

THE ROLE OF FOREIGN DIRECT INVESTMENT TO STRENGTHEN ECONOMY IN AFGHANISTAN

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Abstract

This paper deals with two main questions: First, what are the determinants of foreign direct investment (FDI)? Second, what is the role of FDI in economic development? In order to provide some answers to these questions, I draw out the existing impact of foreign direct investment (FDI) on the Economic Development of Central Asia particularly in Afghanistan. For doing this research I have collected data from the secondary resource. Because as it's known Afghanistan plays an important location at the central of Asia with including instable social, challenges regarding political and economic environments, liberal trade policies, and geographical holding position. The study has shown that the inflows of FDI are increasing in some countries. For example, in 1992 the inflows of Afghanistan were nothing. During 2007 it was concluded that the inflows level in Afghanistan was 289\$. In this paper it will have been concluded that the most significant profitable areas are power sector, telecom, Educations and information technology. Therefore, the paper is trying to prove that the FDI has the main sufficient function & role for the development of welfare with the way of providing welfare society. Hereby, the most important thought which bears in the mind and the paper is going to be more concentrated trying to suggest for the enhancement for FDI of Afghanistan need to remove the political instability and terrorism and should focus on the physical infrastructures.

Keywords: Foreign Direct Investment, Economic Growth, Terrorism, Central Asia, Energy rich, Infrastructures, Development Innovative Technology.

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I. INTRODUCTION

In the simple words, foreign direct investment (FDI) means; one investor invests his money in another country. Portfolio investment can be a sample as a direct investment. Foreign direct investment (FDI) has the vital role for the economic growth of economy. Foreign direct investment is the way for investors to invest at the level of domestic savings. The advantages of foreign direct investment are to attract the capital, knowledge and increase the balance of payment.

Foreign direct investment is known as the pivotal component of economy. Many studies have proved that there is positive effect of FDI on the growth of all developing and under developing countries. With the increase in the level of FDI, then there will be increased the liberalization of trade. In Afghanistan, there is needed of adopted the domestic policies for the improvement of foreign direct investment (FDI). For the attracting of foreign direct investment (FDI) there is need of friendly policies and there is need to develop the foreign investors' confidence. Based on sphere of political stability of any country can be adopted or suggested for foreign direct investment (FDI). FDI are affected by the uncertainties, such types of uncertainties become the reason of government decision. All the previous studies have proved that due to uncertainties investors do not invest in such of countries. Therefore, trade is a simple economic concept including the purchasing and retailing of goods and services with recompense paid by a buyer to a seller or the conversation of goods or services between parties. In other words, international borders or territories (Ben-Porath, 1980).

Afghanistan is getting to grow as the fastest emerging market of strategic importance close to some of the largest and fastest-growing markets in the world. Afghanistan is strategically located between the energy rich republics of Central Asia and the major seaports in South Asia providing a key transit route for central Asian oil and gas to markets in South Asia as well as overseas. Also Afghanistan has natural access to markets of neighbouring countries including important fast-growing markets such as China, India and Pakistan. Afghanistan offers a pro-business minded environment with legislation Favourable to private investments. The principles of a free market economy are incorporated in the new Constitution just as the growth of the private sector is a cornerstone of the National Development Strategy. Consequently, the President as well as the Government has focused intensely on removing obstacles to private sector development (Afgair, 2016).

The Afghanistan total area is 652864 Km², about 12% of the country land is totally arable 3% is covered by forest 46% is under permanent pastures, and the remaining 39% are mountains and estimated population of about 30 million including nomadic and returnees. The annual develop rate of population is about 2.03% while the GDP is estimated about US\$10 billion and per capita income about US\$ 415. Currently, it's changed in the structure of national domestic products; about 37% was the share of services in GDP while the share of agriculture was about 36% and the segment of manufacturing was around 24%. Due to the lack of skills, the national product is taken by the merchants to Pakistan. As compare to the pre

transitional government, fiscal, monetary, external sector and real sector are improved despite potential growth of the economy is challenged by security, corruption, Terrorism and other obstacles. Afghanistan has a great potential for further growing similar to the most developed nation of the world as it has the vast number of resources with high volume. To give a hint on the available opportunities, there is need to discuss some sample (Griffin, 1970).

Afghanistan is the richest country based in natural resources in the world; Afghanistan is remarkably rich in mineral resources. There are currently more than 1,400 identified mineral deposits. These include energy minerals such as oil, gas and coal as well as iron and copper deposits of world quality. Furthermore, known precious and semiprecious stones in Afghanistan include emerald, jade, amethyst, alabaster, beryl, lapis lazuli, tourmaline, ruby, quartz, and sapphire. Finally, great opportunities for Investments exist within the hydrocarbons industry. The Government of the Islamic Republic of Afghanistan (GIROA) recognizes that the development of a vibrant private sector is crucial to the reconstruction of an economy ravaged by decades of conflict and mismanagement. As such, it has taken significant steps toward fostering a business-friendly environment for both foreign and domestic investment. Security threats sometimes limit investors' opportunities to develop businesses in some regions, and certain sectors (such as mining and hydrocarbons) still lack a regulatory environment that fully supports investment. In the face of these challenges, Afghanistan's investment climate has shown surprising levels of dynamism in recent years. The government wants to achieve a (legal) GDP/capital of 500 USD/year by 2015. This leads to an envisaged annual growth rate of app. 90 per cent. The growth rate in the last years was about 20 per cent but this will slow down as a first "peace dividend" is paid, the agricultural growth will slow down and donor's contributions will stay at the best at current levels. Therefore, the government and the international community have put in their joint strategic paper securing Afghanistan's Future broad based economic growth at the centre of the policy. The secretive sector is in all papers called "the locomotive of growth". The objective of this research is to describe the main foreign direct investment determinants that show capital flow in Afghanistan, to explore impact of foreign direct investment determinants on economy of Afghanistan and suggest some policies through which foreign direct investment can be improved in Afghanistan. The paper is organized as follow; discuss the determinant, I turn the attention to positive effective and negative effective of FDI in Afghanistan.

2. Problem Statement:

By writing this paper, I have recognized that the causes of decrease the level of FDI from last few decades. Revealing the domestic product is the way to explain the inflows level of FDI. The studies have proved that due to inconsistent policies the level of FDI in Afghanistan is low. From 2007/08 the FDI inflows was declining in Afghanistan the reason of the losing the FDI level is terrorism.

3. Objectives:

- What are the determinants of FDI?
- What is the role of FDI in economic development?
- Reason of decreasing FDI in Afghanistan.
- How to attract the foreign investment toward the Afghanistan?
- Impact of terrorism on the FDI on the Afghanistan.
- Political instability impact on the FDI inflows of Afghanistan.

4. Research Method:

Study Area & Data collection

Nature of the study is describing that I have used the secondary data. I have taken the data from 1992 to 2007 assumption graphs; also the data has taken from books which were written on figures the explanation of FDI in economic development. The required data has been taken from various sources such as World Bank investment report, Asian development Bank's reports, various Bulletins of reserve Bank of Afghanistan, Publications from Ministry of Finance of Afghanistan that are available on internet. It's a time series data and relevant data have been taken from the period of 1992 to 2018. The study is limited to a sample of investing countries e.g. Australia, Singapore, USA. And sectors like service sector, computer hardware and software, telecommunication which had attracted larger inflow of FDI from different countries.

Determinant of FDI:

The most starting points for discussing on FDI regarding its determinants are essential features. First, being competitive in a foreign environment, a firm or company needs some ownership advantage in the form of a unique production process, a patented good or access to more intangible assets like reputation, trademarks and management system. This competitive advantage may be used to penetrate foreign markets in different ways, for a firm or company to choose FDI rather exports there must also exist some location advantage in the foreign country. Secondly, location advantage might come in different forms; firms helping at decreasing costs may be attracted by low wages, firms wishing to expand their international market share might be attracted by a large home market and so on (Dunning, 1977,1981).

Finally, given that the company or firm has decided to produce abroad it can choose between various contractual arrangements, including licensing agreement and strategic partnership. These theories predict that

there exist must some internalization advantages making ownership preferable to more arm's length these advantage typically include a greater control over technology and reduced transition cost.

FDI is commonly has been classified as vertical and horizontal.

Vertical FDI:

Vertical FDI involves a geographical decentralization of the company's or firm's production chain, where foreign affiliates in low wages countries typically produce labor insensitive intermediates that are shipped back to high wage countries. Often to the parent company's itself. Vertical FDI sometimes referred to as 'efficiency seeking' FDI, since the main motive for the investment is to improve the cost effectiveness of the company's production. For example, global supply chains are common. Capital intensive stages are located in relatively to capital rich countries, human capital intensive stages design and up market apparel are located in human capital rich countries and labor intensive stages apparel are located in labor abundant countries. Another special class of efficiency seeking FDI is sometimes referred to as 'technology seeking' FDI. In this case the attraction of the location is not necessarily the low cost of labor, but its unique competence (UNCTAD, 2001).

Horizontal FDI:

Horizontal multinational companies produce the same product in multiple plant and service local markets through meet production rather than through exports from the home country of the multinational economy MNE. Most of the global FDI is horizontal. For example, Brainard in 1997 reports that as little as 13 percent of the overseas production of US owned foreign affiliates is shipped back to the United States and that only 2 percent of the output produced by foreign affiliates located in the US is shipped to their parents. Horizontal sometimes focused to as 'market seeking' FDI the advantage of being closed to the customers may be due to factors such as transportation cost, smaller cultural barriers or avoidance of tariffs. In this case some countries are trying to use trade policy consciously in order to attract foreign investment. By erecting high tariff barriers they have made it more profitable for foreign companies to set up subsidiaries than to serve the market by export from other countries (Rosen et al, 2009).

Multinationals involved in find out or use natural resources are yet another case of FDI where there is no alternative to the local presence of the company. Endowment or helping of oil, Gas, minerals, forests and waterfalls may be the most significant attraction for international investment in a number of poor countries like Afghanistan.

Foreign direct investment transition in Afghanistan.

Afghanistan is facing the depressing position from last 20 years. Hereby, these situations the poverty of Afghanistan will be declined. Afghanistan's nation cannot afford of safe drinking and electricity, therefore, they need the foreign direct investment FDI. However, the poor infrastructure has become the challenge for all the types business. Afghanistan transitional commercial trade is trying to encourage the foreign direct

investment FDI for the investment into the Afghanistan. For the enhancement of foreign direct investment FDI in Afghanistan governments are trying to make a friendly environment here. However, it has been observed that there isn't proper data available related to FDI. During the 2008 the FDI level had recorded till 288\$. The largest investors in the world are the USA, Iran and South Africa. The main purpose or objective of this study is to provide the reason of low level of FDI in Afghanistan. We are explaining some suggestions related to improve the FDI level.

Study had proved that increase size of market has the direct link with the FDI inflows of the Afghanistan. This study has been showing that there is need of encouraging policies for the stable FDI inflows.

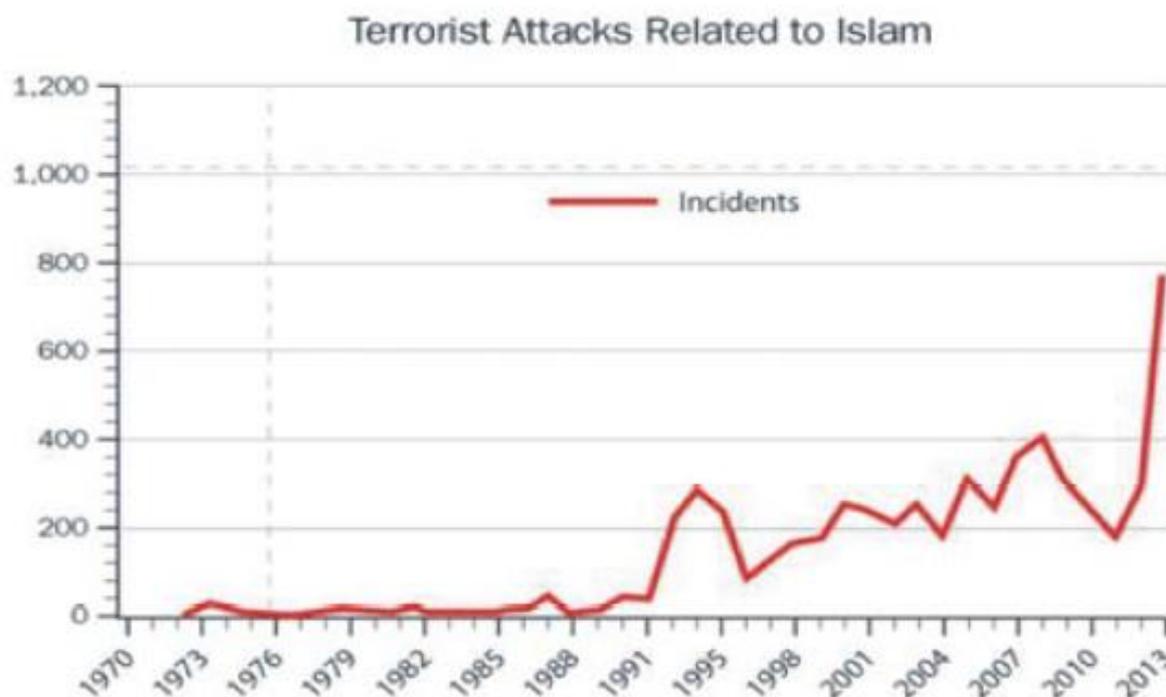


Figure: 1

J, Dunning analyzed that how the trade, financial policies effected the inflows of FDI of Afghanistan. Therefore, for this purpose they had applied the co-integration and error correction method, this study is providing that there is positive relationship between foreign direct investment FDI and financial policies effected the inflows of FDI of Afghanistan. In 1970 to 2007 they had taken the annual time series data for the specific period. This was purposely about to run the regression to check the relationship between dependent and independent variables. Their study had proved that there is high degree of relationship between trade openness and government friendly policy.

Positive Effective of FDI in Afghanistan:

Many studies have evaluated that FDI has the positive impact on the economy of the country. Many studies have found the main role of FDI on the economy of poor countries. Foreign direct investment FDI is the source of the external finance. It's seen by lack of capital, Afghanistan is facing the problem of the low foreign investment. As well as, it's showing up that foreign direct investment FDI is the way to fill up the gap

between saving and investment, it's also used to raise the revenue and productivity. Foreign direct investment FDI is also known as the catalyst for the development of the economy in a country.

Negative Effective of FDI in Afghanistan:

Different researchers have proved that there are also some disadvantages of FDI. On the base of different literatures, it has proved that FDI sometime can consider worsen. Naturally, the values of imports are more than exports for Afghanistan. FDI is more beneficial for Afghanistan by having urban area and discourage the demotic entrepreneurship. Different studies have also proved that FDI transmission towards Afghanistan economic to be developed by having lower quality. Sometimes, the technologies which have been transferred to under developing country like Afghanistan are overpriced.

Result & Decision

According to different researchers and studies FDI has the main role in the development of economy. FDI is known of the way to finance the deprived country, also foreign direct investment is known as the catalyst for the development in a country. For the poor country FDI is particularly known as the source of financing, foreign direct investment is the way to improve the gap between saving and investment, especially for the development poor countries like Afghanistan FDI is the way of financing.

During the 2008 Afghanistan inflows were 288\$. Further, in Afghanistan the major contributors were china, UAE and Turkey. There is no doubt that FDI has the main role in the opportunities of jobs in Afghanistan. Moreover, the study is providing that how much increase the FDI level as the same rate economic growth will increase. As result as, for a high growth rate we need high capital this circle is known as the various circle of economic growth. Helps are become the reason of increasing the financing of hast countries while the intangible assets are become the reason of increasing the managerial skills and role in the development of the economy. FDI is the known provide the job opportunities. Thus, increasing the FDI is the way to finance the deprived country. For the poor level is the reason of boost the poverty of all countries. A country foreign direct investment is particularly known as comparison between Afghanistan and other central Asian has the source of financing. Foreign direct investment is the proved that the inflow in Afghanistan is less than other way to improve the gap between saving and investment Countries. The study is going to suggest that both governments and foreign direct investment for having an economical Afghanistan they need to remove terrorism from the country and need investors to invest the way of financing. Many scholars have improved the domestic infrastructure. In addition, they have been provided that the flows of FDI into central Asia enhancement of FDI there is need to formulate the countries. During the 2008 Afghanistan inflows were the adequate policies.

Conclusion:

My study is showing that the main reason of low FDI in Afghanistan is the paucity of capital and lack of latest technology. Study has proved that FDI is very much crucial for the economic development of Afghanistan. Foreign direct investment is also source to provide the tangible and intangible assets to developing and under developing country. The tangible assets are become the reason of the increase the financing of recipient countries while the reason of increasing the managerial skills and provide the jobs opportunities. The study is suggested that both government and foreign direct investment policy need to remove terrorism from the Afghanistan and need to improve the demotic infrastructure. In addition, for the enhancement of FDI there is need to formulate the adequate policies.

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