# ‘A Virgin Market’

By Ann Marlowe

Afghanistan opens for business.

KABUL—The recent Yale graduate I was chatting with at a party here spoke Chinese and had lived in China, the seeming epicenter of all things capitalist. “Why did you decide to come to Afghanistan?” I asked. He stared at me. “This is the largest rebuilding and development effort in the history of the world. Who *wouldn’t* want to be here?”

After decades of conflict and the crippling legacies of communism and fundamentalism, Afghanistan is finally open for business. The signs are everywhere, from Kabul’s traffic jams to Mazar-i-Sharif’s building boom; from the opening of a Coca-Cola bottling plant to the country’s first private university, the American University of Afghanistan, offering programs in business administration and information technology.

According to the World Bank, Afghanistan is ranked 16th among 145 countries for ease of opening an enterprise. The Afghan Investment Support Agency, the one-stop shop for investing in Afghanistan with streamlined business registration, reports that 754 foreign companies have registered investments of $1.3 billion in Afghanistan; some well-known names include Siemens (rehabilitating dams) and Serena Hotels (Kabul’s first five-star). There are 13 private banks, including Standard Chartered Bank, Commerzbank-affiliated Kabul Bank, and ING-managed Afghanistan International Bank. A third mobile phone company, Lebanon’s Investcom, will launch service in Kabul in June, having paid $40 million for its 15-year operating license. At least $100 million will be invested in cement manufacturing in 2006.

Writers of a certain ideological stripe whine that because Afghanistan isn’t Switzerland, it’s yet another sign that the U.S. can’t get anything right. But fortunes are being made here by those who think for themselves. There are few countries, too, where Americans are as welcome. A recent BBC poll reports that 72% of Afghans see American influence as positive, as opposed to just 25% of French and 21% of Germans.

The security situation is far better than the media and the $500-a-day security companies would have you believe. British-educated Minister of Communications Amirzai Sangin notes that Americans are losing opportunities due to fears about security: “There is potential for five mobile companies here. The fact that Investcom paid $40 million for their license—and that another company is in negotiations with us now—should give you the assurance that there is security here. We have 3,700 employees in every one of the 34 provinces and to date no person has been killed or kidnapped.”

Since the kidnapping of an Italian woman in May 2005, there have been no attacks on foreigners in Kabul—no robberies, kidnappings, assaults or murders. In fact, part of the problem is that because Afghans don’t see the situation in most of their country as unsafe, they haven’t addressed the outsider perception. As a Western-educated Afghan who sees it from both sides told me, “What Afghanistan needs to do right away is to hire a good PR firm to tell people that it’s safe to come here!”

Afghanistan is also making encouraging steps toward self-sufficiency. “In 2005,” Minister of Finance Anwar-ul-Haq Ahady explained, “domestic revenue paid for more than 60% of the operating budget of Afghanistan for the year ended March 2006, up from 48% in 2005. The majority of this is from customs revenue, but we are slowly building a tax base.” According to the International Monetary Fund, gross domestic product increased 22.5% between 2002 and 2004; 14% growth is predicted for this year. The government says it will be able to fund the operating budget within nine years. The tradeoff now is balancing the IMF/World Bank goals of quickly reducing donor dependence with the need to attract large investors—and reward those who are already here.

Minister Ahady is a fast-talking, intense 54-year-old, educated in the U.S. and previously an American professor of political science. He has an unusual willingness among Afghan civil servants to court controversy. Recently, for instance, the Ministry of Finance with its USAID privatization advisers did something almost unimaginable a few years ago: They went around the country doing a roadshow explaining to Afghan businessmen how to bid for State Owned Enterprises (SOEs) being sold off. Most of these entities are valuable mainly for their land, although some are going concerns. Others have quasi-monopolistic positions that the government doesn’t want to lose but doesn’t want to run. To a nation accustomed to paternalistic and then communist rule, SOE privatization is a huge step.

Larger privatization moves are on the way. Minister Sangin, who has a substantial background in the private sector, explained that a decision will be made later in the year to either privatize or seek a strategic partner for Afghan Telecom, the sole landline phone company, which was spun out from Ministry of Communications ownership in September 2005. With a capacity for 165,000 phone lines and a so far unique ability to deliver Internet access, some experts believe it could be sold for hundreds of millions. The ministry will also be selling its 20% stake in AWCC, a successful mobile telecom company.


David Klein

In 2005, the tax system was revamped, the monopoly of the state-owned insurance company eliminated, and the battle began to eliminate the many nuisance taxes imposed by quasi-governmental entities called “tassadies.” The new laws aren’t perfect—much of the business community thinks the flat 20% tax rate is twice as high as it should be, and even the Ministry of Finance people think the insurance situation needs work. But there is a lot for business to be happy about: the most accelerated depreciation rates in the region (two years for equipment and four years for real property); 100% deductibility of dividends; and no limits on offsetting net operating losses against future earnings. As Hedayat Amin-Arsala, the genial minister of commerce, quipped, “Of course the business community would prefer that there be no taxes at all.”

Frank Chapman, CFO of Roshan, the dominant Afghan telecom company and Afghanistan’s largest company and taxpayer, says, “Given the risk environment here, the tax burden is still very high. If we had a purely profit motivation (Roshan is 51% owned by the Aga Khan Fund for Economic Development), we might not have come here, but we have been a lot more successful than we anticipated. Roshan is committed to Afghanistan’s long-term development.”

One of the most prominent Afghan businessmen, Saad Mohseni, who has started a media empire that includes a radio station, a TV station, an ad agency and a magazine, suggests a 10% tax rate and nearly no other corporate taxes. “Afghanistan’s ambitions to become a regional banking, trading and manufacturing hub could depend entirely on the taxation regime,” he says.

Nevertheless, Mr. Chapman says that “the situation has improved a lot and they are making progress; Minister Ahady has supported some very good initiatives. One of his advisors, John McDonald, has started a number of working groups between business and the ministry dealing with tax issues.”

Mr. McDonald, an eloquent advocate of the ministry’s commitment to an investor-friendly environment, explained that he’d taken a year’s leave from his Chicago practice as a Baker & McKenzie tax partner “because I felt I needed to serve my country in some capacity while it is at war.” He continued: “The big companies that are here are providing a slipstream for other businesses to come in. They are fulfilling a social goal by making a profit and showing the way. If big business is willing to stick it out, there’s tremendous opportunity here. Afghanistan is not Iraq. Kinko’s should be here. Although,” he added, “there’s no copyright law here yet.”

In Mr. McDonald’s view, the biggest barriers to investment currently are the rule of law issue—lenders can not take a secured interest in a borrower’s assets in Afghanistan, so it is much more difficult for banks to collect if a borrower defaults—and the land titling issue. Under the constitution, foreigners can only lease rather than own land, but in Kabul the titles for many properties are missing after 23 years of war. Minister Ahady is quick to add that there are major power-supply issues that will take a couple of years to iron out.

It’s worth noting, though, that while foreigners tend to stick close to the dozens of expat-oriented restaurants of Kabul, much of the real economic action takes place in the provinces, where land titles are less confused. Whereas Kabul is without power most of the day (businesses and foreigners have generators), the situation is much better in the secondary cities of Herat and Mazar. And while Afghans are lacking in education and management skills, they have a culture that values honor and honesty. First MicroFinance Bank has made 9,000 loans, and plans to double the number of loans each year. “It is likely that some of these borrowers have died, in a country with a life expectancy of 45, but somehow every loan has been repaid,” says FMB’s Bruno de Goy.

These problems are part of the price paid to enter what Minister Ahady calls “a virgin market.” Some of the things Afghanistan doesn’t have: a functioning cement factory, private planes for rent, a bowling alley, drive-yourself car rental agencies, a fast-food chain, a full domestic postal service, a plastics factory, a ski resort, a coffee shop chain or drive-in movie theaters. And Kinko’s. The obvious and not so obvious potential opportunities are enormous.

Unfortunately Americans are slow to realize this. That young Yale grad I talked to at the Kabul party is a Canadian.

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# *China’s Chance To Change Burma*

By Ian Holliday

From North Korea to Iran, Chinese President Hu Jintao made many of the right noises during his visit to Washington last week. One of the biggest gestures was Mr. Hu’s offer to put aside longstanding friendships with Pyongyang and Tehran and help curb their nuclear ambitions. But when it comes to Burma, China’s policy has yet to make a similar shift and use its influence as a force for change.

Burma’s military junta has rejected one olive branch after another from the country’s opposition party, the National League for Democracy. Just last week, the NLD—led by Aung San Suu Kyi—issued a special statement urging the junta to work together with the opposition to address the country’s growing humanitarian crisis.

Authoritarian rule, it seems, hasn’t been kind to Burma: According to the United Nations, millions of Burmese are at risk from famine, and one in three children are chronically malnourished or physically stunted.

The NLD’s latest initiative followed a February offer to recognize the unelected junta, which illegally seized power in 1988 after the military massacred thousands of prodemocracy protestors. All the NLD asked in return for this remarkable concession was that the junta allow the parliament, that was elected in 1990, finally to convene.

Without outside pressure, there is no prospect of the junta responding to these initiatives. Instead, the generals have been hardening their stance. Malaysian Foreign Minister Syed Hamid Albar was refused permission even to meet with Ms. Suu Kyi when he visited Rangoon last month as an envoy of the Association of Southeast Asian Nations. The junta told the foreign minister that she was no longer politically relevant. That followed last November’s forced relocation of government ministries out of Rangoon to the country’s new capital of Pyinmana, a remote town surrounded by jungle. A year earlier, the relatively moderate Prime Minister Khin Nyunt was purged and sentenced to a lengthy term of house arrest.

Only China is in a position to exercise the sort of influence that might make military leaders see sense. In recent years, Beijing has become one of the junta’s biggest backers. Although there are no official figures, China is widely believed to be the biggest foreign investor in Burma. On one 2003 visit alone to Beijing by Sen. Gen. Than Shwe, who heads what is officially known as the State Peace and Development Council, China offered $200 million in economic assistance.

Beijing could choose to sit back and let the junta retreat still further into its shell. That would not only lead to instability on its southern border, but undermine the more responsible international image that Mr. Hu was trying to promote in Washington. A more sensible policy would be to use the leverage provided by its investments and economic assistance to persuade Burma’s military rulers to think more seriously about national reconciliation.

The NLD has made a courageous offer to chart the way out of the present political impasse. In the long run, the best chance for a more stable—and freer—future for Burma is to pressure the junta to respond in kind.

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