

CAREC Presentation

FDI in Afghanistan

Greetings

- ADB
- Distinguished scholars
- Fellow researchers
- My name is Kevin King
- Thank you for inviting me here to represent the American University of Afghanistan
- This conference has been most helpful

Project overview

■ FDI in Afghanistan

1. FDI in Afghanistan – current stats
2. Regional Integrations Measures
3. Policies to attract FDI
4. How they tie in

■ Methodology

1. Literature Review
2. Examination of statistics
3. Interviews and surveys

■ Outcomes

1. Better knowledge of empirical data on FDI (types – determinants)
2. Evidence of positive spillovers
3. Policy recommendations to attract more and better inward FDI

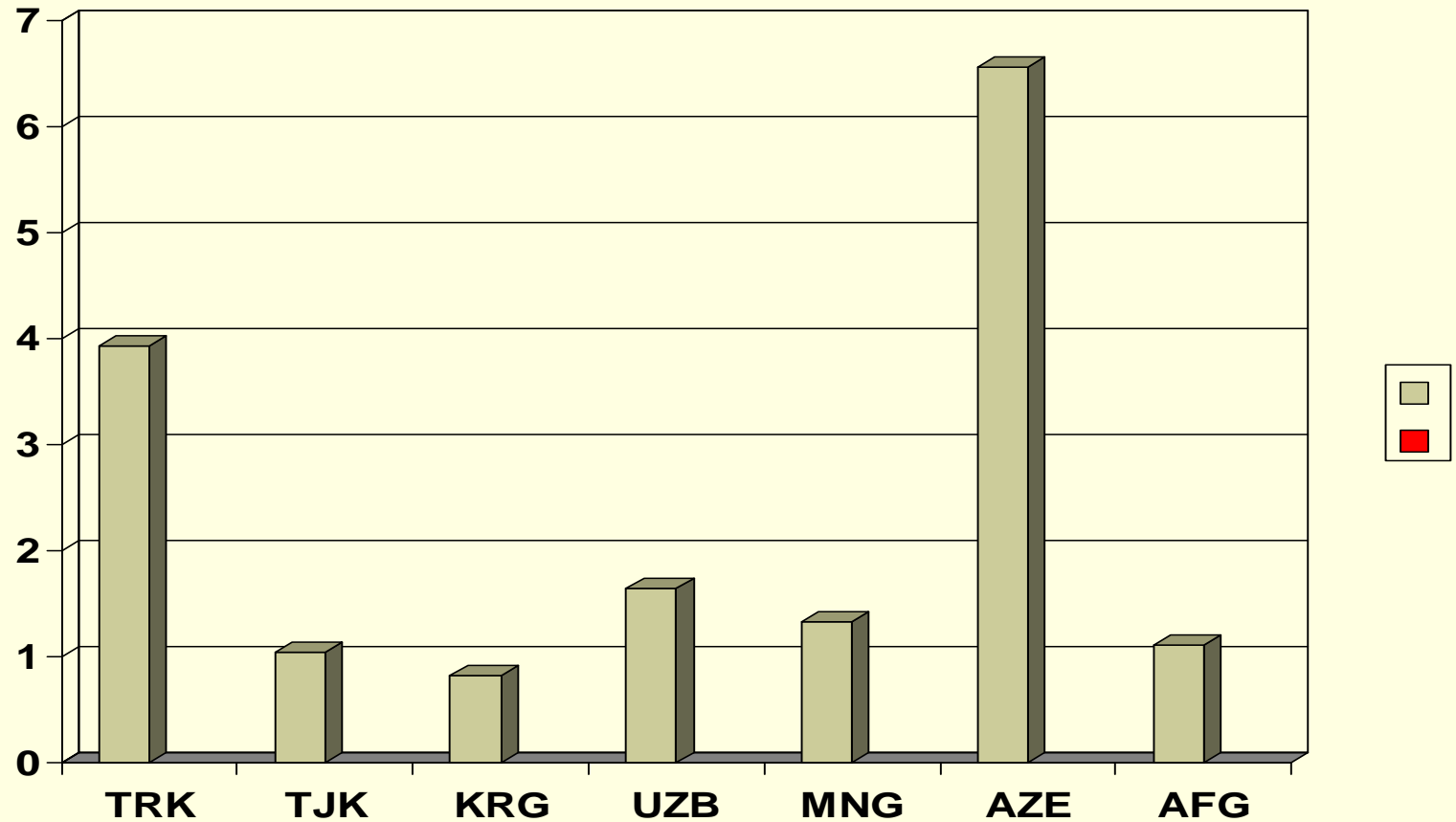
FDI

■ What is FDI?

1. The nature of Multinational Enterprises (MNE)
2. Vertical, Horizontal
3. Seeking:
 1. Resource
 2. Market
 3. Efficiency
 4. Strategic asset
4. Impact on development
5. Pathways for spillovers

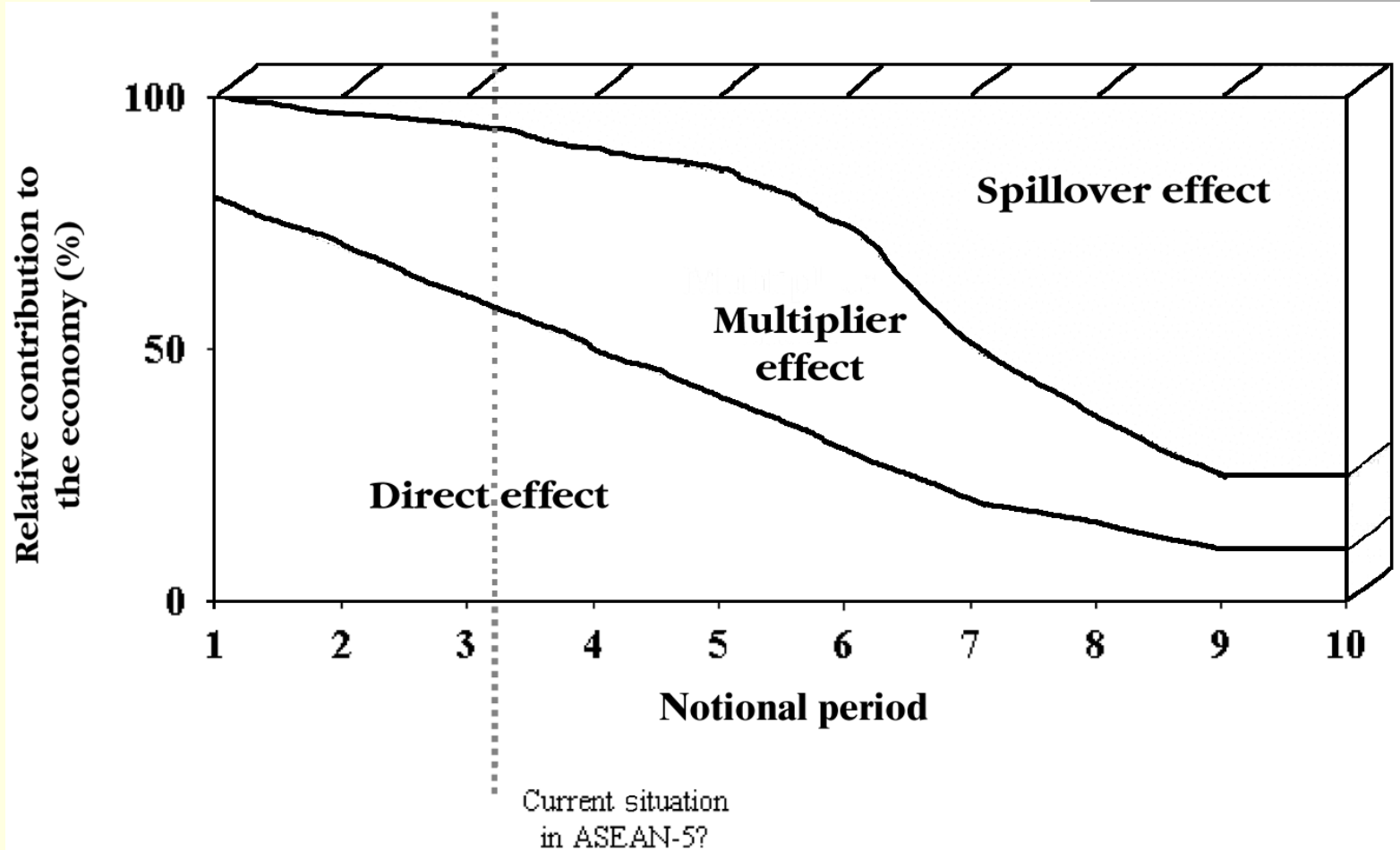
Total FDI Stock [Billions \$ US]

(as of 2007 --- Kazakhstan – \$43 Billion)



Potential for positive impacts of FDI

■ *Mirza and Giroud (2004) Regional Integration, FDI and Poverty Reduction*



FDI in Afghanistan - Priority Sectors

1. **Agriculture and agriculture-related industries**
2. **Construction materials**
3. **Telecommunication**
4. **Transport and Logistics**
5. **Mining, power and water**
6. **Low-end (labor-intensive) manufacturing**

Regional Integration

- Trend toward regionalism – last 20 years
- Regionalism and development
- Impact of RI on FDI flow
- Policies of Afghan Government to promote further integration
- Attitude of MNEs toward more regional integration

Government policies to increase FDI

- Attracting FDI
 1. Policies to make Afghanistan more Business friendly
 2. Special policies for MNEs
 - Tax incentives, full repatriation of profits
- Promoting Afghanistan as FDI destination
 1. Countries and sectors targeted
 2. Other agencies: AISA, ICC,

Methodologies

- Literature review
- Raw data
 - FDI stats
 - Current policies in place regarding FDI
 - Policies under consideration
- Interviews / surveys
 1. Government ministries, agencies
 2. MNEs
 3. Afghan companies with linkages
 4. Afghan employees of MNEs

Rationale

for methodologies

Literature review

Should give us ...

- Background to each topic; current state of theoretical and empirical research; controversy and consensus.
- What are other countries and regions doing policy-wise; are these applicable to Afghanistan
- Best practices so far

Raw data: numbers and policies

- Empirical picture of FDI in Afghanistan at the current time; evidence of trends in amounts (\$) invested, countries investing and what sectors are performing / under-performing.
- Laws, policies in place or under consideration to attract FDI: working in Afghanistan? worked elsewhere? Best practices tried or untried as of yet.
- Laws, policies to promote Afghanistan as a FDI destination: effective? What are other countries doing? Regional cooperation?

Interviews and surveys

- Clarify (if possible) any discrepancies in empirical data
- Do policies (government) match perceptions (MNEs determinants)?
- Evidence of spillovers: linkages, wages, technology, knowledge
- Ideas for further research

Deliverables

- Clearer picture of FDI in Afghanistan: numbers, countries, sectors, determinants.
- Better coordination between agencies responsible for promoting FDI
- Adjustment of policies to better reflect current perceptions of MNEs regarding investing in Afghanistan
- Improved targeting of efforts to promote inward FDI; *i.e.* countries, sectors
- Suggestions for policies to enable Afghanistan to capture more positive spillovers from FDI
- Evidence to support further regional integration

3 papers of note

1. Asadov (2007) Foreign Investment and Economic Reform in Tajikistan

This study examines the main factors influencing the decisions of foreign investors in Tajikistan, the priority areas for attracting investment, and current investment projects. Reforms and policies are suggested that would provide integral support to all three basic sources of the growth of transitional economies: foreign investment, new domestically owned firms (oriented toward the domestic market), and the export of natural resources.

2. Coskun (2001) Determinants of FDI in Turkey

The surveys' results suggest that overemphasis made by the Turkish officials on location-specific factors such as "low cost labor and cheaper inputs" and "geographical location" is a sign of mis-policy design since the major determinants of foreign direct investment seem to be factors such as "the promising Turkish economy" and "growing local market".

3. Kaynak et al (2006) A Comparative Study of Foreign Direct Investment Activities in Georgia and Kyrgyz Republic

This paper attempts to fill the knowledge gap in the area of foreign direct investment (FDI) research in the regions of Caucasus and Central Asia ... The results indicated that the FDI activity in Georgia and Kyrgyz Republic was a market-seeking type focusing heavily on location-specific attractions of the two countries ... The most serious problem influencing the performance of FDI firms was found to be inefficiency of local labor force, excessive bureaucracy and red tape.

Interviews

&

Surveys

See attachments for more
details

Interviews

■ AISA

The AISA is designed as a one-stop service for investors (domestic and foreign)

We will inquire about their work assisting foreign firms and their relationship with the government.

We will also get raw numbers on FDI from AISA

■ Government

When we interview government officials we will seek clarification on any discrepancies of the data on FDI, what measures have been enacted for regional integration, what policies are in place to improve the business climate in Afghanistan and how the country is officially promoted as a FDI destination

Survey (1)

Multinational Enterprises doing business in Afghanistan

Surveys administered to MNEs in Afghanistan are designed to get a picture of ...

1. Determinants of investment in Afghanistan
2. Attractions and challenges of doing business in Afghanistan
3. Impact (if any) of regional integration measures
4. Suggestions for improving the business climate

Survey (2)

- Afghan enterprises competing with, establishing linkages with or subcontracting with foreign MNEs in Afghanistan
- Afghan Employees of foreign MNEs

These surveys are intended to gage the impact of FDI on Afghanistan's economy and to look for evidence of positive spillovers

Thank you

... on behalf of myself, Dr. Hook and the entire community of the American University of Afghanistan for this opportunity.

I look forward to any questions, comments and suggestions.