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# Economics Briefs

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## Economic War on China

In a long *Washington Post* piece Jan. 5, British CFR senior fellow Sebastian Mallaby gives a precise description of the intended blunt-force economic war of the Biden Administration on China:

“The plan that Biden’s strategists have chosen is shocking in its boldness. At its heart is the embargo on semiconductor exports announced in October and extended in December.... Biden has blacklisted large chunks of Chinese industry.

“The administration’s semiconductor export ban operates on four levels. First, it prohibits the sale to China of both advanced semiconductors made in the U.S. and advanced chips made in other countries with the help of U.S. inputs. Chips are at the core of modern economies, with the most advanced ones being used in everything from sophisticated communications equipment to artificial intelligence. Because most chip makers around the world rely on U.S. software or other U.S. technology, they dare not ignore the ban. China will therefore lose access to nearly all foreign suppliers.

“Next, the Biden team has targeted China’s ability to produce its own semiconductors. This builds on a precedent from 2018, when the Trump administration successfully lobbied the Netherlands to prevent the Dutch firm ASML, the leader in semiconductor lithography, from selling its most advanced gear to China. The Biden administration now aims to widen the net. U.S.-based suppliers of chipmaking equipment will be banned from

selling to China. Foreign ones are under pressure to follow.

“Third, denied advanced chips and chip-making gear, China will inevitably seek to develop its capacity to build chip-manufacturing equipment. The Biden administration has also targeted that option. The export ban extends to U.S.-made components that China might use to make advanced chipmaking machinery.

“Finally, the embargo prohibits U.S. citizens, Green Card holders, foreigners living in the U.S., and U.S. companies from working with China’s semiconductor sector. This restriction has already hit its mark. Chipmaking equipment often requires maintenance every few days, but Western suppliers have abruptly stopped servicing their fabrication equipment in China. Hundreds of engineers, many of them Chinese American, have been forced to choose between their passports and their jobs.”

Mallaby concludes that Biden’s statements that, “We are not seeking a new Cold War” are for show, and that he is determined to “beat China.”

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## How Green Finance Backfired

A Dec. 27 syndicated article by Rupert Darwall, reproduced by RealClear Energy and elsewhere, documents how ESG and Green Finance have backfired and are possibly already dead. ESG (Environmental, Social, and Governance) investments can work against market laws only through strong government subsidies that provide a margin for investors.

That did not occur in 2022: BlackRock’s ESG Screened S&P 500 ETF

lost 22% in 2022, whereas “fossil” S&P 500 Energy Sector Index rose 54%.

The reason, writes Darwall:

“If you restrict the flow of capital into a sector producing stuff that people want and are willing to pay for, the price of the output of a capital-embargoed sector will rise, as will the value of its invested capital.

“This, in essence, is what has been happening in energy and capital markets over the past year and explains why ESG as an investment strategy does not work. In the absence of draconian government policies to suppress demand for oil and natural gas, ESG policies strangling the supply of capital to Western oil and gas producers have two effects: they push up the price of hydrocarbons; and they displace supply from Western producers to neutral or hostile ones, with major detriment to the economies and security interests of the West.”

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## A New Monetary System Is a Matter of Productivity

*Al-Mayadeen*, the Arab satellite news channel based in Lebanon, ran a long and thoughtful [analysis](#) on de-dollarization Jan. 1 by Janna Kadri, titled “De-dollarization: Slowly but Surely.” Worth reading in full, it proceeds through these steps:

First, China and Russia have already in part shifted the ground under the U.S. dollar’s reserve supremacy.

“Instead of theorizing that money depends on real production capabilities, fiat money is said to depend on a capitalism of futurity and a tradability of debt. Although the U.S. accounts for less than 20% of world output, faith in

the depth of its financial market and its credibility in the future as a state, account for it covering the credit necessary for much of global transactions and savings.... If the capacity to destroy and to infuse instability abroad are counted as production, then ... the U.S. accounts for much more in production than the merely 20% it registers in its national accounts as GDP. Much of global output depends on the U.S.' control of strategic resources and global chokepoints, ... military bases, and its capacity to destroy its foes."

But essentially, Russia and its BRICS-plus partners have already rearranged and, to a significant extent, broken this control of trade and commodities.

Second, "China was not only able to propel its entire population to higher standards of living, but also assisted others in doing so. Through its Belt and Road Initiative (BRI), China promoted infrastructural ventures in some of the world's poorest economies in a way that complemented their productive assets in facilitating productivity, growth and economic mobility."

And finally, as to "de-dollarization" itself: "China's BRI is the gateway to transforming U.S.-denominated money capital into real capital.... The Chinese-funded BRI, which turns China's saved U.S. dollars into Third-World plant and equipment, turns U.S. bonds into weapons against the U.S."

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## **China, Argentina Expand Already Large Yuan Swap Agreement**

China and Argentina announced an agreement Jan. 8 effectively doubling the already large yuan swap-line deal which has existed between them since 2019. The swap line—through which it is likely that only Argentina's central bank borrows renminbi from China's central bank—was increased in January 2022 by ¥130 billion (equivalent to

about \$20 billion); then it was increased in November 2022 by an additional ¥35 billion; and with Sunday's announcement, another "reinforcement of international reserves by ¥130 billion and a special activation of ¥35 billion" for currency support operations.

Due to the U.S. Fed's interest rate policy and the resulting great increase in the exchange rate of the dollar relative to developing sector currencies in late 2021 and 2022, which caused a 40% devaluation even in the official rate of the Argentine peso, this yuan swap line has become a credit line for Argentina's imports, which Argentina's businesses could otherwise not get or would have to pay for in dollars. The yuan's exchange rate with the dollar has dropped during that period, but by only about 8%, and since Dec. 1 has begun to recover some of that loss. The renminbi or yuan is becoming a major reserve currency in Argentina, as it is in Russia and South Africa among the BRICS nations.

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## **Beijing, Kabul Sign 25-Year Afghan Oil Development Contract**

China and Afghanistan signed a 25-year contract Jan. 5 for Chinese oil exploration and refinery development in the Amu Darya Basin in northern Afghanistan. The Xinjiang Central Asia Petroleum and Gas Co. (CAPEIC) is to invest, in dollar terms, up to \$150 million in the first year, and then \$540 million over the next three years, for exploration, and for refining capacity to be built in Afghanistan.

This marks a milestone in the Islamic Emirate of Afghanistan's (IEA) stated intent to move toward national economic self-sufficiency, despite the current desperate conditions, sanctions, and lack of recognition. The deal was signed in the presence of the Chinese Ambassador to Afghanistan,

Wang Yu, and IEA Deputy Prime Minister for Economic Affairs Mullah Abdul Ghani Baradar.

Baradar stated that the deal will "strengthen Afghanistan's economy and increase its level of oil independence," according to reports in oil media, which see daily oil production starting at 200 tons, then rising to 1,000.

The exploration will focus on 5 blocks in a 4,500 km<sup>2</sup> area in the north, estimated to hold 87 million barrels of crude oil, according to past assays. This region is continuous with the known and developed oil and gas fields of Turkmenistan, in the shared Amu Darya Basin, and to the east in the Afghan-Tajik Basin.

Until its domestic oil and gas infrastructure can be developed, Kabul has sought to secure interim arrangements, despite payment and other difficulties. For example, in July 2022 Kabul signed a deal with Iran to purchase oil.

Work went on in Afghanistan's Amu Darya region in 2011–2012 but was suspended under the aversive geopolitical conditions of violence and impossible investment environment in the last decade. Exploring in the region, Exxon estimated at that time that the Afghan natural gas reserves were comparable to half those in Iraq. The Chinese National Petroleum Co. (CNPC), the parent firm of CAPEIC, contracted in 2012 with the U.S.-backed Afghan government for oil and gas field development, but the Ashraf Ghani government (2014–2021) halted it. Among the nominal issues cited were the work delays by CNPC.

The new contract is reported to have a clause terminating the deal if CAPEIC fails to meet contractual obligations within the year. This was negotiated strenuously in recent months. The new agreement shows the commitment to move ahead on development in Afghanistan, a common benefit to the entire Central Eurasian region.