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Headlines:

- **'There are no Dollars': Foreign Currency Crunch Hits Egypt's Economy**
- **US Willing to Fund Afghan Border Security Say Bilawal**
- **US-China Rivalry May Shape 2023 for the World**

Details:

'There are no Dollars': Foreign Currency Crunch Hits Egypt's Economy

With foreign currency in short supply in Egypt, Rafik Clovis spent December anxiously waiting to find out whether his bank would be able to provide the $67,000 he needed to fund the import of a consignment of car parts from Europe. But by the end of the year, the dollars were still not available; as a result, his imports in 2022 were just a tenth of a normal year's amount. "Conditions are catastrophic," Clovis said. "There are no dollars and I have no idea how it will be resolved. I have five employees, and now we are surviving off what we made in previous years." The importer's predicament is shared by many businesses as Egypt struggles with a foreign currency crunch. The first three weeks of Russia's full-scale invasion of Ukraine in February led to $20bn of outflows from the Arab world's most populous country as foreign portfolio investors rushed to safe havens. Despite $13bn in deposits from the United Arab Emirates, Saudi Arabia and Qatar and another $3.3bn in asset sales to the UAE in 2022, foreign currency has remained in desperately short supply for the import-dependent country. In an effort to conserve foreign currency, the CBE placed restrictions on imports in March. The requirement to use letters of credit slowed the process and created a backlog of unfulfilled demand for dollars. It also prioritised access, placing basic commodities such as staple foods and medicines at the top of the list. The CBE cancelled the requirement to use letters of credit on December 29. The two devaluations have reduced the pound from around E£16 to the dollar to E£24.7. The black market rate is even lower. The CBE increased interest rates by 300 basis points on December 22, taking the overnight deposit rate to 16.25 per cent. The rise surpassed analysts' expectations and reflected increasing concern about inflation and the falling pound, according to London-based consultancy Capital Economics. Businesses from poultry farms to car manufacturers have been badly hit in a country that imports most of its food and many of the inputs for its industries. As policymakers ponder when and how to move to a flexible exchange rate regime where the value of the pound is not propped up by the CBE, entrepreneurs complain they have no visibility on the future."We are working day by day," said the head of a poultry-based business who complained that shipments of grain, mainly soya and corn, used for feed, were stuck at ports because of the dollar shortage. "Every day we have to find feed, and we sometimes run out and the birds are not fed." He said the agribusiness had had to "depopulate" some flocks by selling birds at a loss before the age at which they were usually sent to market. "The price is way below cost and we know some of our competitors have had to kill chicks," the executive said. The "substantially" lower supply of chickens being sold for meat had increased prices by more than 50 per cent, he added. Mohamed Abu Basha, head of macroeconomic analysis at Cairo-based investment bank EFG-Hermes, said the shift to a flexible exchange rate could not “happen overnight” and that the authorities needed to “ideally first build up a buffer of foreign currency to help clear the backlog of demand” before moving on the exchange rate. Farouk Soussa, economist at Goldman Sachs, outlined the difficult options facing Cairo as it sought to build up liquidity to deal with near-term demand for dollars. “The CBE could clear the market by continuing to raise rates, floating the currency and restricting the money supply, but the implications for prices and growth are problematic,” he said. “The authorities’ preferred option is to wait for inflows from the Qataris, the Emiratis and the Saudis to buy assets in Egypt, but that is also uncertain.” As policymakers weigh up the options, the outlook for many businesses is uncertain. A senior manager in a multinational auto components company said his business had fared better than most because it was also an exporter, giving it access to foreign currency. But those reserves were being depleted and the company was unsure whether to accept new orders. “I am not certain that I’ll be able to clear imported inputs for a new order and have to pay thousands in [holding fees] as I wait for dollars,” he said. “If my supplier abroad agrees to defer payment and I can get the goods out of the port, maybe the dollar will have gone up by the time I have to pay.” [Source: Financial Times]

Egypt, like Pakistan, has a narrow export driven economy, which will always flounder when economic shocks (covid-19, shortage of grain, etc.) occur. Unless these countries abandon the Washington Consensus and re-establish economic self-sufficiency, they will remain dependent on hard currency and at the mercy of the IMF. This can only happen under the protection of the Khilafah Rashidah (rightly guided Caliphate) that Muslims must re-establish.

US Willing to Fund Afghan Border Security Say Bilawal

Foreign Minister Bilawal Bhutto-Zardari has said the United States is willing to provide Pakistan funds to enhance border security for preventing cross-border attacks from Afghanistan. Responding to queries from Dawn, the foreign minister said that during his visit to the US Congress last week, two senior senators — Bob Menendez from New Jersey and Lindsey Graham from South Carolina — told him that they were provided “funding in the 2023 budget to help us with border security”. Senator Menendez chairs the Senate Committee on Foreign Relations while Senator Graham, a senior Republican, heads the Senate Committee on Judiciary, Mr Bhutto-Zardari said, while emphasising the strong standing of the two lawmakers. Responding to a question about the US offer of help to improve relations with India, Mr Bhutto-Zardari said: “They never brought up India other than in public statements.” At a news briefing in Washington on Dec 19, US State Department’s Spokes-person Ned Price noted Afghanistan-based terrorist groups like the outlawed Tehreek-i-Taliban Pakistan have recently increased attacks on Pakistani targets and offered help to Islamabad to deal with the “increasingly dangerous threat”. “We have partnered with our Pakistani friends to help them take on this challenge. We stand ready to assist, whether with this unfolding situation or more broadly,” Mr Price said. [Source: The Dawn]

It is astonishing to find Pakistan’s political class so enamoured by Washington that it continues to seek Washington’s help. Anyone with a modicum of common sense can see that before America entered the region, Pakistan did not have a security problem with Afghanistan. But since the 80s, the security problems have grown due the failure of Pakistan’s political class to look for solution beyond the

confines of American foreign policy goals. It is time for a new political class to emerge that is sincere to Islam and the people and will put the interests of the ummah first and foremost.

US-China Rivalry May Shape 2023 for the World

The great competition between the US and China—which only intensified in 2022—will likely be the most important theme of the coming decades, longtime global economy watcher Stephen Jen has rightly said.

Europe's position is perhaps the fulcrum of the competition next year. Xi Jinping's relationship with Vladimir Putin placed a significant strain on China's ties with Europe after Russia's invasion of Ukraine. But by year-end, Germany's chancellor visited Beijing, and France's president is expected there soon. The European Union has in some ways tightened ties with the US as they united against Kremlin aggression, but tensions between the two have also flared. With India leading the Group of 20 in the coming year, Washington may discover whether its dream of reducing China's role in global supply chains via friend-shoring is realistic. And, ultimately, how successful China is in reviving economic growth, especially given the health catastrophe triggered by Xi's abrupt end of "Covid-zero," will be a decisive factor in its rivalry with the US, as well as shaping the views of the rest of the world. Beijing's longstanding desire for Europe is that it hew to a line of "strategic autonomy" and not ally with the US in a way that would damage China's vital economic interests. The EU is roughly equal to the US as far as its export market is concerned, and a big source of investment in China.

Europe has often lived up to that hope. Chancellor Olaf Scholz's recent visit (along with an entourage of German business leaders) highlighted how the biggest European economy isn't embracing any broad economic decoupling. Italian Prime Minister Giorgia Meloni even told Xi in November that she wants deeper trade ties with China. Xi has also sought to address European angst over China's friendship with Russia, a Beijing ally that has spent the past 10 months killing tens of thousands of Ukrainians while destroying the country's infrastructure. Xi told Scholz he opposes the use of nuclear force in Europe (a prospect repeatedly mentioned by Putin and his adjutants) and recently said he wants to see talks to end the war. But 2022 wasn't all good news for China when it comes to the EU. European leaders said they share US concerns about its human-rights record, including the forced detention of a million Muslim Uyghurs in Xinjiang. And in the economic field, there are increasing EU worries about a surge in imports of Chinese-made vehicles. Some 11% of the electric vehicles sold in Europe during the first three quarters of 2022 came from Chinese automakers—up from just 2% in 2020. Finally, there is division within Europe over the attractiveness of Chinese investment. Germany's cabinet was split over a Chinese state-owned shipping conglomerate's bid for a stake in a Hamburg container terminal. There was however no such open disagreement over sales of two chip facilities, which Berlin blocked in November. [Source: Bloomberg]

China is likely to find no allies amongst great powers or even regional powers like Turkey, India or Brazil. Subsequently, Beijing will have to deal with America alone and this will pose problems for Xi in the foreseeable future. The only way for China to upend the US order in the Asian Pacific and the world is to take Taiwan by force. Anything short of this is unlikely to impede America's entrapment of China.