In the Name of God, the Most Merciful, the Most Kind

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BSA: Misconceptions and Unrealistic Expectations

Afghanistan and the US signed the Bilateral Security Agreement on September 30, 2014. This Agreement is considered as a framework for American troops to remain in Afghanistan and provides a strategic basis for improving the US-Afghan relations.

Recently, some Wolsi Jirga members called for review of the Bilateral Security Agreement with the U.S. over deteriorating security situation in the country. It is not the first time that BSA implementation is under question, because many Afghans including the prominent politicians attribute the security deterioration in Afghanistan to the BSA with the U.S. As a result, it is necessary to have a realistic understanding of BSA and the mutual responsibilities that the US and Afghan government have in the Strategic Policy framework of BSA.

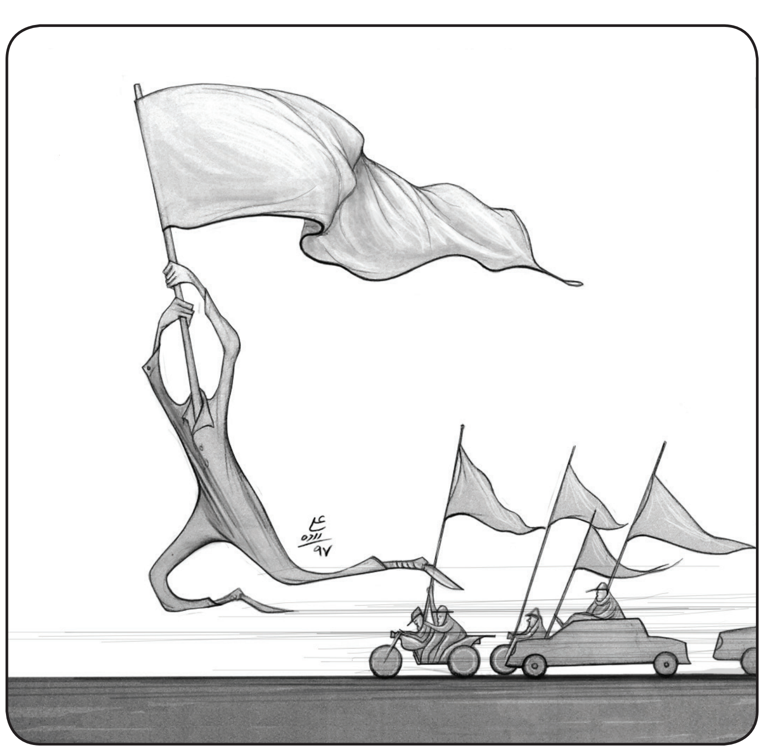
Based on the BSA the United States has designated Afghanistan as a major Non-NATO Ally. Based on such designation Afghanistan can participate in US. Defense Department research and development projects, preferential access to US military surplus supplies, the use of loans to finance weapons purchase, and expedited applications for space technology exports and the US provide $6 billion to the Afghan security forces annually . In addition to this, the designation has a powerful symbolic value for Afghanistan: It is a public affirmation of Afghanistan's affiliation with the US, a global badge of American approval. However, this designation does not technically carry out a security guarantee or legally obligate the United Sates to come to defense of Afghanistan, label of "ally" only implies this.

One of the main criticisms of Afghan people and politicians of BSA is that MNNA is merely symbolic, and does not obligate the US to defend Afghanistan if attacked by a third party. Also, The Agreement won't, however, be a help in any future U.S.-Iran war, as it expressly prohibits the U.S. from using Afghan territory to attack another country. So, when Afghanistan does not allow the US to attack any country from its soil, how it can expect the US to defend it, if attacked by a third party? Though Afghanistan is now in the same category as Japan, Australia, Israel, and Pakistan. However, the US has never supported Afghanistan as Japan or Israel. However, the the United States have been training and equipping the Afghan National Security Forces "consistent with NATO standards and promote interoperability with NATO forces.

Of course, the BSA provisions convey a relatively strong U.S. commitment to Afghan security. If BSA is implemented fully, it is envisioned that the Afghan Army could become one of the key developing-world partners and force-multipliers for U.S. and Western military forces in contingency and peacekeeping operations. Afghanistan could become a partner, providing the manpower for peacekeeping missions that Western nations are willing to fund but not man, in exchange for which the Afghans get valuable operational experience and funding.

Many Afghan people and politicians consider the BSA as a full-fledged mutual defense treaty. They expect BSA obligates the United States to treat an attack on Afghanistan as an attack on itself. And this is totally a wrong understanding and expectation from the BSA. It is difficult to envision Americans to accept a defense treaty that obligates US intervention in South Asia in perpetuity when most no longer welcome their actual intervention in Afghanistan to fight a war that three presidents have argued is vital to their national security.

Generally, Afghan people consider the BSA very vital for Afghanistan security and economic stability. They assume it as a strategic framework they have been waiting for decades. It has provided a legal base for the presence of the US in Afghanistan that is vital to tackle the current challenges and help Afghanistan to reach a lasting peace.



The factors behind Afghani devaluation

By Mohammad Zahir Akbari

In few last year, Afghan currency has been steadily losing its value against foreign currency, especially against USD but recently it has suddenly fallen from 73 to around 77. This issue is not only a concern to the Afghan exchangers community but has affected the daily life of people. According to experts, there are different factors behind the problem such as insecurity, high demand of dollar, hoarding and over all the dollarized economic system in the region. Da Afghanistan Bank (DAB), Afghanistan's central bank, blames the fall of the Afghan currency on the profiteers who are hoarding foreign currency.

He also cited the hike in the US value and high demand of the USD in Iran and Pakistan and decline in Iranian and Pakistani currency as other reasons behind the soaring USD value in Afghanistan. Other factors such as trade deficit, low domestic production and political instability and insecurity further contribute to the decline in Afghan currency. However, the official from DAB assured that profiteers involved in currency hoarding would be identified and brought to justice. We are capable to address the situation," said Seddiq. He added that they do not have the legal right to control the currency but when hoarding or profiteering is involved they would interfere. He also announced offering USD 32mn to the market for keeping the Afghani currency stable.

Following this, officials in Herat informed that police have arrested some culprits who were engaged in smuggling US dollars to Iran. "Serious steps have been taken against the smuggle of foreign currencies in Herat province, fortunately, in last two or three months, 13 individuals have been arrested on charges of smuggling dollars to neighboring countries," quoted from the provincial governor's Spokesman Jilani Farhad. According to the estimation of the provincial Money Exchangers' Union, up to four million USD are smuggled to Iran every day in Herat province.

"Since the imposition of sanctions on Iran by the United States and the fall of Toman (rial) against other foreign currencies, a lot of Afghan citizens have been taking large quantities of dollars across the border," as quoted from Bahulludin Rahimi, president of the Federation of Money Changers of Herat.

Also quoted from Head of exchangers union, dollars have also been transferred to Iran through legal channels by some individuals in Islam Qala – a border town in Herat province near the border with Iran. It increased after Iran's rial has lost 40 per cent of its value since President Donald Trump's decision on May 8 to pull the United States out of Iran's 2015 nuclear deal with world powers and re-impose tough economic sanctions on Tehran.

Many Afghan traders are taking advantage of the cheaper rial and importing goods such as cooking oil, biscuits, foodstuffs and various non-alcoholic drinks that they can sell at a higher price at home. Increasingly however, the profit that can be made on arbitraging the difference in the exchange rate on either side of the border has been significant enough to make it a business in its own right.

As a result, everyone in Afghanistan is concerned about the fast depreciating value of the Afghani against dollar. They believe further decline in the Afghani may more intensely harm people's lives and small businesses because they are the ones who use Afghan currency and pay the rising price for goods on the local markets. For example, about one month ago the price of one kg gas was about 50 Afghani but now it has increased up to 65 Afghani; A bag of 59 kg of flour was 1100af but now it is 1350 Afghani.

The economic commentators say that government must stop people from smuggling dollars to neighboring countries. Government needs to come up with a comprehensive policy to control forex bazars, because the decrease of dollars on the market poses serious harm to those with a low income. If this trend continues, there will be a huge shortage of foreign currency in the country and further devaluation of the Afghani. However, it seems too hard to control the trend because Afghanistan has a cash economic system.

Thus, economic experts believe that the insecurity, reliance on imports, the dependent economy, and the US economy growth are blamable factors for why the dollar value has increased against the Afghani. Afghanistan is an importing country and regularly the money goes out of the country while domestic exports are lower, it cannot return the paid money to the Afghan market. In fact, the currency policy is all economic policy which affects the supply and demand of currencies, in particular the exchange rate of domestic currency against foreign currencies. Other countries, rarely allow to use direct-policy (Direction Action) using the Auction tool, but the central bank has relied on this policy inappropriately.

By and large, the Afghan government needs to devise a long-term and comprehensive plan to increase national income, stop smuggling, and increase domestic production and exports to maintain the national currency stable. More importantly, we should note that the essential solution to increase the value of the Afghani against the foreign currency is to improve our economic strength and national. If we fail to pay attention to this important issue, we would regularly fail to control the trend as failed in the past. As a result, the high exchange rate will directly reduce the living standards of people and their purchasing power.

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China Struggles with Belt and Road Pushback

By James M. Dorsey

China, in an implicit recognition that at least some of its Belt and Road-related projects risk trapping target countries in debt or fail to meet their needs, has conceded that adjustments may be necessary.

"It's normal and understandable that development focus can change at different stages in different countries, especially with changes in government. So China can also make some strategic adjustments when co-operating with these countries, but it's definitely not a reconsideration of the B&R (Belt and Road) initiative," Wang Jun, deputy director of the Department of Information at the China Center for International Economic Exchanges told the Chinese Communist Party's Global Times newspaper.

The Chinese concession, initially made public in an August 27 speech by President Xi Jinping and reaffirmed by the Global Times. came in the same week that Pakistan during a visit of Chinese foreign minister Wang Yi demanded that China expand its US$50 billion plus investment in the China Pakistan Economic Corridor (CPEC), the single largest country infrastructure investment related to the People's Republic's Belt and Road initiative, to include manufacturing and poverty reduction projects.

The change in China's approach towards Belt and Road would in the case of Pakistan involve a substantial recast of CPEC that appeared to position Pakistan as a raw materials supplier for China, an export market for Chinese products and labour, and an experimental ground for the export of the surveillance state China is rolling out, particularly in its troubled north-western province of Xinjiang.

The focus of Chinese investment takes on added significance as Pakistan weighs options to solve its financial crisis, including a request for up to US$12 billion in assistance from the International Monetary Fund (IMF) that would involve a straightjacket for structural reform.

An IMF assistance package would require Pakistan to provide chapter and verse of the finances of Belt and Road-related projects that have so far been kept under wrap.

Mr. Wang, the foreign minister, seemed despite the statements suggesting change, cautious in his response to the Pakistani demands. He indicated that expansion, if not re-orientation of CPEC, would not be immediate. "The two sides have agreed that the CPEC cooperation will gradually shift to industrial cooperation," Mr. Wang said during his visit.

Pakistan was not the only country that was pushing back at China's approach towards the Belt and Road. Nepal joined Pakistan last November in withdrawing from dam projects because of China's commercial terms.

More recently, protests against the forced resettlement of eight Nepali villages have apparently persuaded CWE Investment Corporation, a subsidiary of China Three Gorges, to consider pulling out of a 750MW hydropower project. CWE said it was looking at cancelling the project because it was "financially unfeasible."

Malaysian prime minister Mahathir Mohamad has suspended or cancelled US$26 billion in Chinese-funded projects since his election victory in May.

Similarly, Myanmar is negotiating a significant scaling back of a Chinese-funded port project on the Bay of Bengal from one that would cost US$ 7.3 billion to a more modest development that would cost US$1.3 billion in a bid to avoid shouldering an unsustainable debt.

China has written off an undisclosed amount of Tajik debt in exchange for ceding control of some 1,158 square kilometres of disputed territory close to the Central Asian nation's border with China's troubled north-western province of Xinjiang.

Zambia, following in the footsteps of Sri Lanka that was forced to give China a major stake in its port of Hambantota because it could not service its debt, saw itself this month left with no choice but to hand over control of its international airport as well as a state power company.

The concession is part of a concerted effort to downplay the geopolitical nature of the Belt and Road initiative and stress its sustainable development and job creation aspects.

Ray Washburne, president and CEO of the Overseas Private Investment Corporation (OPIC), an intergovernmental agency that channels US private capital into overseas development projects, earlier depicted the Belt and Road initiative as a ploy to ingratiate itself with other countries by funding infrastructure projects.

China "is not in it to help countries out, they're in it to grab their assets," Mr. Washburne said. He charged that China was intentionally plunging recipient countries into debt, then going after "their rare earths and minerals and things like that as collateral for their loans."

That view persuaded Greenland this month to select a Danish rather than a Chinese company to build and upgrade three airports.

"The big fear is that even a small Chinese investment will amount to a large part of Greenland's GDP, giving China an outsized influence that can be used for other purposes," said Danish foreign and defence policy scholar Jon Rahbek-Clemmensen.

Mr. Rahbek-Clemmenen's concern reflects a widespread belief that the sheer scale of Belt and Road, involving up to US$1 trillion in investments in scores of countries across the globe lends it significant geopolitical attributes irrespective of what Chinese leaders may have had in mind.

A recent study by the Washington-based Center for Strategic and International Studies (CSIS) argued that the Belt and Road is driven by "interest groups within and outside China (that) are skewing President Xi's signature foreign policy vision." The study argued that the positioning of the initiative persuaded Chinese local and regional authorities as well as companies to brand their activities as Belt and Road-related to gain economic and political advantage.

Earlier, the Washington-based Center for Global Development warned that "there is…concern that debt problems will create an unfavourable degree of dependency on China as a creditor. Increasing debt, and China's role in managing bilateral debt problems, has already exacerbated internal and bilateral tensions in some BRI (Belt and Road initiative) countries."

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