

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



November 23, 2016

The Doubtful Future

The opinions of the people and intellectuals towards the socio-political scenario in Afghanistan appear to be divergent and there are not clear certainties in this regard. There are many doubts and the opinions regarding the situation are very shaky. It is not just about the situation in Afghanistan, but the reaction by the Afghan authorities as a response to the situation is also doubtful.

Especially, in the last some months the situation seems ambiguous as to where the country is leading and what would be the future of socio-political scenario in the region. Though, since the downfall of Taliban there have been major contributions on the part of international community to help our country out of instability and in that regard billion of dollars have moved in, especially from U.S., the major issues still remain with major concerns. There are many serious minds that doubt the future of the peace, stability and prosperity in the region.

Afghanistan has seen many decades of wars, including both international and civil wars. The people in the country have been seeking a period of stability wherein they get opportunities of development and progress. They have gone through the severest kind of agony and have experienced the worst kind of economic, social and political crisis. There have been hopes lately that country would move towards prosperity, but these hopes are being challenged now in the ongoing period of transition. After more than 14 years of war and movement against terrorism, though there have been improvements, the administrative, development and security sectors still remain immature. It is comprehensible that these sectors take long time for their improvement, but the level of the improvement so far made is not in accordance to the energy and resources being utilized.

One of the biggest hurdles in this regard has been the lack of transparency in the utilization of the resources, mostly provided as aid by the international community. The wave of corruption has uprooted the weak foundations of the development projects and possibilities of better outcomes have diminished to a great extent.

There are three basic sectors which require special attention. They include incapacity of the government to provide good governance. Good governance relates to the conduct of the public institutions regarding the public affairs in such a way so as to guarantee well-being, prosperity and definitely human rights. But instead our public institutions have been dominated by incapacity and corruption. These institutions have been further adding to the troubles of the common people instead of solving their problems. They have been vehemently dominated by the individuals in authority. The institutionalization process has been very weak and institutions serve the authoritative people on the top of bureaucratic hierarchy.

The real purpose of a democratic system is to reach to the common people of the society and provide them facilities on their doorsteps. Further, the so-called democratic system in our country has not been able to represent the people of Afghanistan as a whole. The diverse Afghan society has not been able to be compensated in the system that has been trying to keep the central government stronger. Even the key institutions like legislature, judiciary and executive have not risen to the task. They, instead of serving the country, seem to be fanning the flames of controversies. The government that should be the leading force towards a democratic setup, itself seems to be running after authority, not democratic principles. The parliament, which represents the elected members, is not given its due authority.

As far as the security of the country is concerned, there have been many improvements but a lot of work still needs to be done. The international security forces have withdrawn and the responsibilities of security are on the shoulders of Afghan security forces. As far as the capacity of Afghan forces to guarantee secure life for Afghan people is concerned, there are grey patches. Unless there are speedy development in the capacity building, training and professionalism of Afghan forces, the eyebrows will remain tense as far as security arrangements are concerned.

Further, the political reconciliation with Taliban that is expected to find out some political solution to the issues in the country in order to lead to peace is also suffering from lack of clarity and commitment. On the other hand, Taliban leadership has not shown readiness for the peace process. In addition, the factions existing within Taliban also differ in their views regarding any peace deal and this makes the process difficult by introducing the intricacy as to whether which faction should be considered as the true representative to Taliban, and what should be done with the other factions who opt to go against any sort of peace process.

The impact of international assistance will remain limited unless donors devise better mechanisms to monitor implementation, adequately address corruption and wastage of aid funds. In order to address the socio-political and security concerns appropriately there has to be immense effort made on the part of government and other authoritative institutions in the country. Above all, this effort should be directed towards the wellbeing of all the people of Afghanistan.

Unprecedented Food Crisis

By Muhammad Zahir Akbari

Food crisis is one of the long lasting unsolved problems to impoverished countries including Afghanistan; globally, it takes the life of around 30,000 - 60,000 people each day. As a prominent victim of this phenomenon, more than 40% Afghan children are under serious shortage of food. Over a quarter of Afghan children die before their fifth birthday mostly from preventable diseases such as pneumonia and diarrhea but the rest of them are suffering unprecedented malnourishment, stunting, underweight, mental retardation and vitamin deficiency. According to the recent report, 39% of Afghan people are living under poverty line. 78% of Afghan children lack access to safe water and 1 in 8 Afghan women die in childbirth. People in Afghanistan are using opium to block pain; the pain of hunger, joblessness, sickness, physical and mental trauma. As a result, nearly three million addicts in this nation of about 35 million people, including 60,000 children under age 15, and about 13 percent are women and 7 percent are children.

Most of the women are opium addicts desperate to blunt the trauma of endless war. Many are illiterate mothers with unemployed husbands. Most have a little in the way of job skills, and some became addicts while picking opium poppies to earn a living and support their families...

Since the 2008 global food price crisis, food insecurity has raised to the top of many national and international policy agendas. Given the potential implications for poverty, health, and nutrition, and the outbreak of food riots, the impact of growing high food prices on food security is of concern to governments and aid organizations alike.

These issues are particularly salient in conflict-afflicted countries where food production and distribution networks are strained and where distributing emergency food aid can be a challenge. The broader relationship between food insecurity and conflict is a complicated one. Much of the existing literature (and conventional wisdom) on the relationship between food insecurity and conflict suggests that food insecurity can be a consequence of conflict (i.e., due to the destruction of agricultural resources or the disruption of markets) and also can be a cause of conflict (i.e., through economic and social grievances). In these cases, this harmful cycle can result in chronic food insecurity and, more broadly, can exacerbate poverty.

After decades of external and internal conflicts, along with prolonged droughts, Afghanistan has one of the poorest, least well-nourished populations in the world. According to the National Nutrition Survey, approximately 60% of children under five suffered from chronic malnutrition (stunting) and 8% suffered from acute malnutrition (wasting). According to the National Risk and Vulnerability Assessment, nearly 30% of the Afghan populations do not meet minimum daily food requirements (2,100 kilocalories per person) Due to a confluence of domestic (drought), regional, and

international (food price crisis) factors, the price of basic food items such as wheat flour (the dietary staple) doubled. Such an economic shock could have serious implications for households in Afghanistan, many of whom are impoverished. And live in conflict-afflicted areas. We estimate the differential effects of wheat flour price increases on household food security - as measured by calorie intake and the real value of food consumed based on the level of conflict in the province where the household is located. That is, we test whether being located in a province with higher levels of conflict is associated with more or less pronounced price effects.

The factors of food crisis and poverty in Afghanistan include: high population rate (the population has almost doubled in the last two decade, from around 15 million to almost 35 million according to the World Bank), opium cultivation (the contribution of opium to formal economy is almost 50%, which has increased entitlement at a cost of low local food production and annual shortfalls), inflation (the fluctuation in prices has a significant impact on urban and rural population in terms of per capita consumption at both individual and household level), high dependency ratio (since a decent percentage of the population is between 0-25, a great majority of them are dependent on their siblings, parents or relatives for access to food, clothing and housing), lack of education and skills (Afghanistan has one of the lowest educated population in the world and in terms of skills ranks at 2/3 in major industries like mining, construction and few other on a scale of 12), security situation (Due to poor security situation, there has been an increase in homelessness, slums, internally displaced persons which has led to an increase in poverty and food insecurity), corruption and poor governance (Afghanistan has one of the highest corruption rates in the world, on average each professional regardless of his employment status take a bribe of at least 25% and some regions have corruption rate as high as 99%). Despite some efforts, there has not been a significant change neither in poverty reduction nor food security. But on the contrary, it is evident that within two last years, the growing poverty and food security have been pressing the people unprecedentedly. Overall, insecurity, corruption, poor governance, low-income and several other structural problems inherent in the system are hindering progress of any sort.

Moreover, Afghanistan does not only have to address the structural crisis integral in the system but should introduce short-terms and long-term programs to address poverty and food security. However, if Afghan government and international partner do not change their policy against terrorists, the security situation will be decreasing while economic crisis, unemployment and food crisis will be increasing.

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What is the Pound Telling Us?

By Jim O'Neill

I know from my 32 years in finance that the weird world of foreign-exchange markets can sometimes defy comprehension, and that trying to estimate sterling's baseline, equilibrium value can be an exercise in futility.

Indeed, in the heady hour after the Brexit referendum polls closed on June 23, the British pound initially traded above a rate of £1.5/\$1. This exchange rate turned out to reflect the now-ridiculous assumption that the "Remain" side had won. The pound has since declined 20% from that initial peak, and it has declined similarly relative to the euro.

Despite these discrepancies, we do have ways to gauge the pound's post-Brexit performance reasonably well. For starters, we can compare its value today to its average value during the referendum's campaign period, from February to June. Viewed from this perspective, the pound has declined by a still significant 13% since voters decided that the United Kingdom should leave the European Union.

Beyond looking at purchasing power parity, we also have models for estimating real-exchange-rate (RER) equilibrium, such as by identifying the exchange rate at which a country can achieve a sustainable current-account balance, or the rate that would allow an economy to reach full employment. These models include Goldman Sachs's Dynamic Equilibrium Exchange Rate and the Peterson Institute for International Economics' Fundamental Equilibrium Exchange Rate. The GSDEER's current estimated equilibrium rate is £1.44/\$1.63, and the FEER's is £0.88/€0.74, which implies that the pound is now undervalued - by anywhere from 14% to 24% against the dollar, and by as much as 20% against the euro - relative to its notional fair value.

These misalignments could be partly attributable to overvaluation of the other currencies. But let us assume that these estimates are at least roughly accurate, and that the pound is now broadly undervalued relative to the currencies of its major trading partners.

An optimistic interpretation is that, all things being equal, the pound's decline implies an improved balance-of-payments position in the future, and that the UK economy will undergo a much needed rebalancing. To be sure, economic data released since the referendum suggest bullishness in the manufacturing sector, and the National Institute of Economic and Social Research recently forecast that the UK's balance of payments could achieve a small surplus by 2019. Of course, all things are not equal, so another interpretation is that the current equilibrium exchange rates will de-

cline further, reflecting the market's pessimism about the UK economy's supply-side outlook and future productivity growth. Much will depend on whether the UK actually does leave the EU, and, if it does, on the government's post-Brexit trade arrangements and economic policies.

Another, complementary interpretation is that the pound's weakness, notwithstanding its potential cyclical benefits, reflects a risk premium on the UK, owing to its tricky EU exit path and other policy uncertainties.

We can estimate such risk premia by adjusting the RER equilibrium models to account for "normal" cyclical economic developments.

Higher interest rates and low, stable inflation can give a country's currency an edge over other currencies, so if we factor in the real-interest-rate differential, we can determine a notional price at which a currency should trade.

When we do this for the pound against the dollar and the euro, the pound's notional exchange rate is still substantially weaker than its actual spot rate, which suggests that the market has indeed factored in a considerable risk premium. These estimates have public-policy implications.

For starters, British policymakers should acknowledge that a declining pound is helpful, but not sufficient, for improving the UK's external position and rebalancing its economy. Second, the pound's daily and weekly gyrations reflect a market assumption that a "hard" Brexit - whereby the UK forfeits its EU single-market access in order to restrict immigration - will negatively affect productivity growth. If the market is correct, then the UK's future growth will depend even more on policymakers' ability to boost post-Brexit trade. Moreover, policymakers will have to develop a sophisticated immigration strategy to attract high-skill workers, even as they restrict the movement of people overall. Finally, if there is even a chance that foreign-exchange markets have built in risk premia for the UK (and it appears that there is), policymakers will have to be very careful not to suggest any other changes to the UK's economic-policy framework.

Any new threats to the Bank of England's independence, in particular, could provoke a reckoning from the market. (Courtesy Project Syndicate)

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