

《論 説》

What, How and Why Happened in Afghanistan?: A Study of Political Economic History of the Early 20th Century[‡]

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It is significant to thoroughly scrutinize past practices and feats, to identify important factors towards developmental failure and success and to avoid mistakes for the future of an industrialized and prosperous Afghanistan. As a result of profound research, a number of researchers have added to the literature on the country's history, culture, wars, strategic importance and position as a buffer state that cover Afghan polity, ideological dimensions, and social and cultural intricacies. However, few scholarly works exist on the political economy in general and on the historical economic performances and policies in detail. Drawing upon immense and varied literature, the purpose of this paper is to analyze and describe historical and social changes, economic structures and strategies of Afghanistan with a detailed account of (i) political vision, (ii) institutional reforms, (iii) economic agendas, and (iv) development progress in the light of economic development theory and practice. We conclude that being provided right policies and firm political determination, Afghanistan has the potential to become a more developed country in the short span of time.

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1. Introduction

Situated across three major civilizations, Afghanistan bridges South and Central Asia and connects the Middle East with the Far East. Its strategic importance and the politico-economic history have always been of world interest and it has faced series of wars and suffered ruinous effects of prolonged foreign interference and attempts of occupation in the 19th and 20th centuries. Therefore, many books and research papers have inscribed the country's history from social, cultural and political perspectives. However, only a few ventures can be noticed in the areas of both political economy in general and historical economic performances and policies in particular. Barely, some of the studies reveal the fact that either Afghanistan was once a hub of creativity and prosperity or had full potential to become a sustained and developed country. Consequently, the outside world

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knows very little about the country's economy, its immense productive potentialities, and the possible prospects.

Ever since the first Industrial Revolution in Britain, economists have endeavored to find out how countries develop and what brings a longer life expectancy, better education, a higher standard of living, modernization of institutions and the progress to people. The key elements of modernization and economic growth that firstly and slowly spread across Europe and North America did not break out of areas dominated by Western culture until the 1950s and 1960s except for Japan (Perkins 2001, p.15). However, looking into the history, we come across several Afghan rulers who were forward thinking and hoping political independence and economic development. In the 19th century, modernization became social, political and economic instruments in Afghanistan and served as a force to keep the country unified (Gregorian 1969, p.393). Afghanistan has had the hope to become a modern state and enjoy the fruits of development for a longtime; whereas, due to several external and internal antidevelopment shambles, and sometimes due to the swindled role of the rulers and the elite class the efforts of modernization and development could not get strong roots within the society for long years.

To fill the existing wide gap of literature on the history of political economy of Afghanistan, we analyze its history in the light of internal and external changes in political economy and review development trends under different systems and policies. This comparative study is based on observation, selection, collection and analysis of past dealings and events, and the framework of political regimes and economic policies. Relative economic backwardness and timing in development, first introduced by Gerschenkron (1962), indicate that for France, Germany, and Russia in the 19th century, the process of development took different degrees of state intervention which depended upon such factors as the presence of financial institutions, and how late they were to industrialize. What of the Kingdom of Afghanistan, i.e. what factors, led to its failure to industrialize in the early 20th century? What could it have done? And what can Afghanistan do today, given its political economic history?

Following the introduction, the second section of the paper gives a brief account of political economic history of Afghanistan from 1880 to 1919. Section 3 is devoted to investigating the policies and their implications in the post-independence period of 1919–1929 when modernization emerged as the main notion of economic growth and social transformations. Section 4 discusses in detail the new approach of modernization and the development in 1929–1933 and provides a detailed account of how the external sector and fiscal and monetary policies got a formal shape. Section 5 enlists the summary of development and economic growth based on facts and figures in the context of economic development theory and practice. Section 6 focuses on concluding statement that with right policies, committed leadership and firm political determination, Afghanistan has the potential to become a developed country.

2. Political Economic History of Afghanistan (1890–1919)

Afghanistan is by no means a country that emerged as consequences of the circumstances and changes of the

19th century. The country and its inhabitants existed a long time ago and the excavations prove that in even centuries before the Christ the land of ancient civilizations and motherland of Afghans have been contributing towards development and prosperity of the mankind (Omar 1977, p.4). It is indeed a fact that nations and societies change and undergo ups and downs due to internal and external reasons. Therefore, the current situation in Afghanistan cannot negate the actuality that once it was the hub of civilization with a major role in the social and economic progress of human beings. Afghanistan had faced several hard blows in the form of wars, invasions and internal upheavals. “Yet, the country has managed to survive and to retain some form of sovereignty and territorial integrity” (Saikal 2004, p.1). Since its emergence as a distinct political unit of heterogeneous groups in 1747, the country’s unity was fragile and a widened gulf existed between the state and society.

In the mid of the 19th century when Egypt was invaded by Napoleon and the Indian Subcontinent by the British, the social, political, judicial and even educational systems of those countries underwent radical changes. Said Jamaluddin Afghani (1839–1897), a modern reformer and thinker, presented his thoughts to defend Islam¹ against the hostile criticism and also to educate the Muslim masses in general and Afghans in particular. Afghani, the influential figure in the Islamic World, was the first to talk about the renovation of religion. According to Albert Hourani who considers Afghani progressive in his ideas, “Islam needed a Luther; this indeed was a favorite theme of Al–Afghani and perhaps he saw himself in that role” (Hourani 1962, p.122). Afghani was of the view that in both religious and political authority men must be given logic and reasons. Therefore, he was emphasizing on the dissemination of the right doctrines and their correct explanations for the people and proposed the idea of Pan Islamism allowing individual Muslim states to retain separate identities, but urging them to cooperate with each other for the common cause, i.e. against foreign invasion. Amir Sher Ali Khan (1868–1878) realized his political and military weaknesses, as well as understanding the real motives of the European false propaganda across the Muslim world through the teachings and vision of Said Jamaluddin Afghani. The Amir endorsed the ideas of Afghani, initiated a multi–prong effort, ordered for the publication of the first daily newspaper “Shams–ul–nabar”, and established the first cabinet of the country with no minister from his own tribe. He spent huge sum of money for strengthening the army and established the military and vocational schools. He supported the promotion of local industries such as carpet, kilem, pottery, painting and different other branches of arts (Omar 1977, pp.6–15). The external trade of Afghanistan was expanding and the country had just started its journey towards development, although the forward policy of the British could not tolerate the existence of a nationalist and independent country. At last the British attempted to invade Afghanistan by waging a war in 1878–1880.

2.1 The Great Game and Afghan Policies

For almost a century, Afghanistan was a pawn in the “Great Game” played by the British and Russian

1 Islam is the second largest religion of the world and 99% of the Afghans are Muslims.

Empires. The British–India twice both in 1838–42 and 1878–80 respectively waged wars against the Afghan Kings known in the history as “Afghan–Anglo Wars”, but both the times the British failed in its invasion attempts. Amir Abdul Rahman Khan (1880–1901) became king at a time when his predecessor Amir Sher Ali Khan died during the second Afghan–Anglo war in 1880. The country was in social, political and economic chaos, and insecurity was prevailing nationwide. The king was ruling only the capital of Afghanistan Kabul, and the rest of the country was divided between warlords and tribal chieftains controlling bits and pieces. The new Amir established close relations with the British–India and in the first year of his rule obtained 3.6 million Indian Rupees along with 74 canons, 25 thousand old guns, 11 thousand and five hundred modern guns and a large amount of bullets to control the internal anarchy and to defeat his opponents (Omar 1977, pp.16–24).

He introduced modernization as an alternative tool to substitute the religious authority and laid the foundation of a modern nation–state (Saikal 2004, p.35). He took vital steps towards creating the institutions of a modern Afghan–state. He was the first to challenge the role of the religious leaders and tribal chieftains in ruling the country as he disarmed religious leaders by reserving the call of Holy War (Jihad) to himself and proclaiming his rule based on the teachings of Islam. He also divided the tribes and established provincial governorships with boundaries that did not coincide with tribal boundaries, and established the courts and laid the foundation of the modern judicial system and for the first time abolished slavery, introduced laws to register marriages and banned child marriages. During his rule, he engaged in a series of battles with tribal leaders to form a strong central government. He succeeded in uniting diverse groups of people with different languages, customs and habits under a single polity within the present border of Afghanistan with his autocratic and yet “defensive modernization” line of attack called by Saikal (2004, p.12). He resettled a substantial Pashtun Ghilzai families in the north of the country and physically liquidated thousands of opponents, mainly the Hazara tribe, in the highlands (Saikal 2004, p.36) with the aim to strengthen the basis of the central government.

In order to increase self–sufficiency and make the society prosperous, the foundations of the centralized revenues system were laid to generate funds. He abolished the internal custom duties for transfer of goods from one province to the other and improved the trade routes towards the neighboring countries. He constructed roads in Kabul, Ghazni, Herat, Kandahar and Balkh, replaced old bridges and installed several new ones. To minimize the role of the Indian capitalist, he forwarded credits and loans to the Afghan traders and formed a small security group to scout trading Caravans and ensure the safe passage of traders and their goods (Omar 1977, pp.18–31). He focused on exploration of natural resources as a tool of development (Ali 1946, p.5). According to Afghan historian Qasim Rishtia (1965), once the Amir said that he is very interested in industries and crafts and considers their expansion as a tool of development and prosperity (p.252). In order to implement his industrialization vision, he invited foreign advisers and experts including the French, German, British and Indians to run the first industrial park (established 1887) known as *Machine Khana* or the house of machines.

He specifically ordered the experts to transfer their knowledge to the Afghan counterparts for leather processing, printing press, shoe and soap making and manufacturing of bullets (Omar 1977, pp.19–28). To promote good governance, the Amir introduced books of accounts, and established public works, postal and

communications departments (Gregorian 1962).

According to Amiri (1993), an Afghan economist Amir Abdul Rahman Khan considered (i) Anglo–Russian rivalry, (ii) extra–ordinary power of religious leaders and tribal chieftains, and (iii) heterogeneity of Afghan tribes and ethnic groups, as three major causes of underdevelopment. He believed that the friendship (dependence) of Afghanistan to (on) Russia is of no “service” (Dupree 1973, p.XVII) and urged his successors “Never trust Russians”. The Amir had no real love for the British too, but he valued the alliance with it (Amiri 1993, pp.2–8). In 1891 the Russian and the British, with Abdul Rahman only as an observer, agreed the boundary between Russia and the Afghan territory. In 1893 the Durand Line was drawn to establish the borders between Afghanistan and the British–India. The Line was not originally intended as a physical boundary between Afghanistan and the British–India, but ultimately after the British withdrew from the Indian–Subcontinent, it became the boundary and now forms the border between Afghanistan and Pakistan.

The Durand Line as the frontiers of Afghanistan imposed by the British–India brought up the following five detrimental consequences for Afghanistan: (i) The Pushtun tribes on the other side of the Durand Line who are Afghans by origin, and whose culture and language are the same as Afghans, and whose territory has been part of the Afghan Kingdoms in the past are non–naturally divided; (ii) Afghanistan lost all its hopes of stretching its borders back to the regions founded by Ahmad Shah Baba in 1847; (iii) The imposed agreement compelled Afghanistan to become a landlocked country, always dependent on the transit routes through neighboring countries; (iv) The problem of Pashtun tribes since Pakistan’s separation from the Indian Sub–continent has remained an obstacle in friendly relations between the two countries; and (v) Many believe that the current support of terrorists by Pakistan is due to the fact that Afghan governments have never accepted the Durand Line as a *de facto* border and, therefore, Pakistan government will never allow a peaceful and stable Afghanistan.

Like any other Afghan Amir Abdul Rahman Khan loved the freedom of Afghanistan and feared colonization, so on several occasions he declined the assistance of Britain and Russia. Railroads which played a vital role in the development of many countries were always rejected by the Amir as he had been considering it as British trap to facilitate the easy mobility of its force into Afghanistan. “The Amir insisted, however, on preserving the independence of Afghanistan by maintaining absolute control over internal affairs. Though the British resented the Amir’s policy of isolation and bombarded him with proposals regarding telegraphs and railroads, commercial treaties and diplomatic missions, the Amir proved adamant, preferring to develop his country on his own” (Dupree 1977, p.65).

Abdul Rahman Khan as a man of vision and great discipline put efforts to establish a developed and economically progressive country, but his plans had been constrained by the competing dictates of powerful Russian and British Empires to his north and south.

Amir Habibullah Khan (1901–1919) as a priority set the goal to put Afghanistan on the speedy course of modernization and started a serious political struggle to get full independence of Afghanistan from the British (Saikal 2004, p.40). He adopted mild and cautious modernization policy, sustained strong central government

policy, but initiated extensive efforts to reconcile the society and to unify the nation with expanded modernization agenda unlike his father Abdul Rahman Khan.

Amir Habibullah, who had served as the controller of the State Treasury and Exchequer as well as the Supreme Court Appeal during his father's reign, had gained far-reaching experience dealing with general public and the military officers. He reduced the taxes and raised the pay of the army. In September 1903, when severe cholera broke out in Kabul, he disregarded the alarms of danger and personally supervised the sanitary reforms².

The wise steps of the Amir proved as a major changing factor in the governing style, social reforms and establishment of modern institutions. A capable army was built to enforce control of the government and to ensure peace and stability nationwide. The plan of compulsory military service was implemented and several steps were taken towards its modernization. The Amir also paid attention towards the education system and introduced European-style colleges, and to improve the health sector he supported the introduction of western medicine and establishment of a modern hospital. In order to strengthen the rule of law and to facilitate formation of a broad based government, he issued a proclamation to bring back the intellectuals, commanders, reformers and the Hazara tribe exiled by Amir Abdul Rahman Khan. In addition, he offered them several key positions in the administration to build up national unity and the governing system³.

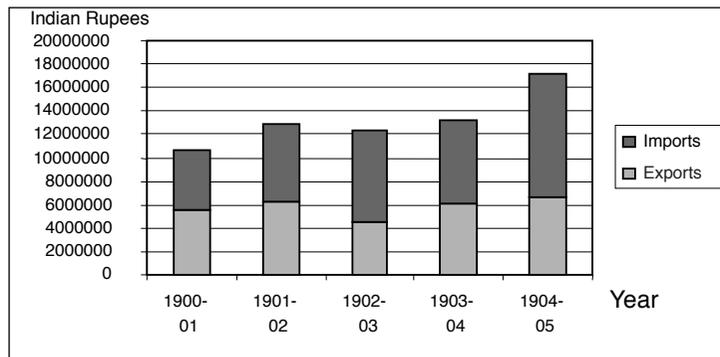


Figure 1 Export-Import

In 1909 the government introduced the telephone system in several districts and in later years paid attention towards improving roads, promotion of basic industries and expansion of agricultural and commercial activities. After a visit to India he brought the first car to Afghanistan.

The experience of commerce and trade remained very limited as Ali (1946) mentioned that the foreign trade of Afghanistan was only with the British-India and Russia. The above mentioned numbers shown in Figure 1 are not very accurate and much reliance cannot be placed upon. However, for a general view we have included them to show the ratio of exports to imports on bilateral basis. In 1901 the exports of Afghanistan were 624

2 [http://en.wikipedia.org/wiki/Afghanistan_timeline_1901 % E2%80%931910](http://en.wikipedia.org/wiki/Afghanistan_timeline_1901%E2%80%931910)

3 http://en.wikipedia.org/wiki/Afghanistan_timeline_1901%E2%80%931910

thousand (Indian Rupees), while the imports were 670 thousand. Whereas, in 1904–5 the exports increase only by 6% to reach 662 thousand and the imports increase to over one million with an increase of 57%.

Afghanistan in the early 1900s starts taking favorable gain of Anglo–Russian competition. Later on during the WWI, although Afghanistan declared its neutrality, to strengthen a bargaining position and to cover the future of the country against possible German–Turkish victory, the Amir received the Turk–German mission in Kabul in 1915. This move was to persuade the British to reconsider the demand for complete political independence; on the other hand, it gave Afghanistan the chance to get better reward for its neutrality including the access to the Indian Ocean.

Though Afghanistan maintained a conduct that it was neither pro–Russia nor pro–British, the rivalry of both powers remained to be strong obstacles on the modernization moves and the strong neighbors continued obstructing the domestic and foreign policy of Afghanistan (Saikal 2004, pp.50–51). Nevertheless, after the WWI, the British and Russian Empires officially established the boundaries of what would become modern Afghanistan, but both empires not only overlooked the independence of the country but also preserved the policy of exploitation and offensiveness, blocking reform process and continuing interferences against the wishes of Afghan government and people (Saikal 2004, pp.50–54). The sequence of imperialistic behavior on part of the British and Russian paved the way to reformist groups led by Mahmood Tarzi and Amanullah Khan who were a firm believer of pan Islamism and quick modernization of the country to emerge as the new nucleus of power.

In brief, in the periods 1890–1919, Afghanistan with limited financial resources initiated a mild process of modernization. The country enjoyed relative peace and stability and a governing system with improvements of commercial and trade activities internally and externally. In the physical infrastructure sector the first hydroelectric power station was built and the roads and communication system were somehow improved. The social sector through modern educational institutions such as Habibia High School, a teacher–training college and military academy along with the introduction of western medicine and establishment of first hospital experienced massive improvements, but was mostly limited to the capital, Kabul.

The reforms undertaken in 1890–1919 were limited in scope to respond to the challenges of the country, but did lay the basis for substantive administrative, legal, economic and social reforms. More importantly, they resulted in the initial developments of communications, commerce, revenue generations, social services and industrialization (Saikal 2004, p.36). During this era Afghanistan remained isolated and politically neutral, and overall failure of modernization process was significantly due to the lack of education, economic dependence of the masses on tribal chieftains and the attitudes of the British and Russian Empires.

3. The Drive of Radical Modernization and Consequences

After Habibullah Khan’s assassination, the *father of reforms* Amanullah Khan (1919–1929) gained the throne at the time when relations between Russia and Britain broke down following the Russian Revolution of 1917.

Influenced by the thoughts of Said Jamaluddin Afghani, Amanullah Khan saw himself as the champion of the Muslim population in India and harbored strong pan-Islamic sentiments. Realizing the impacts of colonial rule in other parts of the world, especially in the neighboring countries, he sought necessitating attack on the British-India. The Afghan war compelled the British Empire to recognize the political independence of Afghanistan in August 1919. Indeed it is a fact that rivalry of the great powers in the region might have remained for quiet a long time, had it not been for the dramatic change in Moscow caused by the Bolshevik Revolution in 1917. Amanullah Khan had moved to end the country's traditional isolation by claiming neutrality and internationalism in the years following the independence and started a more fundamental modernization of the country.

As a national hero and committed reformer, Amanullah Khan turned his attention to the social, political and economic reforms with a wide modernization vision. His initiated policies were quick and radical as he brought dramatic changes in both foreign and domestic politics (Ewans 2002, p.121). Mahmood Tarzi, the Foreign Minister, began to establish Afghanistan's own foreign policy, including diplomatic relations with the new government in the Soviet Union in 1919.

3.1 End of Great Game and New Afghanistan

In the attempts to unclench British control of Afghan foreign policy, the Amir sent an emissary to Moscow in 1919, and then Vladimir Lenin received the envoy warmly and then responded by sending a Soviet representative to Kabul and also offered aid to Amanullah's government. Thus, Afghanistan became one of the first nations to recognize the Soviet government. In May 1921 the Afghans and the Soviets signed a Treaty of Friendship, which was Afghanistan's first international agreement since gaining full independence in 1919. Throughout Amanullah's reign, Soviet-Afghan relations were valued by Russians as a tool for suppressing anti-Bolshevik elements in Central Asia or for threatening the British. Resultantly, the Soviets provided Amanullah with aid in the form of cash, technology and military equipment. The special relationship evolved between the two governments lasted until December 1979 when the Red Army of the Soviets invaded Afghanistan.

3.2 Social, Political and Institutional Reforms

Amanullah's reforms touched on many areas of Afghan life. In 1921 he established an air force, albeit with only a few Soviet planes and pilots, and Afghan personnel later received training in France, Italy, and Turkey. He alienated many army personnel by reducing both their pay and size of the forces and by altering recruiting patterns prevented tribal leaders from controlling and interfering in the armed forces. Based on his Turkish advisers' suggestion, he retired the older officers who could resist the formation of a more professional army. The Minister of War, General Muhammad Nadir Khan, opposed these changes and in 1924 left the government

4 <http://www.gl.iit.edu/govdocs/afghanistan/ReignofKingAmanullah.html>

to become an ambassador to France⁴.

The king aimed to convert Afghanistan into a stable and prosperous kingdom with modern railway lines and a highway system, adapting the best of western practices. However, he was less cautious to Afghan culture and conditions and rather supported establishing modern coeducational schools with French, German, and English as the major languages of education and furthermore opened the first girl's school in Kabul. "He planned to open six schools for women, the first being Essmat Lycee which opened in 1921. Later renamed to Malalai Lycee, Essmat was operated under the guidance of Queen Soraya, who believed that the education of women would improve their social status and permit them to play a more meaningful role within society. To promote this cause, Queen Soraya and her mother founded the first women's weekly magazine *Irshad-i-Niswan* (The Guide for Women). Other achievements included the formation of the *Anjuman-i-Himayat-Niswan* (Women's Protective Association) was headed by Shah Amanullah's sister Kobra" (Sadat 2001; Ghosh 2001)⁵. His social reforms included a new dress code which permitted women to go unveiled and encouraged officials to wear Western dress. Amanullah Khan outlined a constitution, which guaranteed the personal freedom and equal rights of all Afghans. In the 1920s he introduced new criminal and civil codes, and in 1921 presented the family code that banned child marriages and required judicial permission before a man took more than one wife. In his judicial and legal reforms he removed several family law questions from the jurisdiction of religious leaders.

He introduced the national registration and identity cards for the citizenry and formed the first legislative assembly and a court system to enforce new secular penal, civil and commercial codes. On the other hand, he abolished the subsidies and privileges for tribal chiefs and the royal family given by Amir Abdul Rahman Khan as a bribe to keep them calm against the rule of the central government in their regions.

His economic reforms included the restructuring, reorganizing, and rationalizing of the taxation system. He issued decrees of anti-smuggling and anti-corruption and introduced livestock census for taxation purposes. He also increased trade with Europe and Asia and in 1922 for the first time announced the formal budget of the country. In order to keep out the influence of Soviet Union and the British Empire and to move towards modernity he turned to other western powers for support and assistance. Afghanistan accepted long-term credit from Germany that extended economic assistance and technical support in the form of cash and technicians for development projects, as means of industrialization and modernization of Afghanistan (Gregorian 1969, p.380).

The major administrative, social, political and economic steps taken during 1919–1929 can be summarized as: Payment of taxes in kind was abolished, and unified livestock taxes launched, and private ownership of land was legalized. He also made efforts to expand trade, begin manufacture, and improve transportation. However, the heavy cost of such projects forced the government to generate revenue by excising taxes on feudal landlords and animal ranchers. Modernization of the agricultural and industrial sectors was initiated in the country. In the field of agriculture, the plans failed to change the difficult conditions in which Afghan peasants were trapped. They remained tied to the land, and were increasingly surviving at the mercy of the landlord and the tax

5 <http://www.afghanmagazine.com/2001/articles/afghanwomen.html>

collector, and many of them could pay their taxes only by selling portions of their land every year. The Germans rehabilitated the Kabul–Kandahar road in 1926 (Omar 1977, p.14). Huddleston in 1928 described Afghanistan as “It is becoming a modern state. Its road and communications have been transformed. There is well trained army. There are excellent schools.” (Fry 1974, p.11). During Amanullah reign, Joint–Stock Company owned by A. Majid Zabuli was the only monetary institution operation in Afghanistan (Amiri 1993, p.12).

For the promotion of commercial and trade activities under special arrangements of ‘*Sherkat*’ (joint–stock company), private investment was encouraged. The *Sherkat* system controlled production and safeguarded the invested capital while guaranteeing good profits for the investors. The arrangements generated huge profits for the entrepreneurs and strengthened the emergence of an elite class in the urban centers. Meanwhile, the system positively contributed to industrialization because most profits were reinvested in the expansion of facilities or in the development of new industries. Following the long tour of Europe and Turkey in 1927, Amanullah Khan introduced several reforms including discouraging the veiling and seclusion of women, slavery and forced labor, opening a number of coeducational schools, and establishment of civil rights, the court system and legislative assembly as part of his modernization program. One can see that it was one of the best starting point for Afghan economy that could have benefited from a higher level of institutional development, physical building, saving (from an improved marginal propensity to save), better education and investment in the development of agricultural technology to create sustained economic growth.

During the 1920s, Afghanistan established diplomatic and commercial relations with major European and Asian countries. Meanwhile, the Anglo–Afghan relations soured over British fear of Afghan–Soviet friendship, especially with the introduction of a few Soviet planes into Afghanistan. Britain unease increased when Amanullah maintained contacts with Indian nationalists and gave them asylum in Kabul, and also when he sought to stir up unrest among the Pashtun tribes across the border. Amanullah’s domestic reforms were no less dramatic than his foreign policy initiatives. Mahmood Tarzi (the Foreign Minister and Amanullah’s father–in–law) encouraged the monarch’s interest in social and political reform, but urged the gradual pace, built upon the basis of a strong army and the central government, as had occurred in Turkey under Kemal Ataturk. If wisely and fully enacted, the reforms of King Amanullah would have totally transformed Afghanistan into a modern nation state, whereas most of his proposals died with his abdication in 1929.

Usually it is said that he probably tried to do too much and too fast, as some tribal chiefs, landlords, religious leaders, and elements of the army rose up against him. However, since he was strongly challenging and negating the importance of the two empires, particularly the British, he could not implement his plans. Conventional wisdom holds that a tribal revolt that had full support of the British and grew out of opposition to reform programs overthrew Amanullah. Thus, the King, due to his “extreme radicalism” in Afghan terms, in 1929 faced with overwhelming armed opposition and abdicated the throne to his oldest brother, Inayatullah, who ruled for only three days. In January 1929 Kabul fell to forces led by Habibullah II (*Kalakani*); whereas Amanullah Khan, after failed attempts to regain the throne, crossed into India and went into exile first in Italy

and then later remained in Switzerland until his death in 1960. It is widely believed that Afghanistan paid heavy price for its independence in terms of institutional, social, political and economic underdevelopment, as well as losing a capable leader like Amanullah Khan, due to the British conspiracy pushed through religious leaders and betrayed Prince Nadir Khan.

Habibullah Kalakani ruled Afghanistan for nine months, and based on the sentiments of the people at that time, he reverted most of the reforms undertaken by Amanullah Khan and his reformist team. His alterations mainly included the closure of modern schools, abolishing the constitution and secular codes, eliminating different taxes, establishing religious schools (*Madrasa*) and handing over the judicial power back to religious leaders. Overall Kalakani remained engaged in internal upheavals and could not introduce any comprehensive plan of development for the country.

4. A Gradual Approach Towards Development and Transformations

In 1929 the economy faced severe disruption, cessation of foreign trade, the closure of educational and health centers, and flight of capital stock (Fry 1974, p.9). There were only a few state factories in Kabul, and the infrastructure was poor and even the sources of government revenue were unreliable. Still Afghanistan had the silver coins of “*Afghani*” and “*Kabuli*”, but no banks or paper money existed. It lacked qualified professionals as indicated, “the four secondary schools in Kabul were ... staffed by French, Germans and Indians since no qualified Afghans could be found” (Fletcher 1965, p.231; Fry 1974).

Mohammed Nadir Khan in October 1929 with British money and arms and support of southern Pashtun tribes entered Kabul and declared himself as the new King. He confirmed the policies of Habibullah Kalakani to enforce Islamic law through religious courts and reintroduction of the old dress code of women, i.e. wearing of *Chadari (Hijab)* (Ewans 2002, pp.138–139).

Nadir Khan became king when the Afghan economy was in shambles, and the country was without army, police and money. The transport and communication were rudimentary and unreliable, and there was literally no industry, except for only fragmentary handicraft and meager trade (Fry 1974, p.10). The central government had minimum control over the country and the economy was devastated by inter ethnic and inter tribal and religious conflicts⁶. In his historic declaration, known by the name of *Khate-i-Mashi* (the future line of action), he laid great stress on development of vast natural resources to wipe out misery and unemployment and to make Afghanistan as far as possible a self sufficient geographical unit (Ali 1946, p.i). Very soon he restarted several reforms of Amanullah but mostly with a more gradual approach. In 1931 he introduced a new constitution, which was a dilution of Turkish, Iranian, and French constitutions and gave judicial powers back to religious leaders. He laid the foundations of first university of Afghanistan in 1933 and created an economic framework that allowed free enterprise. He began to restore and industrialize the economy, enlisting for the

6 www.Afgha.com

purpose the skills of a small number of entrepreneurs, under whose management cotton became an important export crop in addition to fruits and karakul. He pursued the vision to form a national economy developed under the leadership of entrepreneurs through small-scale industrial projects. Aziz Londoni, Nashir Ghilzai, and Abdul Majid Zabuli are amongst the few prominent entrepreneurs of this era who were able to bring together the means of production and profit. Mohammad Nadir Khan learned from his predecessor and did not excise taxes on landlords or ranchers but instead generated government revenue through tariffs. For long years, the economic modernization initiated by Amanullah Khan and Nadir Khan led to effective industrial developments. This was a result of pursuing economic laissez-faire policies.

In 1932 Afghanistan had no central bank, and the public treasury could not determine fiscal policy when Zabuli received permission to create the National Bank (*Bank-i-Melli*), the first bank in Afghanistan to regulate trade. The government was a partner in the bank in the first few years of operations, however later on, withdrew most of its holdings from the bank and created the first central bank (*Da Afghanistan Bank*). The government allowed the National Bank in charge of the private sector (Gregorian 1969, p.362). In addition, the National Bank received an exclusive right in exporting karakul skins and carpets and importing petroleum products and sugar, and all the businessmen needed approval of the Bank for any imports and exports. According to Griffiths (1981), “In 1933, Zabuli, surely one of the most remarkable entrepreneurs ... His greatest stroke of genius lay in circumventing the *Quranic* prohibition against the charging of interest by inventing the “money ticket”. By this mean, the bank took a fixed “profit” on its money and thus caustically avoided the prohibition”. Later on, Zabuli released “the capital needed for development and the bank itself provided the funds for more than thirty enterprises from vehicle imports to hire purchase, electricity generation to cotton processing” (Griffiths 1981)⁷. “Funds from the bank flowed mainly into northern Afghanistan and spurred the creation of most of the prewar industrial development in Pole Khomri, Konduz, and Kabul. The National Bank played a vital role in the expansion of trade in the 1930s for it granted loans to traders and set up joint-stock companies to engage in trade. The companies were established for the export of wool, skins from karakul sheep, and cotton”⁸.

With the laissez-faire policy Afghan traders and businessmen were enabled to take the charge of commercial activities and become more self-reliant, independent, and promoting economic growth. These entrepreneurs had no interest in commerce with Great Britain, instead preferred nations such as Germany and Japan. This ideology stemmed from Amanullah’s time that Germany and Japan were believed to pose no threat to Afghanistan’s borders⁹. Consequently, in 1933 Hafizullah Tarzi arrived in Tokyo as the first Afghan minister and established Afghan legation to look after the increasing demand of Japanese textiles, chemicals and machinery in Afghanistan¹⁰. Nadir Khan began to improve communications, building the first motorable road

7 <http://www.afghanmagazine.com/jan99/articles/zabuli.html>

8 <http://www.gl.iit.edu/govdocs/afghanistan/Afghanistan-Chapter3.pdf>

9 <http://www.afghanmagazine.com/jan99/articles/zabuli.html>

10 http://en.wikipedia.org/wiki/afghanistan_timeline_1931-1940

through the Hindu Kush, and reopened schools and continued to send young Afghans abroad for higher education. He also regrouped and enlarged the army. During his rule state revenues increased from foreign trade as the King largely avoided the politically sensitive taxes on land and agriculture.

Nadir Khan reestablished the Afghan press and reopened the teachers–training school (*Darul Muallimin*) and under a new system to improve the quality of education for teachers. He also focused to improve the health standards in the country and upgraded the Public Health Department to the level of Ministry (Gregorian 1969, pp.308–315). In the 1930s there were 13 schools, 53 teachers and 15,980 students enrolled from the estimated population of six million (Amiri 1993, p.23). According to Table 1, Fry (1974) says that in 1932 there were 22 schools with 105 teachers for 13,500 students for a population of approximately 7 million. “According to some reports, there were some 1000 radio sets by 1928. The Kabul transmitter operated on standard wavelengths and an indeterminate but in all likelihood very small number of Kabulis were able to listen to the fledgling radio station through earphones or battery–operated amplifiers” (Gregorian 1969, p.312).

Table 1 Social Indicators in 1932

Population (Million)	Number of Schools	Number of Teachers	Number of Students	Number of Hospital Beds
6.85	22	105	13,500	600

Source: Fry (1974)

The non–monetary indicators summarized in Tables 1 and 2 show that by 1932 for an estimated population of 6.85 million there were a total of 600 beds in different hospitals and 50 telephones and zero kilometer of asphalt or concrete roads, and only 2880 km of barely passable tracks as roads existed.

Table 2 Infrastructure (Communications and Transport) in 1932

Number of Telephones	Roads (Kilometers)		Number of Motor Vehicles
	Asphalt / Concrete	Others	
50	0	2880	350

Source: Fry (1974)

According to Table 3, in 1932 and 1933 the domestic revenues were Afghani 140 and 145 million, respectively, which increased by 5 million Afghani against the monetary stock increasing from 171 million to 183 million in the same period.

Table 3 Macroeconomic Indicators (Million of Afghani)

Year	Domestic Revenues	Exports	Money Stock (M2)
1932	140	69	171
1933	145	70	183

Source: Fry (1974)

The chief items of exports in the early 1930s are mentioned as furs, skins, wool, fruits, cotton, carpets, rugs, bags, opium, tobacco, timber, and other minor forest products (Ali 1946, p.30). With improved agricultural methods, extended irrigation, better means of communication, and careful expenditure of public money, the wise

and far sighted King believed that Afghanistan can overcome the existing challenges. He asked Majid Zabuli to prepare an economic plan for the country, and as per Zabuli's advice the modern banking system was established in the country. Though the system was less developed and so limited that could not fulfill the prerequisites of a contemporary banking system, it was still a great start¹¹.

According to Fry (1974), the economic growth in the 1930s was mainly due to Nadir Khan's serious commitment to a rational program of economic development. Foreign trade grew markedly in volume in the 1930s. The country's principal export was karakul pelts, which were auctioned in London. Fruits were exported to the British-India, and cotton was sent to the Soviet Union. The cotton exports had grown rapidly in the wake of the economic disorder in Soviet Central Asia after the Russian revolution. "When the government began a major development policy under King Muhammad Nadir to improve irrigation and communications and to explore the country's natural resources, it was understood that foreign assistance would be absolutely necessary. Afghanistan imported machinery and foreign expertise from Europe and Japan. Seeking to maintain neutrality between Great Britain and the Soviet Union, Afghanistan developed close economic relations with Germany. Germany provided 150 advisers, as well as financial credit to assist in the establishment of the cotton and sugar industries. The Germans built a hydroelectric plant at Wardak. Through German offices, Afghanistan found European markets for its exports of fruits and skins. Faced with a persistent trade deficit the Afghan government adopted the policy to boost exports while holding the level of imports to a manageable level."¹²

5. Economic Development Theory and Practice in Afghanistan

The study on the political economic history of Afghanistan indicates that during the period of 1890-1933 Afghanistan was in the first phase of traditional society as the principal modus operandi for the take-off is the mobilization of domestic and foreign savings in order to generate sufficient investment and further capital. Afghanistan had more than 80% of population engaged in agriculture, insufficient mobilization and utilization of capital, and the political power was in the hands of an elite class supported by a cruel armed force and corrupt civil servants.

Moreover, the discussions in the previous sections show no indication of the three core values of development mentioned by Todaro (1997, pp.16-17), i.e. (i) Sustenance: the ability to meet basic needs; (ii) Self-esteem: to be a person of not being used as a tool by others for their own ends; and (iii) Freedom to servitude: to be able to choose. We observe that the economy vastly remained on agriculture in terms of both occupational distribution of labor force as well as proportionate contribution to the national economy which means no major increase in the availability and widen distribution of basic life sustaining goods. The general level of living tended to be very low during the 53 years, as manifested quantitatively and qualitatively in the form of low income, poor

11 <http://www.gl.iit.edu/govdocs/afghanistan/GrowthandStructureOfEconomy.html>

12 <http://www.gl.iit.edu/govdocs/afghanistan/GrowthandStructureOfEconomy.html>

health, limited education and several other types of vulnerabilities—proposing no vast rise in the standard of living. In addition, with low production and productivity, subsistence economy, a low level of international trade highly comprised of primary goods and overall low economic activities, the country did not experience an expanded range of economic and social choices. As a result, the country with some combination of social, economic and institutional transformations failed to achieve the objectives of development. Furthermore, the policy liaised with fairly an elite ruling class and a small bunch of entrepreneurs enjoyed all the luxuries of life at the cost of workers with low wages, but there was no mechanism to minimize the great disparity between the rich and the poor. With more than 90% of the population in the rural areas, the low level of national income and high degree of inequality further resulted to greater incidence of poverty.

It is obvious that there has been little query with respect to understanding the causes of underdevelopment in Afghanistan. The different political regimes attempted to modernize the country by adopting the experiences of other nations and by applying measures like the introduction of know-how through assignments of experts, presupposition of industrialization, modernization of institutions irrespective of the cultural and social values and the needs and demands of people, etc. The purpose was to change the traditional subsistence sector of small-scale agriculture, handicraft and petty trade that had a high degree of labor intensity but low capital intensity and little division of labor into the modern sector of capital-intensive industry with high division of labor. However, the adoption of wrong industrial policy kept the output constrained.

In the course of time, it became obvious that there was more or less a treatment of symptoms instead of the causes and this deepened the intensity of underdevelopment in Afghanistan. Though researchers have blamed external factors, specifically the interferences of the British and Russian Empires as the main factors of underdevelopment, the modernization theories emphasize the internal factors in the country, such as illiteracy, traditional agrarian structure, the traditional attitude of the population, the low division of labor, the lack of communication and infrastructure responsible for underdevelopment¹³.

In the course of economic development, industrialized countries have taken many twists and turns. It would be tempting to characterize development as merely path-dependent, “historical” or unique for all countries. But this simply is not the whole story, because there are innumerable differences in how countries industrialize—just as there are similarities. For Afghanistan, this will not be different. With the exception of OPEC countries (Saudi Arabia, Kuwait, Brunei, etc.), the role of natural resources has paled in comparison to labor, capital and technology, because in most industrialized countries there are not a lot of natural resources.

Forward, backward and final linkages of different sectors are indubitably important since the agricultural, industrial, and service sectors all are complementary to one another. It is well known that countries that can develop and adapt new technologies more quickly are likely to grow rapidly. In the growth theory, it is obvious that a broad range of factors such as roads, bridges, power plants, factories, ports, mines, etc. is important for higher levels of output and development similar to the active population of a country and their productivity

13 <http://www.professor-frithjof-kuhnen.de/publications/causes-of-underdevelopment/1.htm>

which, in turn, depends on education, general health, training, etc. Thus, the basic factors of production such as capital stock, labor and natural resources are of primary focus for development remained underdeveloped in Afghanistan. This incorporates the relationships of savings, investment, population growth, sectoral expansion, capital formation, etc. in the country.

Theories of economic growth abound, and their modern theories are divided into three types, stressing one of such three factors as the civil institutions, the state, and the market. For example, according to the theory of balanced growth, the government must plan the mobilization of resources because the small-sized market and limited market activities and opportunities are features of underdevelopment. While, in this regard the theory considers shortage of capital and thus the mobilization of potential resources as main obstacles. As in traditional societies there is ability but less willingness for rational investment decision, so the sectors including the agriculture, which have close relations between supply, purchasing power and demand must be expanded. In Afghanistan with the lack of capital and entrepreneurial expertise there was another major bottle neck for development as explained by Albert Hirschman in the theory of unbalanced growth (Ellerman 1999).

Hagen (1962), who has discussed how and why achievement motivation varies between societies and their classes argues that in traditional societies “children learn to act according to established norms and deviations (initiative!) are punished. If by external influences a new group gains power, the status of the old elite is challenged and weakened”¹⁴. He further adds that insecurity and frustration leads to behavioral and structural changes and due to the society with the satisfaction, people accept new values and thus become innovative. If these persons become a dominant group in the society, this leads to economic development¹⁵. Afghanistan experienced such a situation when King Amanullah Khan and his reformist group changed the norms and transformed the institutions.

The Harrod–Domar model that follows a Keynesian framework emphasizes that factors believed responsible for economic growth such as capital stock (K), investment (I) or an increase in capital stock (ΔK), the marginal propensity to save (s), and the capital–output ratio (k). The structural form of this model where the rate of growth equals $g=s/k$ tells us that in order to accelerate the rate of growth, either one of the following two things or both must happen, namely s increase, or k decrease. In other words, the rate of saving must go up thereby increasing the amount invested. In order to raise the marginal propensity to save, saving must be incentive compatible. In the late 1920s and early 1930s, Afghanistan had started the new process of economic development as radical changes in the non–industrial sectors took place. The exports of raw material increased, a new class of businessmen emerged, and the idea of development and modernization coming from outside spread and got recognition among the elite. This phase of development in Afghanistan can be considered as the transitional stage of development explained by Rostow (1960).

At the same time, wealthier people are likely to save more than those with less wealthy. Meanwhile, in

14 <http://www.professor-frithjof-kuhnen.de/publications/causes-of-underdevelopment/1-3-2.htm>

15 <http://www.professor-frithjof-kuhnen.de/publications/causes-of-underdevelopment/1-3-2.htm>

Afghanistan the farmers, for instance, hold most of their wealth in the form of livestock that prevented the funds from transferring into other sectors (as the savings must go to the bank). It is also obvious that in order for any investment to take place, financial institutions must exist a lot. Since the inception of the National Bank in 1932, as a persistent problem there have been both the low level of saving and a tendency for high consumption in the society. For the purpose of development efficient and cheap labor is considered as an inevitable factor, however, in our study we could not find any real effort on the part of the Afghan governments that ensured creation of such labor force that is capable of maximizing the efficiency for industrial purposes. Technology that improves productivities of labor, capital and land in unimaginable ways did not emerge as a tool of development in Afghanistan, and the lack of technology has played a major role in its underdevelopment.

Meanwhile, Afghanistan as a dependent country was adopting its policies based on the interests of its economically, politically and militarily strong neighbors, i.e. the British and Russian Empires. Like other dependent states, the dependence of Afghanistan can be clearly seen in the trade theories, imperialism theories of political and economic interests, dependency theories of internal structure deformations. However, these theories concentrate on explanation of the genesis of underdevelopment and pay little attention to strategies for overcoming the situation that has further caused backwardness and downward development in countries like Afghanistan.

“Development is an exceptionally complicated issue; it is likely that no specific model or theory will always be applicable everywhere. Still, most do agree that economics and politics are intricately related. However, it is important to remember that “one-size-fits-all” approach to development will almost certainly face difficulty”¹⁶. Therefore, Afghanistan has to avoid the adoption of others’ experiences rather than modify the solutions to its needs and the socio, economic, political and cultural circumstances.

6. Conclusion and Policy Recommendations

Based on discussions from the previous sections, we find out that since the Afghan rulers lacked a vision consistent with the norms and values of Afghan masses, they could not realize their goals and could not identify their objectives, and consequently failed to formulate a set of priorities. The three factors relating to the growth theories were found to be absent or scarce during these years: (1) A high marginal propensity to save; (2) High emphasis on technology via the creation of a quality-educational system and employment opportunities; and (3) Eroding real wages. These factors combined with (1) ineffective trade policy resulting in chronic trade deficits and eliminating incentives to produce at home, (2) pervasive corruption, and (3) minimal taxation resulted in the lackluster growth of the economy.

The reason why Afghanistan’s economy failed to take off in the 1920s and 1930s along the Russian and British interferences was due to weak state and weak economy, and there was little attempt by the state to

16 <http://faculty.hope.edu/toppen/pol242/pages/theory/topic1.htm>

mobilize domestic capital for development, or even to collect taxes which were legally due. The poor educational standards, the low level of saving and trade imbalance were fundamental problems in its economy. In addition, the elite class, usurers and landowners were principal beneficiaries of the highest rural incomes, and a wide gap in income existed between the large number of the poor and small number of the rich.

Today Afghanistan is once again in the best situation, because the 9/11 incident in the U.S. has turned the attention of the international community and is no longer under the influence of the British–India or Russia as it used to be. They alone control their own destiny with a greater degree of international support. The lessons to be learned from the history can be applied to these coming years. Afghanistan is now a republic, the markets and banks are rehabilitating, and democracy has replaced the corrupt kingdom. These are only the first step, however the rebuilding of Afghanistan will not be easy unless there are firm political commitment and implementation of pro–poor policies. The government immensely needs to focus on the institutional building and laying down the foundations of physical infrastructure in the country. The promise of economic development can be kept alive only if the elements to a sound economy are preserved and nurtured.

In sum, Afghanistan’s economic development and history have undergone many phases and transformations since the missed opportunities of the 1900s. “Those who cannot learn from history are doomed to repeat it” (George Santayana)¹⁷. Thus, the biggest challenge of Afghanistan in the coming one decade will be to show how much it has learned from its past mistakes and its history itself.

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¹⁷ <http://www.wisdomquotes.com/002322.html>

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