

Analysis for Resilience of Afghanistan's Economy During the Great Recession

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Abstract: Between 2007 and 2009, the financial crisis that began with the collapse of a significant number of banks in the United States spread around the world and had a disruptive impact on economies in the world. This paper focuses on the analysis of Afghanistan's economic performance during this period by comparing the GDP and unemployment rate data with America and analyzes the reasons for the outcome. The analysis was then discussed in terms of the relevance for other countries, while also emphasizing the uniqueness of Afghanistan's case. Finally, it concludes that Afghanistan was almost unaffected during the economic depression, mainly caused by the economic aid from the United States brought about by its special geographical location, and the particularity of its agricultural production. This study could provide reference for analyzing the mechanism of financial crisis affecting the economy, and it also serves as an example of a special case of economy in a global financial crisis.

Keywords: Afghanistan, US, financial crisis, GDP

1. Introduction

The Great Recession, which lasted from 2007 to 2009, has exerted a pervasive and significant influence on global economic development. It was a financial crisis of rapidly decreasing liquidity in the financial markets, mainly caused by the eruption of the U.S. housing bubble[1]. During the crisis, most of the world's economies have suffered significant contraction, especially the American economy, whose GDP in current dollars fell from 14.77 trillion to 14.48 trillion in 2009, reflecting a -2.6% growth rate [2]. In addition, the unemployment rate in America between 2006 and 2012 climbed from 4.6% to 8.1% [3], reflecting the loss of millions of jobs, lower consumer demand and weakened economic recovery. These data of the two core measurements of an economy's scale and capacity highlighted a profound impact of the Great Recession on the U.S. economy. However, the corresponding indicators for Afghanistan showed an opposite trend, reflected by a growth in GDP from \$10.11 billion to \$12.42 billion during the same period, marking a year-over-year increase of 21.4% [2], and the stable level of its unemployment rate at 7.9% [3]. Afghanistan's resilience in the crisis was unusual, as its scale was significantly smaller than America. One possible reason could be the insufficient participation in the macro-economic environment, but this assumption needs further support from data and theories, and further research and summary are necessary.

Therefore, this essay will focus on the reasons for the resilience of Afghanistan during the Great Recession from three perspectives—the aid from America, its agricultural and opium production, and

the limited integration to global finance. This research could provide a basis for analyzing the impact of financial crisis on economies of different scales.

2. Aid from America

2.1. Military aid

The first reason why Afghanistan's economic development was not severely affected is the aid from America, including military aid and direct economic assistances. Military aid from America, such as service, military supplies, equipment, infrastructure and training expenses, contributed considerably to the military construction of Afghanistan. The total military expenditure of Afghan government from 2004 to 2020 was 3.7 billion in current dollars, equivalent to a mere 4.6% of the aids from the US, which indicated its severe reliance on American support [4]. In addition, the figure witnessed a dramatic surge between 2005 and 2008, from \$873 million to \$7427 million [4]. To be more specific at the Great Recession period, it increased by 76.04% from 2007 to 2008 alone, which showed the fact that Afghanistan received a more substantial amount of military aid from America compared to the beginning of the crisis, despite a contraction of global economy. The aids could affect Afghan's economy in three aspects: increasing consumption, providing job opportunities and improve local currency stability. Firstly, a part of the funds was injected in the economy of Afghanistan as salaries for soldiers and converted into disposable income, resulting in an increase in consumption and thus boost GDP growth. Secondly, by promoting infrastructure development, the funds prompted government agencies and private enterprises related to military and aid projects to create a significant number of jobs directly or indirectly, which could reduce unemployment rate to some extent. Thirdly, the yearly aids brought a stable inflow of foreign exchange and could stabilize the local currency exchange rate, and thus U.S. aid funds helped the country import goods through foreign exchange channels and prevented severe inflation.

2.2. Direct economic assistance

Apart from military aid, the United States has provided substantial economic assistance to Afghanistan over the years, particularly through programs designed to stimulate business development and improve the overall investment environment. One of the most significant efforts was the Afghanistan Small and Medium Enterprise Development (ASMED) project, launched in 2006 by USAID. This project aimed to promote the growth of local enterprises, with a specific focus on small and medium-sized enterprises (SMEs). These objectives were mainly achieved through advocating for reforms in policy, improving access to financial resources, and facilitating partnerships between the public and private sectors [5]. To be more specific, it provided SMEs with program guidance, economic support, and development recommendations, ultimately driving their continuous expansion. These types of initiatives were crucial for fostering entrepreneurship in Afghanistan and could boost its economic. By empowering small businesses, the U.S. economic assistance could create more job opportunities for householders in Afghan, especially the youth and women, who were often marginalized in the labor market. This would help reduce the country's unemployment rate, increase household incomes, and stimulate consumer demand, thereby fueling broader economic development [6]. To summarize, both types of assistance from America can contribute to the GDP growth in Afghanistan by accelerating consumption and investment during the crisis, and the steady, non-decreasing unemployment rate would also be explained.

The U.S. continued to provide economic aid to Afghanistan during the 2008-2009 financial crisis for two key reasons: maintaining regional stability and supporting ongoing development efforts. Firstly, maintaining stability in Afghanistan was critical for both U.S. and global security. Afghanistan was a fragile state with persistent threats from insurgent groups like the Taliban and was

a central focus of the War on Terror. The U.S. government recognized that an unstable Afghanistan could become a breeding ground for extremist groups, which could undermine not only regional security but also broader global security interests [6]. By providing economic aid, the U.S. sought to stabilize Afghanistan's economy by creating job opportunities and thus reduce the appeal of extremist ideologies. Economic stability was expected to reduce the likelihood of Afghanistan's population turning to insurgency as a means of survival, thus promoting long-term peace and security. Therefore, even in the midst of its own economic downturn, the U.S. prioritized aid to Afghanistan to prevent the potential fallout from instability in a geopolitically sensitive region.

Secondly, continued support for Afghanistan's development was viewed as essential to ensuring that the country could eventually become self-reliant. Much of the U.S. aid during the crisis was channeled into projects that would foster sustainable economic growth, such as infrastructure development, education, and healthcare [5]. These development efforts aimed to build institutional capacity and improve governance, creating a foundation for long-term economic growth. Investments in areas like education and healthcare were particularly important, as they helped develop human capital, which is critical for the future prosperity of any nation. By supporting these sectors, the U.S. aimed to equip Afghanistan with the tools it needed to reduce its dependence on foreign aid in the future.

Overall, U.S. economic aid to Afghanistan during the financial crisis was driven by both immediate concerns about regional stability and a long-term vision for Afghanistan's sustainable development. The strategic importance of Afghanistan made it a priority for the US to ensure its progress in stability and development, despite global financial difficulties.

3. Agriculture and Opium production

The second reason for the resilience in Afghanistan's economic development during global economic crises is its GDP's heavy reliance on agriculture and opium production. Agriculture, which remains the backbone of Afghanistan's economy, plays a central role in providing income and livelihoods for much of the population. To be more precise, agriculture contributed about 25% to GDP in Afghanistan, because over 75% of Afghanistan's population resides in rural areas, and nearly 90% of those living in poverty depend on agriculture for their livelihoods [7]. The figures highlight the significance of agriculture in Afghan's economy, as a crucial driver of income growth, poverty alleviation, and job creation. In addition, the agricultural sector could consistently serve as a stabilizing force because the traditional farming methods and rural subsistence would not be severely affected by disruptions in the domestic and external economy. Under such an income structure, GDP would be considerably impacted by crop yields, which in 2009 was projected to exceed the previous year thanks to the favorable rainfall and subsequent crop growth.

Besides traditional crops, another key element of Afghanistan's agricultural economy that further stabilizes its GDP is opium. Afghanistan is the world's largest producer of opium, responsible for over 90% of the global supply of heroin [8]. The illegal opium trade contributes between 40% and 50% of Afghanistan's overall economy [8], making it an integral and albeit unofficial component of economic resilience. This trade provides income not only for farmers but also for numerous others involved in the trafficking and processing of opium into heroin. The opium industry is widespread and deeply embedded in Afghanistan's rural economy, where other sources of income may be limited due to ongoing conflict, poor infrastructure, and a lack of formal employment opportunities. For many Afghan farmers, cultivating opium poppy is more profitable than other crops, incentivizing continued production even in the face of governmental efforts to curb the trade.

The significance of opium production to the Afghan economy is further emphasized by the volume produced. Since 2006, Afghanistan has averaged around 7,200 tons of opium production annually, making up the vast majority of the global total, which stands at approximately 7,900 tons [8]. The

profitability of the opium trade provides rural farmers with much-needed income, especially during times of economic uncertainty or when traditional crops fail due to poor weather conditions. Opium farming offers a steady and lucrative source of income for large swaths of the population, particularly in areas where government control is minimal and alternative livelihoods are scarce. Furthermore, the illicit nature of the opium trade means that it operates relatively independently from international market fluctuations and global crises, contributing to Afghanistan's economic resilience.

In conclusion, the agricultural sector employed a significant portion of the population, ensuring food security and providing income for rural households, while the opium trade generated substantial economic activity. Together, these sectors underpin Afghanistan's GDP and contribute to the country's ability to weather economic shocks, even when the global economy experiences downturns.

4. Limited integration to global finance

The third reason for Afghanistan's relatively stable GDP and unemployment rate during the Great Recession is its limited integration into global financial markets. It could be observed through several key indicators, such as its GDP composition, minimal involvement in global trade, and underdeveloped financial infrastructure. Between 2003 and 2006, Afghanistan's GDP was modest, ranging from \$4.06 billion in 2003 to \$7.68 billion in 2006 [2]. Moreover, the GDP was primarily driven by agriculture, foreign aid, and informal economic activities, rather than significant contributions from industrial or global trade sectors. Afghanistan's export portfolio during this period was also extremely narrow, with opium being a major informal export, and legal exports like carpets and dried fruits making up only a small portion of its overall economic activity. Imports, mainly consisting of basic goods such as food and fuel, were critical for sustaining the population but did not reflect a robust engagement in global trade.

In contrast, the U.S. economy during the same period was far more integrated into global financial systems. Between 2003 and 2006, the U.S. GDP ranged from approximately \$11 trillion to \$13 trillion, driven by a diverse range of sectors including finance, manufacturing, and technology [2]. The U.S. was also a major player in global trade, with exports reaching \$1.03 trillion in 2006 and imports surpassing \$1.91 trillion, reflecting its deep engagement in the global supply chain [9]. These figures highlight the U.S. economy's dependence on global markets, making it more susceptible to international financial fluctuations. Therefore, when global trade and financial flows contracted, the U.S. economy experienced a sharp GDP decline and a surge in unemployment, as its financial institutions and corporations were deeply embedded in global trade and investment. Afghanistan, however, saw minimal disruption because its economy was less dependent on international markets. This isolation allowed Afghanistan to maintain a stable GDP and unemployment rate despite the global downturn that heavily impacted the U.S. and other advanced economies.

5. Discussion

Based on the analysis above, Afghanistan's capability of handling a financial crisis lies in its structure of national revenue and the dependence of external economic aid. The structure of national revenue refers to the percentage of each income sector such as agriculture and manufacture that contributes to a country's GDP. For Afghanistan, the dominant portion would be agriculture, which was relatively less affected during the crisis triggered by real estate bubble. However, if a crisis caused by a major weather event or a pest infestation occurs, Afghanistan might not react as effectively as it did in the Great Recession. Therefore, the most stable approach to coping with a financial crisis is to ensure balanced development across different revenue segments. As for the external aids, America's assistance has significantly mitigated the damage of the Great Recession to Afghanistan, which indicated an advantage of a highly external-dependent economic structure, because the economy it

relies on could act as a cushion or protective layer when facing a crisis. However, this structure is challenging to duplicate, because aid is typically conditional on fulfilling certain requirements such as the unique and strategically important geographical location in the Afghanistan case. Overall, Afghanistan's case offers some insight for other countries to respond to a crisis, for instance, the benefit of agricultural revenue and the American aids. At this dimension, a country could intentionally restructure the economy to deal with a crisis but should acknowledge the distinctiveness of Afghanistan at the same time.

6. Conclusion

In conclusion, this essay has compared the influence of the Great Recession in 2007 on America and Afghanistan, which is reflected by GDP growth, unemployment rate and interest rates. The figures indicate a substantial difference, with Afghanistan merely affected. Therefore, the essay analyzed three reasons for this phenomenon, referring to aid from America, reliance on agriculture and limited integration into the international economy. Firstly, American military and economic aid played a crucial role in supporting Afghanistan's economy, directly contributing to job creation, consumption, and currency stability. Assistance during its own downturn is likely to arouse questions, so the causes of the US aids are also examined, including geographical strategy and ongoing development efforts. Secondly, Afghanistan's economy heavily relied on agriculture and opium production, sectors that were less vulnerable to international economic shocks. Finally, Afghanistan's limited integration into global financial markets allowed it to avoid the direct impacts of the financial crisis that hit the U.S. and other advanced economies. It enabled Afghanistan to experience economic growth during a period of global downturn. Overall, these factors combined to protect Afghanistan from the worst effects of the Great Recession, highlighting how a country's economic structure and external dependencies can shape its resilience to global crises.

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