Economics Briefs

Afghanistan Eliminates 80% of Opium Poppy Fields in First Year of Crackdown

The Taliban have heavily cracked down on opium cultivation in Afghanistan with dramatic results. Former opium fields are now devoted to the cultivation of grain. Citing satellite imagery, illicit drugs expert David Mansfield confirmed reports that poppy cultivation in Afghanistan has been reduced to levels not seen since 2001. In the south, it has been reduced by at least 80% in one year. "It is likely that cultivation will be less than 20% of what it was in 2022. The scale of the reduction will be unprecedented," Mansfield was quoted by the BBC as having said.

U.S. Special Representative for Afghanistan Thomas West tweeted:

"Reports that the Taliban have implemented policies to significantly decrease opium poppy production this year are credible and important. Every country in the region and beyond has a shared interest in an Afghanistan free of drugs."

On June 7, BBC reported that its own investigation of Nangarhar, Kandahar, and Helmand provinces with satellite images, show the huge decrease in poppy cultivation:

"We found a huge fall in poppy growth in major opium-growing provinces, with one expert saying annual cultivation could be 80% down on last year," BBC reported.

Alcis, a UK firm specializing in studying satellite imagery, determined that there has been a 99% reduction of poppy growing in the notorious Helmand province.

The Schiller Institute's "Operation Ibn Sina" initiative for the reconstruction of Afghanistan has emphasized eliminating opium; former UN anti-drug coordinator for Afghanistan Dr. Pino Arlacchi has explained at Schiller Institute seminars that the first Taliban government had largely done so by 2001, when the U.S. invasion and alliance with warlords brought opium cultivation roaring back.

The resurgence was no coincidence. The U.S. Institute of Peace issued a report June 8, 2023—echoed June 9 by a UN Security Council Special Report—headlined, "The Taliban's Successful Opium Ban Is Bad for Afghanistan and the World"!

China Providing Many 'Swap' Credit Lines for Non-Dollar Trade Settlements

The People's Bank of China has now established at least 41 non-dollar swap lines to provide other nations with yuan or renminbi, and the use of them rose by 20% in the first quarter of 2023, to $16 billion equivalent, according to a *Bloomberg News* report on June 6. The increase in their use since the beginning of 2022 is 115%. *Investors Observer* noted May 31: "The sudden surge in RMB demand is a strong indicator of the urgency of governments the world over to shift away from the dollar."

The small risk of renminbi fluctuations during the term of the swap line is nothing compared to the risk posed by U.S. sanctions policy. Interestingly, the *Investors Observer* also says, "The aggressive Fed policy has not been successful in dissuading an accelerating shift to the RMB," especially in China's own cross-border trade settlements. This real motivation for the Fed's rapid and sharp rate increases, needs to be understood more widely than it is.

BRICS Forming a Regional Currency But Must Go Slow, Says Former BIS Economist

The Official Monetary and Financial Institutions Forum published an analysis June 14 by a Bank for International Settlements former Senior Economist, Herbert Poenisch, about the BRICS establishing a new, "regional" reserve currency. Poenisch, an Austrian, is now a Senior Fellow at Zhejiang University. Just when the developing nations must act quickly to defeat the wave of sanctions and other trade and financial warfare threatening them from the United States Treasury and European Commission, Poenisch opines that the BRICS must take many years about it.

He reports, "The main topic of discussion [at the BRICS foreign ministers' meeting in Cape Town, South Africa June 1 —ed.] was the creation of a common BRICS currency."

Now that Russia, Brazil and China settle trade primarily in their national currencies, the "challenges" are trade imbalances, says Poenisch:

"Pegging to the renminbi and aligning their bilateral exchange rates would be the first major step. At the same time, a mechanism would have to be set up to provide credit in renminbi to countries that run trade deficits, such as India and South Africa…. China would have to shoulder the burden to keep such a clearing system afloat."

He lists, as China's responsibilities to provide a regional reserve currency: providing liquidity reserves to a [regional] currency and credit system, and making the renminbi freely convertible.

Though Poenisch usefully points to the renminbi as the BRICS regional reserve currency candidate, he seems to confuse the process which led to Bretton Woods and the dollar's gold-backed reserve role, with the process that created the euro, which eliminated the national currencies of Europe! Moreover, that Bretton Woods history shows that a reserve currency (the dollar) can remain under capital controls, as is the renminbi now. Some economists are beginning to realize that indeed, China's capital controls are not preventing the rapid increase in use of the renminbi in cross-border trade settlement, currency-stabilization loans, and investment credit for other nations.

Arab-China Business Conference Shows Shift Toward China Intensifies

The 10th Arab-China Business Conference, held June 11-12 in Riyadh, Saudi Arabia, drew more than 2,000 participants, and signified the shift of Saudi Arabia and other Gulf countries toward business and economic growth with China.

Notably, in 2022, trade between Arab countries and China surged to a substantial $430 billion, a 31% jump over 2021's level. Of that amount, Saudi-China trade was $106 billion. Earlier this year, China agreed to build a steel plant in Saudi Arabia, something that the U.S. and Britain had never deigned to do. In the last two days, 30 trade deals, worth $10 billion, were signed at the Riyadh conference. Among the highlights:

- A $5.6 billion agreement between the Saudi Investment Ministry and Human Horizons, a Chinese developer of autonomous car-driving technologies and manufacturer of electric cars under the HiPhi brand, to establish a joint venture for automotive research, development, manufacturing, and sales.
- A $250 million deal between Saudi railway company SABATACO and Chinese state-owned rail rolling stock manufacturer CRRC, to manufacture rail cars and wheels in Saudi Arabia. CRRC is China's main manufacturer of rail cars, including for high-speed and maglev trains.

The two visits to the Saudi capital, first by U.S. National Security Advisor Jake Sullivan (May 7) and then by U.S. Secretary of State Anthony Blinken (June 9), during which they reportedly advised Saudi Arabia to lessen its connection with China, seem to have fallen on selectively deaf ears. While Saudi Arabia will firmly maintain ties with the United States, it appears that the tide is shifting. On June 11, when asked about U.S. criticism of Saudi Arabia's ties with China, Saudi Energy Minister Prince Abdulaziz bin Salman said, "I totally ignore it."

The two-day conference was capped by Dilma Rousseff, President of the New Development Bank of the BRICS and former President of Brazil, who delivered the closing keynote speech. "China and Saudi Arabia have the potential to rewrite the rules of the global energy market, leading the way in diversifying currencies and embracing new models of economic collaboration," Rousseff said. She added that the China-Saudi partnership can also inspire the Global South to expand internal and external regional trade, offering great possibilities to countries currently marginalized by the traditional international financial system.

European Central Bank Officially Raises Interest Rates into a Recession

The European Central Bank (ECB) June 14 raised 3 key interest rates by 25 basis points, despite the fact that the entire Eurozone of 14 nations, for which the ECB is the central bank, is quite obviously, even officially, in recession in the last quarter of 2022 and first quarter of 2023, and European economies were stagnant under deindustrialization through 2022 before that. In its statement, released by its Managing Director Christine Lagarde, the ECB said:

"Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will be increased to 4.00%, 4.25% and 3.50% respectively, with effect from 21 June 2023."

Thus the ECB has implemented the most violent monetary squeeze in its history, raising its rate 400 basis points, or by a full 4%, in 11 months. As a consequence, mortgage loans rates are up 65%, credit to the economy has decreased, and government debt is increasing. Nonetheless, inflation within the European nations is rising again (and in the UK, not part of the Eurozone, it has again reached 10%).

But the ECB is ready to bail out bankrupt banks with extra money. To this purpose, the European Union is pressuring Italy to ratify a treaty, the Agreement Amending the European Stability Mechanism (ESM), which turns the ESM, conceived as a state-bailout fund, into a backstop for bank bailouts. Italy is the only EU member which has not ratified the reform treaty.

India Issues Credit Line to BRICS Candidate Egypt

Bloomberg News reported June 12 that India is providing Egypt with a credit line to support its economy while Egypt applies to join the BRICS group of nations and its New Development Bank. This was announced by Egyptian Supply Minister Ali El-Moselhy, who did not give the size of the nation-to-nation credit.