

In the Name of God, the Most Merciful, the Most Kind



March 05, 2016

## The Political Syndrome

The approach of Afghan government towards a wide range of issues is vague and confusing. It seems that the administration as a whole does not have any particular, dependable, long-term and dilemma-unraveling policies. There are no clearly defined policies to which public employees, civil servants, administrator and politicians stick and coordinate their activities and functions in a manner to get systematized and as whole achieve certain objectives. In other words, there are sets of general objectives, but no clear policies and planning to achieve them.

The severe syndrome can be understood from contradictory statements and remarks. Those remarks are not sign of minor theoretical differences but go deep down to lack of defined approaches and policies.

An emerging social fragmentation is possible in a country which has seen three decades of war and violence. The present social disorders, political crisis and economic stagnation are some vital factors which may lead the country to a calamity. This chronic problem has debilitated the country and its social fabric. The social and political institutions have entirely crumbled and degenerated due to this chaos. An ominous shadow darkens the country more than ever before. Indeed, the three decades of war caused a great havoc in Afghanistan which has left Afghan politicians in confusion. Therefore, it is believed that Afghan officials will have to be on their toes. The political elites need to think of effective ways of improving the situation.

Political struggle is not only going on amongst the political candidates but also exists amongst some of the countries that have a stake in the economic and political prospects of Afghanistan. A veil of mystery surrounds political talk which is going on between Afghan and foreign political leaders.

In addition, the balance of power may turn into a controversial issue. Of course, a war-torn country that has experienced three decades of war, including a civil war, will not gain political maturity within a decade of experiencing so-called democracy.

The deputy CEO, Haji Mohammad Mohaqiq, while addressing gathering in Kabul on Friday March 04, 2016, stressed on peace talks with the Taliban. He, however, threatened that if peace talks failed, then people are ready to defend their country.

He also criticized the share of political power in the National Unity Government by saying that "We have five ministers in the National Unity Government (NUG), but authority of these ministers is with others. We want a real partnership and management in all areas including police and national army."

Moreover, within the last almost 15 years of presidential-style government, ethnic discrimination was easily tangible especially in official places and in the political fields. No doubt, it will take a long time to eliminate ethnic conflicts from the country. Moreover Afghan people are stuck in maze, which is not an easy national path.

Now, it is clear for people that the coalitions of political parties patched together in lofty buildings were just a flash in the pan. They were boasting about unity, social harmony and political achievements, however, very soon they divided into many groups due to political interests which led to public disappointment. It is beyond a shadow of doubt that actions speak louder than words, but unfortunately there is a complete disharmony between the actions and words of political leaders. Hence, such attitudes have built a wall of mistrust between people and politicians. In other words, people have lost their desire to vote.

The issue of terrorism is another factor which affects the political structure of the country and has turned into a great cause for worry. People are highly susceptible to the acts of terror carried out by Taliban militants. These questions arise in the minds of every Afghan citizen about what is the government's strategy concerning the terrorist issue? Will Taliban militants be strengthened or weakened? Who will be the winner in the coming years, terrorist or the government?

Though, Pakistani Foreign Office (FO) spokesman, Nafees Zakria, told reporters Islamabad on Friday that direct talks between the Afghan government and the Afghan Taliban "may take place in coming days." He further added that efforts for holding the talks were underway. Adding that convening the meeting was a "shared responsibility" of the four countries involved in the quadrilateral process: Afghanistan, Pakistan, the US and China.

The future of peace and tranquility in Afghanistan would largely depend on the support of international troops regarding the security situation. United States, China can play vital role in the ongoing peace process between Afghan government and Taliban.

It is vital that International community including US and China should continue its support to Afghanistan.

There are myriads of challenges that Afghanistan would face this year, and those challenges can only be faced through sufficient support from international community.

Afghans crave peace and prosperity which are only possible if eradication of the Taliban-led insurgents is undertaken.

## Development of Infrastructure and Economic

By Mehdi Rezaie

Afghanistan has come a long over the past fourteen years. Much has been accomplished since then in the areas of reconstruction, state-building, poverty alleviation and relief and assistance delivery to impoverished masses with the help of the International community. Although fraught with many shortcomings, significant strides have been made in the area of political development. The National Assembly or the Parliament has been established and empowered to include the representatives of the people in the governing process. The separation of powers - the Legislature, the Executive and the Judiciary - as the foremost principle of democracy has been upheld in the constitution. Elections, universal franchise and elected office are guaranteed as rights of every citizen of our country. In the area of economic development, the performance of our country has been dismal and the past years are annals of wasted opportunities with rising anger and frustration among the people. Our country, despite being on the receiving end of almost 15 years of generous assistance of the international community is still not able to feed its own people and provide decent livelihoods to the bulk of its population. Chronic poverty leaves millions of our countrymen destitute and drives many of our youth to embrace the forces of darkness bent on distorting our democracy and enslaving our people.

In the initial years of the post-Taliban political dispensation, a grand and ambitious program of reforming the economy of our country involving a shift to a market economy has been initiated. The economic growth and development is designed to be private-sector led and the government is, over the long run, slated to assume the role of a facilitator rather than the main economic actor. In the initial years, the participation and zeal of the private sector in investing in many sectors of our economy from manufacturing to services showed encouraging signs. Various telecommunication companies and banking institutions started operations and within a relatively short period, millions across the country had access to mobile phones, internet connections, digital communication channels as well as banking services. However, the economic development of the country, despite the promising initial years has become slow in recent years and the prospects for the economy to return to the high-growth trajectory of recent past is bleak.

### Infrastructure Constraints

What Afghanistan requires at this juncture, is a grand plan on

the lines of the European Recovery Program or Marshall Plan that rebuilt the Europe after World War II and paved the way for the eventual emergence of these countries as developed and prosperous nations. Unfortunately, there is no political will come up with such a comprehensive program or to take the initiative in a meaningful way to address the infrastructure needs of the country. The attempts so far to develop infrastructure in the rural as well as urban areas of the country have been haphazard and disconcerted and lacked coordination at the national level. The quality of the work done is poor in many instances and the infrastructure developed so far has been confined to roads, bridges, culverts and river-side fortifications. The volume of the work done is far less than what is required to revive the Afghan economy and provide lifelines to the country.

### Roadmap for the future

The cost and the technical know-how of developing the infrastructure needs of the country are, no doubt, massive. As the government of Afghanistan can not accomplish the task single-handedly, it requires active participation of the Afghan private sector and international donors as well as private sector players from other countries in order to procure the huge financial resources needed for the purpose. Over the long term and after the semblance of a functioning infrastructure propels our economy into higher growth and development, developing and improving our infrastructure base further will be less of a difficult task. The Government then can leave many areas to the private sector and in other sectors join hands with the private sector in Public Private Partnerships (PPPs). The Public Private Partnerships have proved to be effective models for reducing the huge financial burden of infrastructure development on the government and mobilizing the financial resources readily available with the private sector. Before all this can materialize, we need to enhance and improve the capacities and capabilities of our government. Nurturing and fostering a vision for growth, plans for the long term, commitment and political will on the part of the government and international community, removing the bureaucratic bottlenecks and red tape from the corridors of Afghan government and providing security all are pre-requisites for implementing a grand, national infrastructure policy that can revive the moribund economy of our country. The onus is on the government to rise to the occasion.

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## Closing the Investment Gap

By Laura Tyson

The weakness of private investment in the United States and other advanced economies is a worrisome - and perplexing - feature of the recovery from the 2008 global financial crisis. Indeed, according to the International Monetary Fund, through 2014, private investment declined by an average of 25% compared to pre-crisis trends.

The shortfall in investment has been deep and broad-based, affecting not only residential investment but also investment in equipment and structures. Business investment remains significantly below pre-2008 expectations, and has been hit hard again in the US during the last year by the collapse of energy-sector investment in response to the steep drop in oil prices.

Interestingly, the investment shortfall in the US coincides with a strong rebound in returns to capital. By one measure, returns to private capital are now at a higher point than any time in recent decades. But extensive empirical research confirms that at the macro level, business investment depends primarily on expected future demand and output growth, not on current returns or retained earnings. According to the IMF, this "accelerator" theory of investment explains most of the weakness of business investment in the developed economies since the 2008 crisis.

In accordance with this explanation, investment growth in the US has been in line with its usual historical relationship with output growth. In short, private investment growth has been weak primarily because the pace of recovery has been anemic. Businesses have marked down their pre-crisis investment plans to reflect a post-crisis "new normal" of slower and more uncertain growth in demand for their output.

Under conditions of weak aggregate demand, stronger public investment encourages more private business investment. But public investment, too, has fallen below pre-crisis expectations, aggravating rather than ameliorating the slump in private investment. The accelerator explanation of the shortfall in business investment in the US is consistent with evidence that, where projected demand growth has been relatively strong - for example, in cable, telecommunications, digital platforms, social networking, and, until recently, energy - investment growth has also been relatively strong. Indeed, telecom and cable companies accounted for the largest share of business capital expenditures during the last three years, with energy production and mining second on the list.

Differences in innovation opportunities across industries are also consistent with the changing composition of business investment. During the 2009-2015 period, while business investment in equipment slowed in the US, it accelerated in intellectual property products, including research and development, software, and so-called artistic originals (the output of artists, studios, and publishers). R&D investment usually expands faster than GDP during cyclical expansions, and the current period is in line with historical trends. Indeed, as a share of the economy, R&D investment is now at its highest level on record, which bodes well for future productivity growth. As the accelerator theory of investment would predict, much R&D investment is occurring in technology-intensive sectors where current and future expected demand has been strong. There is also evidence that the distribution of returns to capital is becoming increasingly skewed toward these sectors. According

to a recent McKinsey Global Institute report, the most digitized sectors - ranked by 18 metrics on digital assets, digital usage, and digital workforce - enjoy significantly higher profit margins than traditional sectors.

In a recent letter to the chief executives of the S&P 500 companies and large European corporations, Larry Fink, the CEO of BlackRock, the world's largest investment management company, expressed concern that many global firms may be sacrificing value-creating investments by distributing dividends and buying back their own shares. Among US nonfinancial corporations, the proportion of investable funds used for dividends and share buybacks has been trending upward, albeit with cyclical ups and downs, since the 1980s. After a sharp downturn during the 2008-2009 recession, this proportion has now recovered to nearly 50%, a high point relative to historical averages.

The macro evidence indicates that the primary cause of disappointing business investment in the US and other developed countries in the years following the global financial crisis has been anemic demand, not a lack of investable funds resulting from excessive distributions to shareholders. Over the longer term, however, the upward trend in dividends and share buybacks as a percentage of corporate investable funds is a symptom of mounting shareholder pressure on corporations to focus on short-term returns at the expense of long-term investments.

In a recent McKinsey survey of 1,000 top executives and corporate directors, 63% reported that shareholder pressure to realize short-term returns has increased over the last several years. Indeed, some 79% reported pressure to demonstrate strong financial returns in two years or less.

Shareholder pressure tends to be greater in older firms, and in the US over the last few decades, the proportion of older firms has been growing as the startup rate for new businesses has fallen. In addition, as Fink and others have warned, compensation practices that link top executives' pay to measures of short-term success like quarterly earnings per share or annual equity performance also encourage "short-termism" in corporate investment decisions.

A sliding capital gains tax, with rates that decline as the holding period for investments increases, would reduce incentives for short-termism among investors. Among others, Larry Fink, the Center for American Progress, and Hillary Clinton propose this approach. In his recent CEO letter, Fink also calls on companies to issue annual "strategic frameworks" for long-term value creation, supported by quantifiable financial metrics and linking long-term executive compensation to performance on them.

These frameworks, Fink notes, should cover environmental, social, and governance (ESG) factors that are core determinants of long-term value. Companies can use the new evidence-based standards developed by the Sustainability Accounting Standards Board to disclose material information about their ESG performance to their investors. Strategic frameworks, along with ESG disclosure, should encourage both companies and their shareholders to focus more on long-term value and less on short-term financial performance. But at the macro level, expected growth in demand and associated innovation opportunities will remain the primary drivers of business investment. (Courtesy Project Syndicate)

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