquest of Balkh and Herat in 650, but, absence of prolonged central government, wars and invasions and discovery of maritime routes between Europe and East, undermined its commercial position, declined its urban centres and resulted in power shifts to landed aristocracy and tribal chieftains.

Even before the 18th Century, administration of the areas that were to constitute later day Afghanistan were financed by the Mughal rulers of India (of which it constituted a part) from either the central treasury or from Punjab’s finances. How the Afghan state attained a rentier status is not very complex to understand. The economic woes of the Afghan state can be traced to several centuries of war, repeated collapse of central governments, absence of uniform trade regulations and discovery of maritime routes between Europe and the East. It was created in 1747 with a very weak extractable base, which made the Popalzai- Durrani Kings to extort tributes from the outlying provinces to finance their governance needs. Over three fourths of the state’s income around this time was extracted from the territories of Punjab and Kashmir. This state of affairs changed for the worse with the rise of Sikh and British power in Punjab and Peshawar, loosening Afghan Amir’s control over outlying territories and its finances.

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7 In the 17th and first half of 18th Centuries, regions lying South of Hindu Kush were under the Mughal control, whereas, Herat and Farah were largely held by the Safavids of Persia. See The New Encyclopaedia Britannica, Vol. 1, (15th Ed.). Chicago: Encyclopaedia Britannica, Inc., 1979, p 174.
9 For a pre 1747 assessment of economic and social position of Afghan towns, such as Kandahar, Kabul, Jalalabad and Kunduz, see Gregorian, The Emergence of Modern Afghanistan, pp 52-73.
The loss of finances was commensurate with weakening of patronage power of the king and resultant withdrawal of support by tribal chieftains destabilized regimes.

**Capital and State Growth: The Sadozai/Popalzai and Muhammadzai/Barakzai Period**

The Afghan state emerged in the wake of power vacuum created as a result of the Persian king Nadir Shah’s assassination in October 1747. Ahmad Shah Abdali, one of Nadir’s Afghan generals, was elected as the leader of the new Afghan tribal polity in a *Jirgah* (assemblage of tribal elders) meeting attended by Abdali chieftains. A rudimentary structure of government was created in the very *Jirgah* meeting that selected Ahmad Shah as the emperor. Despite lacking initial control over outlying territories and the relative autonomy exercised by the tribes, Ahmad Shah’s polity is termed as an empire state, whose fluid boundaries kept on changing with new conquests. The legitimacy of the new state was traditional and charismatic, based on tribal support and religious ideology of divine rule. From the very beginning tribal interests were accommodated through granting of higher services in the state and other economic concessions, such as *jagir’s* (non-revenue paying lands) exemption from taxes, and distribution of war booty as spoils and patronage resources. This was supplemented with dependence on the religion for legitimizing Shah’s rulership.


12 The central government inspired by Persian model gave the Shah powers over civil and military matters, but these were exercised with consultation of *Majlis* (council), comprised of leading tribal chiefs. See, Malleson, *History of Afghanistan*, pp 276-277; and Singh, *Ahmad Shah*, pp 32-33 and pp 347-348.

13 In 1762, the Afghan empire included Kashmir, Sind, Baluchistan, and parts of Khurasan, which was next to Ottoman Empire, the largest state in the Middle East. See Noelle, C., *State and Tribe in Nineteenth-Century Afghanistan: The Reign of Amir Dost Muhammad Khan 1826-1863*. Richmond Surrey: Curzon Press, 1997, p 2.

14 The non-Durrani tribes received insignificant amount of land, although, they had to provide 50-60% more soldiers than the Durranis. See Gregorian, *Emergence of Modern Afghanistan*, pp. 46-47.

The Afghan state under Sadozai/Popalzai rulers failed to develop urban trading centers properly to serve extractable revenues to the centre. Its finance department headed by Dewan Begi (finance minister) handled direct and indirect finances from agriculture, irrigation, royal estates and others.\textsuperscript{16} The Shah’s revenue powers were curtailed by tribal defiance in payment of land taxes; taxes collected by Maliks (village headmen) reached the state through tribal chieftains.\textsuperscript{17} Inability to extract taxes domestically made the Durrani Kings depend on extraction of tributes from outlying provinces; over three fourths of the state’s income came from Indian territories of Punjab and Kashmir. Such dependence would change in the wake of rise of Sikh power in Punjab and Peshawar; loss of territory entailed loss of tributes, coupled with monarch’s inability to raise domestic taxes on tribal land and trade income, weakened the patronizing power of the king and precipitated revolts in outlying districts. The loss of outlying provinces especially hid hard at the patronizing power of the ruling elite by narrowing of room for outward expansion and simultaneously of the resources to keep loyalties within king’s person.

The Muhammadzai/Barakzai reign is characterized by a continuous dependence on tribal support for legitimacy, attempts by different Amirs at centralization and modernization, major power rivalry and a dependence on rentier income.\textsuperscript{18} Political legitimacy through tribal support was garnered by the distribution of state offices, tax exemptions and matrimonial alliances. After the first half of the 19\textsuperscript{th} Century, Afghan rulers desperately felt the need to centralize the state, develop its coercive apparatus and initiate limited modernization reforms. Limited centralization and bureaucratization steps were initiated as a result. Such centralization needs were fulfilled from British subsidy. Afghan dependence on British subsidies was substantial in the 19\textsuperscript{th} and early 20\textsuperscript{th} Centuries. British practice of subsidizing Afghan rulers began as early as Shah Shuja’s rule around the first quarter of 19\textsuperscript{th} Century. Abdur Rehman’s efforts at centralization, as well as building of his military might depended on an uninterrupted supply of British subsidy. The initial subsidy of 3,615,009 Indian rupees (1880-1881)\textsuperscript{19} was raised to 1.8 million after the formal demarcation of the Durand line in 1893. It jumped to 1.85 million in 1897, when the British and Russians forced the Amir to under-take the administration of Wakhan Corridor along the North-West

\textsuperscript{16} See Singh, Ahmad Shah Durrani, pp 348-49.
\textsuperscript{17} Gregorian, Emergence of Modern Afghanistan, p 48.
\textsuperscript{18} Dost Muhammad Khan initiated Muhammadzai/Barakzai dynasty in 1826, and ruled upto 1863, with a brief interregnum of three years 1839-1842, when the British support helped Shah Shuja (Sadozai/Popalzai) to regain his lost throne, which was again returned after the First Anglo Afghan War (1842) to Dost Muhammad (1843). On Dost Muhammad Khan’s first reign and the first Anglo-Afghan War, see, Noelle, State and Tribe, 1-59; and, Iqbal, A., Circumstances Leading to the First Afghan War. Lahore: Research Society of Pakistan, 1975.
\textsuperscript{19} Gregorian, Emergence of Modern Afghanistan, p 131.
Subsidies from major powers eased modernization pains, but resulted in loss of independence and arbitrary boundary demarcation.

The Muhammadzai Amirs, including both Abdur Rehman and Habibullah subsidized centralization reforms through British subsidy. These centralization attempts included the development of standing army, centralized administration, a unified legal system, introduction of Kabuli rupee as a single monetary unit, construction of roads, encouragement of small scale industries, uniformity of customs duty and (limited) reforms in health and education.  

Abdur Rehman’s success in centralizing the Afghan state came from taking subsidy for modernization attempts from foreign powers, but keeping ownership of domestic modernization efforts in his own person and authority. Habibullah’s attempts to increase trade by standardizing custom duties and increasing trade with India and Russian Central Asia were frustrated by low levels of infrastructural growth, travel and trade restrictions.

A radical departure from the practice of dependence outside subsidy came in the period of Habibullah’s son Amanullah. His regime sought legitimacy in Afghan nationalistic fervor for independence (form British control over Afghan foreign policy) and radical transformation of political, administrative and social milieu. He used the religious decree of Jihad against British (calling them infidels) for securing clerical and popular support in realizing the nationalistic dream of independence. However, independence was achieved at the price of British subsidy and acceptance by Afghan leadership of the Durand line border with India.

Amanullah’s economic reforms included diversification of foreign trade, rationalization of commerce, development of small industries, and growth of hydro-electricity, telegraph, telephone, postal services and civil aviation. His rather radical social reforms saw establishment of primary and secondary schools, the first school for girls and female emancipation in encouraging women to appear in public without veils. The success of such radical

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21 For reform details, see Gregorian, *Emergence of Modern Afghanistan*, pp 134-57.


reforms needed a steady supply of revenue to maintain tribal patronage and support by the locals, which had been sacrificed for the sake of independence. Amanullah laid emphasis on infrastructural development and rationalized tax and fiscal system. Through instituting property rights in arable land and pasture, a comprehensive cadastral survey of all lands, monetizing land taxes and selling state lands at cheap prices, he is credited with creating a new class of peasant proprietors. However, these attempts at raising domestic heads of taxation and the simultaneous reduction in subsidies and privileges of tribal chiefs destabilized the polity. Military expenditure had been reduced and armed opposition supported by the clergy (upset over radical social reforms) could not be effectively subdued by a grossly reduced military, ultimately bringing down his regime. Amanullah’s attempts at reducing their salaries and withdrawing other amenities created a demoralized army hardly suited to quell tribal rebellions.

The major source of state revenue under Muhammadzai Amirs was therefore British subsidy, followed by custom duty on imports, exports and goods in transit, taxes from non-Durrani tribes and indirect taxes on the Durrani tribes. Despite some tax reforms, the exemption of Pakhtuns, mostly Durrani tribes from taxation made the tax base fragile and limited. A steady flow of British subsidy and limited domestic economic revival relieved the Afghan rulers from undertaking reformation of the taxation system on modern lines. However, a substantial decline in subsidies in Amanullah’s time, without substantial domestic revenue mobilization hurt reform attempts and brought the downfall of the Sadozai/ Muhammadzai dynasty.

The unique geographical position as a buffer between Russia and British India was played upon shrewdly by Afghan Amirs to extract resources for centralization and administrative growth and for keeping loyalties of renegade tribes. On a positive note, these subsidies were utilized to strengthen coercive arm of the state, but ready supply of subsidy also relieved the Afghan rulers from the need to develop domestic sources of revenues. The vulnerability of Afghan state’s dependence on these subsidies was put to test under Amanullah, who sacrificed British subsidy for the price of independence, but devoid of an alternative funding source, he had to impose new taxes, reduce tribal privileges and curtail military expenditure. These moves were highly destabilizing—resentment among tribal chiefs resulted in armed challenges to the central government, which could not be effectively subdued by a grossly neglected and reduced military. The geographical position of Afghanistan as a colonial periphery also affected

24 Rubin, Fragmentation of Afghanistan, p 55; and Saikal, Modern Afghanistan, p 75.
26 Taxes were collected in cash; foreign trade and handicrafts industry was encouraged and a new currency was instituted. See Gregorian, Emergence of Modern Afghanistan, pp 180-85.
the mindset of Afghan rulers. It made them highly suspicious of any attempts at outside intervention in modernization and reformation of the polity and society. Any external help in this regard was construed as an attempt to physically subjugate the Afghan people.\(^{27}\)

### Capital and State Making 1933-2001

Limited modernization of the Afghan economy kick started in 1930’s with the setting up of the first bank in Afghanistan,\(^ {28}\) expansion of small and medium industrial units, hydro-electric generation and construction of a motorable road through the Hindu Kush.\(^ {29}\) A small industrial capacity was created in 1930s and 1940s because of government’s policy of allowing monopolies to industrialists and the banning of caravan trade.\(^ {30}\) Correspondingly, bureaucratic sector grew, reaching a figure of 40,000 by 1950.\(^ {31}\) Lack of political will among the ruling elite to devise clear policies for capital accumulation and prioritization of infrastructural growth over industrial and agricultural growth led to stagnation in agricultural sector during 1957-1973. Shortages in bureaucratic capacity (no fiscal system and no statistical service in 1950) constrained growth; it reached a figure of 100,000 in 1970s, but the statistical office had only 250 employees.\(^ {32}\) Mining and quarrying sectors were hampered by a lack of resources, inadequate transportation and production facilities and technical manpower. Daoud’s dislike of industrial bourgeoisie led to nationalizations in the banking sector, decreasing capital accumulation and employment generation capacity of the industrial sector. His regime’s failure to introduce

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\(^{27}\) One of the reasons why British offers of building a railway track across the Indian frontier into Afghanistan was resisted and turned down by Amir Abdur Rehman.


\(^{29}\) Improvement in communications led to modest rise in domestic and international trade of karakul, fruits, grain, cotton and wool. See Gregorian, *Emergence of Modern Afghanistan*, pp 367-70.


\(^{32}\) Ibid., pp 17-19.
meaningful land reforms and issues of corruption in Rural Development Board (landlords transferred excess lands to dependents and relatives) brought stagnation in agricultural sector growth rates. There were repeated famines and food emergencies.\(^{33}\) The only sector that witnessed some growth after 1960 was the trading sector. This resulted from improved infrastructure especially roads. But the prospects of substantial revenues from trading sector were constrained by low growth in communications, stagnant agriculture and high costs of domestic caravan trade.

Lack of domestic revenue mobilization led to dependence (1958-1968, and in the 1970) on foreign aid and sale of natural gas to the Soviet Union.\(^{34}\) Soviet help was substantial in financing the five year development plans during Daoud and Zahir Shah’s regime.\(^{35}\) Such a rentier income stunted bureaucratization and institutionalization, as the ruling elite felt little obligation to respond to society’s needs. In 1967-68 and 1970-71, foreign loans and grants fell by over 50 percent, from roughly $62 million a year to about $ 27.5 million.\(^{36}\)

The PDPA regime under Karmal was highly dependent on Soviet aid, not only for developmental, but also coercive build up expenditure. Under PDPA, taxes were mostly indirect and financed only a quarter of government expenditure. Land taxes from the rural areas had decreased sharply because of a loss of control over the countryside. After 1988, there was deepening of financial crisis due to loss of control over some custom check posts to resistance groups, suspension of natural gas exports to the Soviet Union and subsidy provision to commanders defecting from resistance groups. This led Najibullah’s government to borrow from the Central Bank, increasing debt-financed expenditure and fuelling inflation by 30-40 %.\(^{37}\) The increase in value of banknotes in circulation up to 45 % every year resulted in inflationary pressures on prices, especially of food items.\(^{38}\) War gave extensive physical damage to Afghanistan- killings (876,825), disability (1.5 million), displacement (6 million) and destruction of infrastructure and roads.\(^{39}\) The drying up of external financing for


\(^{34}\) Rubin, *Fragmentation of Afghanistan*, p 65.

\(^{35}\) The Soviet Union provided $ 126.9 million during the First Five Year Plan (1957-61), $ 258.3 million during the Second Five Year Plan (1963-1967), and $ 126.3 million during the Third Five Year Plan (1968-72). See Emadi, *State, Revolution, and Superpowers in Afghanistan*, p 56.


\(^{37}\) 60 % of Afghan schools by 1990 had no building, agricultural production fell by 50%, trade deficit in 1990 rose to $ 649 million, foreign debt to $ 5.1 billion and inflation pushed up
resistance after 1992 made control over external trade and state lands a prized possession. Lack of central authority led to the growth of shadow economy that developed a network of contacts across neighboring countries. War, displacement and destruction of assets intensified socio-economic conflicts, especially crisis in property relations at the local level. Land disputes were heightened in the wake of refugee repatriation after 2001 and served to increase social disruption and conflict among groups and families.

Geographical and infrastructural constraints limited Afghan Amir’s attempts at extracting revenue from domestic economy. The land locked status of the Afghan state was also constraining efforts by the Afghan Amirs for developing a self sufficient economy. The land of Afghanistan lacked the requisite productivity for developing a self reliant economy due to relative deficiencies of water resources and lack of navigable rivers—a feature of its landlocked status. Its topography (rocky mountains, difficult passes) complicated the task of bringing the tribes under one central government; all the pre-modern dynasties faced problems in subduing Afghan people and retaining their areas for long. In post 1747 period, its harsh terrain has created structural problems in the way of keeping communications and contact open and fluid between groups and regions by raising costs of laying infrastructural overheads, such as roads, etc. This in turn, depressed state’s extraction of resources from domestic economy, complicated industrial and trade growth and increased dependence on agriculture. More than 50 % of Afghanistan’s Gross Domestic Product (GDP) in pre-war period (before 1978) was contributed by agriculture and around 80 % of its population depended on it, directly or indirectly as a source of income. Afghanistan’s geography made it a landlocked country, dependent on its neighbours for successful passage of its imports and exports, a weakness that Pakistan has too often exploited to its advantage and Afghanistan’s disadvantage. Its location has made it a centre of struggle between competing major powers, between Britain and Russia the 19th and early 20th Centuries. The demarcation of Afghanistan’s boundaries under major power influence divided its ethnicities across multiple neighboring states, created problems in elite’s attempts at promoting national integration and encouraged cross border interference by neighbouring states in its domestic politics, becoming pervasive in the wake of Soviet invasion of Afghanistan in 1979, and reaching its peak in the civil war following the 1992 fall of the PDPA.


40 For example, Ahmadzai Pakhtun kuchi (nomadic) and Pakhtun landlords lost their pastures and agricultural lands in Northern steppes when Hazaras reclaimed these and Kandahari and Herati landlords lost land control to their tenants. There the ulama’s distributed lands to martyr’s families. See Rubin, “Political Economy”, 1799.
regime. Foreign interference is a major factor preventing stabilization of the Afghan state in the last few decades.

Afghanistan’s physical environment and ecological conditions have also determined the nature of local interaction of local groups with the central authority. The basic unit organizing political and social life for the Afghans is the tribe—a larger kinship group unified through belief in a common descent. One of the major governance problems for Afghanistan has been the relationship of the tribe with the state and the difficulties of extending centralized control over tribal autonomy. The State and tribe in Afghanistan have existed in a relationship of mutual existence and coexistence, though the relationship has come under considerable strain. Under early Afghan rulers, the tribe supported the state for the favours bestowed on it by the king’s person. The state on its part tried to control and centralize the tribes through different mechanisms, including: distribution of state titles and other concessions (complementary relationship); appointment of non-Pakhtun and non royal state officials, administrators and governors; reducing dependence on tribal protection by appointment of personal guards from smaller Durrani tribes and from among Shiite Qizilbash as Ghulamishah’s—the king’s slaves (contending); creation of new administrative divisions—provinces, districts and sub districts, not conforming to ethnic or tribal divisions; transferring of rebellious Pakhtun tribes to Northern Afghanistan for surrounding these by hostile ethnicities and for making these loyal supporters of the central government; and use of coercive apparatus of the state against recalcitrant and rebellious tribes (conflictual). These shrewd policies reflected attempts by Afghan rulers at state making independent of tribal manipulation. The state kept tribal energies in check, either by engaging these in external expeditions and invasions, or by giving these a taste of power sharing, through appointments in state offices and decision making bodies.

Tribal quest for domination over the state was also kept in check by developing coercive apparatus/ standing armies ready for use against rebellious ambitions. In instances, where growth of coercive apparatus was willfully neglected (in Amanullah’s time), the state found it highly problematic to control and suppress tribal upheavals against state authority. Conversely, the state has often relied on rival tribes to put down tribal uprisings, just when the central army failed in its attempt to do so. Such tribal lashkars have provided support and stability to central government, on army’s failure to quell tribal insurgency. This is paradoxical, for tribe has become an ally of the state in the fight against another tribe, which tried asserting its autonomy through violent means. The state also dealt with tribal fervor of autonomy by decentralization of authority and decision making to local level non-state mediators. It confined its functions to a minimalist
maintenance of order, collection of taxes and conscription of soldiers.\footnote{Thomas, B., and N. Nojumi, “Bringing More Effective Governance to Afghanistan: 10 Pathways to Stability” Middle East Policy 17(4), (Winter 2010), pp 40-52.} Resultantly, a complex pattern of Afghan society’s overlapping solidarity obligations have emerged, from not just the tribe, but also family, village and religiously defined local communities; which altogether have frustrated state’s centralized control beyond its urban centres.\footnote{Wimmer, A., and Schetter, C., “Putting State Formation First: Some Recommendations for Reconstruction and Peace-Making in Afghanistan” Journal of International Development 15 (2003), pp 529-535.}

While these geographical and infrastructural constraints carried into the 20th Century, defective economic policies also did not help. Under Musahibeen rulers, limited industrial growth was stimulated through creating small and medium sized industries, a modest banking apparatus and some communication networks. A small entrepreneur class began to emerge and trading sector also witnessed growth. But lack of clear policies to help grow capital accumulation and industrial sector for extended period, coupled with low growth priority to a stagnant agricultural sector and stunted bureaucratic capacity, served as major constraints in generating substantial revenues from domestic economy. Rentier dependence continued unabated into the 20th Century. Under Musahibeen rulers, from 1958-1968, and in 1970s, major share of the financial expenditure was covered by foreign aid and sale of natural gas to the Soviet Union.\footnote{Rubin, The Fragmentation of Afghanistan, p 65.} The Soviet help was also significant in the financing of five year development plans during Daoud and Zahir Shah’s regime. Karmal’s regime had a heavy dependence on Soviet aid, over 60 percent of the total government expenditure came from rentier income.\footnote{Ibid., p130.}

Loss in external revenue income meant the rulers found it increasingly difficult either to sponsor developmental needs or keep allies support. This happened in 1967-68 and 1970-71, when foreign loans and grants fell by over 50 percent, from roughly $62 million a year to about $ 27.5 million.\footnote{Arnold, Afghanistan, p 27.} By 1992, Najibullah’s regime also fell with the drying up of foreign Soviet subsidy. An additional outgrowth of dependence on foreign finances emerged after 1992. The drying up of external sources of finances for warring parties involved in the Afghan civil war (1992 onwards) led them to look out for and control other illegal revenue generating sources, for example, control over trade in black and grey markets. There was a resultant grow of shadow economy, which has developed a network of contacts across neighboring countries. War further hastened the distance between central
state and its control over provincial and peripheral administrations. In 1990s, the provincial set-ups, for example under Rabbani’s Jamait-e Islami government exercised considerable financial independence from the centre. Such a pervasive development had a long term impact on Afghan state building in post 2001 period.

Rentier Statehood and Post-2001 Afghanistan

The rentier status of Afghan polity and economy continues unabated in the post 2001 period. A large number of donors are financing the state building project in Afghanistan. Among these donors, the US, Canada, the EC, Germany, Japan, the UK and the WB are the largest ones contributing 90% of all external support. This dependence on foreign funding for state building projects has increased with each passing year. Official overseas development assistance by OECD members to Afghanistan climbed from US $ 87 million in 2000 to US $ 2.2 billion in 2005. Aid flow amounts to more than 50% of Afghanistan’s GDP. But more recent figure show aid contribution to GDP to climb up to 75%, which is highest in the world and of the total national budget, 89% contributed from foreign sources (2008).

Such dependence on foreign funding for domestic institution building has raised serious doubts over the financial sustainability of Afghan National Security Forces (ANSF), especially the Afghan National Army (ANA), which is hugely debated and the Afghan National Police (ANP). The US stands out as the major donor of the ANA; out of its total investment of $ 25.2 billion in the Afghan Security Forces Fund (up to April 2010), half have been spent on ANA. Besides, 46 National Atlantic Treaty Organization (NATO) and non-NATO nations have donated $ 822 in equipment to the ANSF. With a GDP of $ 11 billion and an annual federal budget of $ 4 billion, mostly sponsored by foreign aid, the issue of sustaining a big ANA

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46 The issue of tax returns to the central government had estranged relations between Ismail Khan of Herat and Jamiat’s top leadership in Kabul.


assumes grave proportions, especially in the wake of reduction in foreign aid and subsidy.\textsuperscript{51} Other figures note security sector expansion equaling 500\% of domestic revenues in fiscal year 2004-05, raising serious concerns about its financial sustainability. Goodhand and Sedra, rightly express fears about the danger of state collapsing in the face of external budgetary support to the Security Sector Reforms declining after foreign state builders exit. They give a historical pattern of Afghan state’s patronage networks decline associated with waning discipline and integrity in the armed forces and resultant vulnerability to internal political pressures.\textsuperscript{52} This financial dependence unfortunately is universally common to other institutions. Suhrke and Borchgrevink note an overwhelming dependence of the judicial sector on foreign assistance.\textsuperscript{53}

The failure to raise domestic sources of income in legal means has led to the rise of a shadow economy in Afghanistan. This shadow economy created by drug and trade in other contraband items has spread its tentacles across its borders. Almost 30\% of Afghanistan’s GDP is contributed in the post 2001 period by opium production and trafficking,\textsuperscript{54} with adverse impacts on the stability and cohesion of the state. Other figures cite almost 60\% of the GDP contributed by opium cultivation and export.\textsuperscript{55} Additionally bulk of the economic activity- around 80-90\% is informal, decentralized and fragmented. There was a growth of non-drug related economy by 15\% from 2002-06 but it dropped to 6\% in 2006-07 because of increased petroleum and food prices and a renewed draught.\textsuperscript{56}

Afghanistan’s vital economic statistics including its Human Development Indicators (HDI) militate against its rise as self sufficient rentier free economy. Its rural population is currently estimated at 75\% of the country’s 30 million people.\textsuperscript{57} Though 80\% of the labor force is


\textsuperscript{52} Goodhand and Sedra, “Who Owns the Peace,” p 88.

\textsuperscript{53} In 2007, 90\% of the official funds came from foreign sources, excluding the three-quarters aid bypassing it and disbursed in the field by aid agencies. See Suhrke, A., and Borchgrevink, K., “Negotiating Justice Sector Reform in Afghanistan,” Crime Law and Social Change 51(2), 2009, p 213.


\textsuperscript{56} Goodhand and Sedra, “Who Owns the Peace,” p 80.

\textsuperscript{57} Barfield, T. and N. Nojumi., “Bringing More Effective Governance to Afghanistan: 10 Pathways to Stability,” Middle East Policy 17(4), Winter 2010, p 43.
employed by the agriculture sector, however, unemployment ratios stand at 40%.

Afghanistan’s poor macro-economic and social indicators are complicating its economic revival. Only 23% population has access to safe drinking water, 12% to adequate sanitation and 6% to electricity. Infant mortality is 115 per 1000 live births, life expectancy is 44 years and illiteracy ratio is 71%. Afghanistan weak economic characteristics not only give it a rentier status, but also place inroads in the re-integration of former combatants into Afghan economy. Institutional ineffectiveness at the central and local level and ineffective implementation of reforms makes economic stimulation hard. The unemployment ratio between 18-25 year age groups, ranges from 39% in the Central region to 19% in the Western region. Lack of human capacity translates into very low literacy rates. According to UNICEF, 71% of the over-all population of Afghanistan and 92% of the females remain illiterate in rural areas. These human resource deficiencies are a further obstacle in the economic revival of Afghanistan. The main drivers of the economy consist in shadow economy (production, smuggling of narcotics) or money pumped by foreign intervention in the economy. The Government expenditure is 19.1% of the GDP and its revenues are barely 7% of the GDP. The economic problems compounded for refugees returning home in post 2001 period. UNHCR, reports 46% of the returning refugees facing housing problems and 28% facing problems related to stable income. These economic realities paint a rather disappointing scenario for Afghanistan’s future as a rentier free state and makes the task of state building from indigenous resources very arduous and problematic for the current state builders.

Conclusions

This paper argued that the state of Afghanistan since its very inception in 1747 has seen massive dependence on capital from unearned sources including tributes from outlying areas, subsidies and foreign development aid. On a positive note, the reliance of Afghan regimes on flow of income from external sources helped to initiate and sustain centralization and modernization reforms. But such dependence on rentier income adversely impacted the growth of Afghan state. Dependence, for example, on British subsidy cost the Afghan state its independence over external matters and

turned it into a buffer between major power politics in the region. A continuous supply of subsidy and limited attempts at economic revival relieved the Afghan rulers from undertaking reformation of the taxation system on modern lines. Conversely, a withdrawal of external subsidies under king Amanullah, without alternate development of domestic revenue base hurt implementation of his reforms, turned the tribal chiefs hostile on withdrawal of privileges and weakened the military, ultimately bringing his regime down.

The paper further argued that Afghan ruler’s attempts at modernizing the economy led to the growth of a nascent industrial and banking sector and modest growth in education. However, low levels of domestic resource extraction made the elite take recourse to external funding, giving a rentier character to state income. War further damaged the fragile economy and the drying up of external funding sources to resistance parties led to the emergence of robber barons and warlords, who monopolized trade and taxes over trade in illegal and contraband items. Rentier economy stunted bureaucratization and removed compulsion from rulers to develop effective state institutions.

In the realm of capital, non-development of domestic heads of revenue has been the most ceremonious failure of the Afghan elite. Economic problems were compounded by harsh geographical terrain, low infrastructure growth, bad economic policies and lack of trust over industrial bourgeoisie by the Afghan elites. Non-extraction of domestic sources of income led to the growth of rentier statehood in Afghanistan. This rentier statehood which has been a major destabilizing factor in the past has continued to dominate present day Afghanistan. In the post 2001 period, rentier statehood has assumed alarming proportions; especially the complete dependence of security establishment on foreign income has raised issues over its viability and the stability of Afghan state in general. The Geographical and ecological features still militate against the creation of a strong and self sufficient economy to serve revenue generation purpose of the Afghan state.

The new institutions of Afghan state building are heavily rentier dependent. Serious concerns are shown over the financial sustainability of the ANA, and other security sector institutions, expenditure on which at one time climbed 500 % of domestic revenues. It sets in motion the classic pattern of state failure in Afghanistan. Historically, rentier income has proved quite destabilizing for Afghan regimes and when ever, there was a reduction in such income, the regime in power was destabilized. Afghanistan’s geographical constraints in rocky mountains, difficult passes and harsh terrain has complicated state builder’s goal of centralizing regions and groups under a centralized rule and in raising the cost of laying
infrastructure has also depressed extraction of resources from domestic economy. These geographical constraints continue to inhibit the state building goals in post 2001 period. With 75 % population concentrated in rural areas, 80 % labour force employed in agriculture, unemployment ratio standing at 40 %, life expectancy, and illiteracy among the lowest in the world and drug economy constituting more than 30 % of the population, it is hardly surprising that human development indicators impose double constraints on the state building project. On the one hand, there is not enough capable population in terms of education and technical expertise to run the state successfully and on the other hand, such deficiencies engage a large amount of state resources for spending on the removal of such deficiencies.

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