

The Fentanyl Crisis

The fentanyl crisis poses one of the greatest challenges to the US today. The drug is responsible for approximately 200 deaths per day in the US, and over a quarter of a million Americans have died from a fentanyl overdose since 2018. It has now become one of the leading causes of death in the US, with the most significant impact on the younger generation. There are strong parallels to the 200-year-old Opium Wars in China, where the country experienced rising addiction levels to opium, a decline in labour productivity and the eventual fall of the Chinese Empire, causing the nation to lose its position as one of the world's leading superpowers. The question then arises: Does the US face a similar fate due to its current opioid crisis?

Tea and opium as trading pairs

During the 1830s, the British spent around 5% of their monthly budgets on tea imported from China. Tea, as well as other goods like silk and porcelain, were highly profitable for British merchants who sold them in their domestic markets. However, the Chinese authorities refused to accept British goods in exchange, leading to a trade deficit that had to be funded through the payment of silver. In fact, the Chinese government's protectionist policies were so strict that foreigners were not allowed to learn the Chinese language, Mandarin or Cantonese, and were forced to trade at a limited number of heavily regulated and controlled Chinese ports.

By the beginning of the 19th century, the British stockpiles of silver reserves were close to being depleted and British merchants were forced to consider an alternative means of exchange for Chinese imports. They turned to the illegal trade of opium.

The Chinese had long used the drug as a form of treatment of pain in traditional medicine, but soon its use turned recreational as the drug was smuggled into China first by the British and then US merchants. The impact was devastating, and it was estimated that 10% of the Chinese population was addicted to opioid substances by the mid-19th century, disproportionately affecting the younger generation.

This led to a major weakening of the Chinese labour market, which for an agricultural and manufacturing-based economy, was detrimental to the country's future growth trajectory. It also had an impact on the country's balance of trade, where suddenly the Chinese were importing more than they were exporting. This had ramifications for their currency, which devalued along with the decline in its silver reserves. The British could now finally afford their indulgence in tea served in Chinese porcelain cups¹.

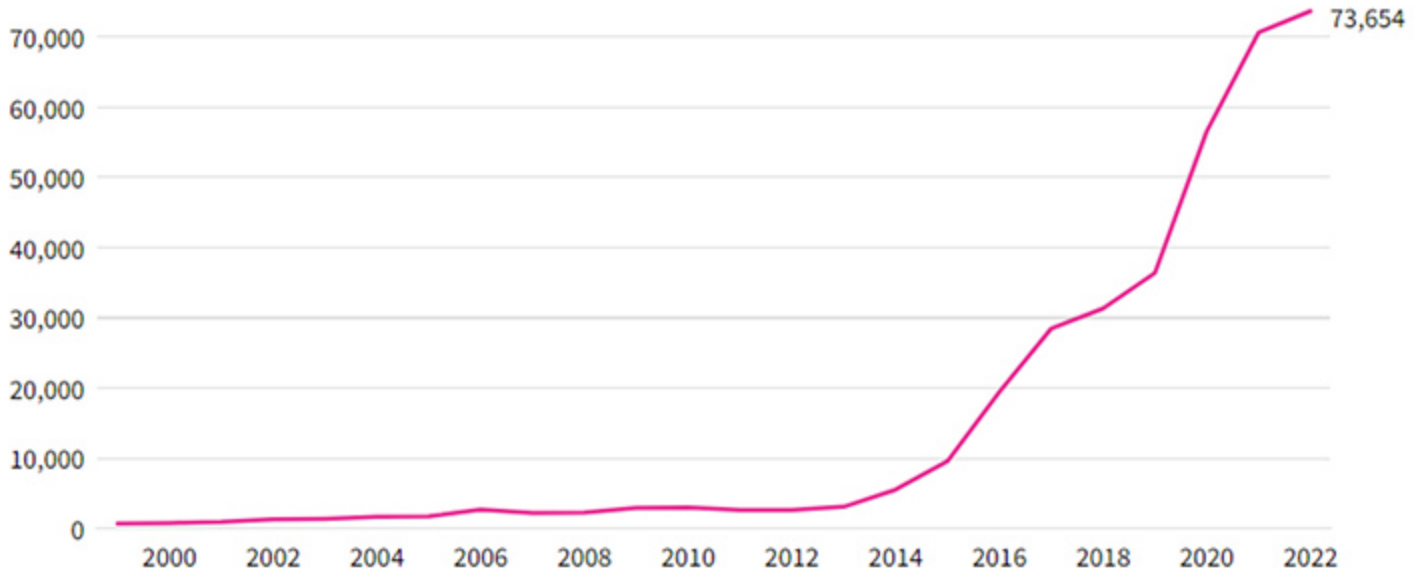
The Qing Empire had to respond and in May 1839, the Chinese took the first steps to challenge the British trade of opium by demanding that the British Chief Superintendent of Trade in China surrender the opium stocks in Canton (Guangzhou) for destruction².

This decision incensed the British, and it was the event that triggered the Opium Wars and led to the start of China's decline as a global superpower, forcing the country to open up its markets and relax its control of foreign trade³. The British and US had successfully harnessed the power of a highly addictive substance to influence the trajectory of international trade and capital flows. China suffered a major economic setback, but more importantly, had to concede in handing over several territories including modern-day Hong Kong. These events left emotional scars for the Chinese and a large part of the following century was focused on restoring their lost national pride.

The US has a problem

Fast forward almost 200 years, and the US is grappling with an opioid crisis, marked by rising addiction rates, overdose deaths and a disproportionate impact on the younger demographic. It's a battle against a drug called fentanyl, primarily produced and exported by China. The chart below plots the rise in annual fentanyl deaths over the past 20 years, which has seen a sharp rise from 2016 onwards, peaking at 73k deaths in 2022.

Chart 1: Annual Fentanyl Deaths - 2002 to 2022

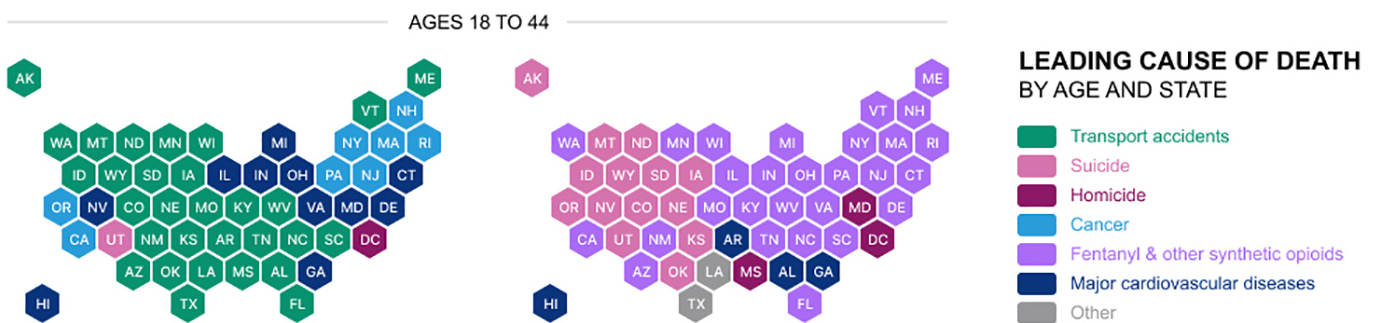


2022 data is provisional and subject to change

Source: Centers for Disease Control

The impact has been worse for the younger population and is now considered one of the leading causes of death in the US. The chart below illustrates this point, where 20 years ago the top cause of death among adults aged 18-44 - the working US population - was related to transport accidents (green). This compares to 2022, where the leading cause of death was fentanyl & other synthetic opioids (purple). Alarming, the average American male's life expectancy has fallen by half a year⁴.

Chart 2: Leading cause of death in the US by age and state



Source: Centers for Disease Control and Prevention

Note: Data for 2001 and 2002, and 2020 and 2021 is combined across the two years so that there is a sufficient sample size for each age group and state

The economics are compelling

Fentanyl is a synthetic opioid that is up to 50 times stronger than heroin and 100 times stronger than morphine. Fentanyl is a prescription drug, prescribed to treat severe pain, especially after surgery, but it is also sometimes used to treat patients with chronic pain who become physically intolerant to other opioids.

However, the rise in deaths due to an overdose is mainly associated with the rise in the illicit use of the drug. Just 2mg (10 grains of table salt) can lead to an overdose, which is commonly mixed with more commonly known drugs to deliver a lethal cocktail that often results in death through overdose.

Mexico and China are the primary sources of fentanyl and fentanyl-related substances trafficked to the US and the economics of the drug make it a compelling and easily transportable illicit drug to traffic. For example, a kilogram of fentanyl worth \$5,000 in China makes a \$1.5m profit when sold illegally in the US.

The drug is straightforward to transport. The vast majority of the illicitly traded fentanyl is shipped from China and India (to a lesser extent) to the Port of Manzanillo, Mexico's largest port. Manzanillo is responsible for 30% of the country's maritime trade, handling upwards of 9,500 20-foot containers a day. Detecting illegal shipments is extremely difficult as the shipments of the drug can be smuggled into the country in small quantities, pressed into a pill and eventually smuggled into the US in the form of fake prescription pills.

The Financial Times reported that "The fentanyl needed to supply the US for one year weighs the equivalent of 5 tonnes and would easily fit into one lorry, according to researchers at Rand Corporation. That compares with about 125 tonnes for heroin and even more for cocaine."⁶ To make matters worse, a tablet costs less than \$5 a piece, making it affordable to the majority of the US population.

In 2016, over 668kg of fentanyl was seized by US authorities, enough to kill every American in the US.

The returns on investment, ease of transport and addictive nature of fentanyl make it an extremely attractive illicit product to import in the same way as the British merchants discovered opium was for importing into China during the 19th century.

Hurting the US economy

Fentanyl's subsequent impact on the US labour force is also starting to show similar trends to the Chinese opium epidemic. In 2022, the U.S. Congress Joint Economic Committee (JEC) found that the opioid epidemic cost the United States nearly \$1.5 trillion in 2020 or 7% of gross domestic product (GDP)⁷.

Researchers estimate that in late 2022 opioids were responsible for about 20% of the approximately 6.3 million workers who were missing from the US labour force, compared to pre-pandemic numbers⁸.

The sectors that have been hit the hardest are more labour-intensive occupations such as construction, extraction (e.g. mining), food preparation and serving, health care practitioners, health care support, and personal care and service.

This has prompted the US government to respond. Alejandro Mayorkas, United States Secretary of Homeland Security, called fentanyl overdoses "the single greatest challenge [Americans] face as a country."

Can the US avoid China's fate?

Our understanding of addiction has significantly improved since the 19th century. Today, we have access to more advanced knowledge of the physiology and psychology surrounding addiction. Policymakers have better access to data and computing power, enabling them to understand the underlying reasons for the drug's success and how to construct effective policies that can address the rising number of overdoses and deaths.

However, the implementation of policies has become increasingly difficult due to the growing polarisation of political views in the US. The left and right have become more extreme in their perspectives while the centrist view has declined over the past decade. This trend is also evident in the response to the fentanyl crisis. Several issues contribute to the severity of the fentanyl crisis.

Firstly, the jobs with the highest rates of fentanyl overdose fatalities are often the ones with high rates of occupational injuries and low access to paid sick leave. When employees get injured, they are given fentanyl-based painkillers, which can lead to addiction once their prescriptions expire. Addressing this issue requires a fundamental shift in worker rights and labour laws, which goes against the grain of capitalist-leaning ideals in labour law and policy.

Secondly, safely administering a lifesaving medicine called naloxone has been one of the most successful ways to prevent fatalities from a fentanyl overdose. Canada, for example, has had some success in reducing overdose deaths by setting up clinics and distribution centres equipped with the antidote⁹. Therefore, the US could adopt a public health approach that emphasises harm reduction, treatment, and prevention, rather than solely relying on punitive measures such as incarceration¹⁰. This approach, however, would involve a change in focus of US health policy and agreement between the Republican and Democratic parties. Recent evidence of the protracted negotiations between the two parties to reach a consensus on Obamacare shows the extent of the challenge it may take to implement the required policy response.

Thirdly, China's experience with the Opium Wars can serve as a reminder of the international pressure that can be applied to countries producing and exporting harmful substances. The United States can work with other nations to exert diplomatic pressure on source countries. However, cooperation between the US and China has been difficult due to geopolitical tensions between the two countries since the US began imposing trade restrictions on Chinese imports in 2017. India is next on the US's agenda, as a rising producer and supplier of the drug.

Lastly, fentanyl is a synthetic drug that is difficult to combat by law agencies alone due to the economics of its production, supply, and highly addictive nature of the drug. It requires a multi-layered response across various US departments which becomes complex to organise in an increasingly polarised political environment.

Conclusion

The US is currently grappling with a severe crisis stemming from the escalating use of fentanyl, which has had detrimental consequences on addiction rates, mortality, and the nation's economy. Drawing lessons from the historical Opium Wars in China, it becomes evident that the US must take decisive control of its response to prevent a potential derailment of its future trajectory.

The fentanyl crisis is an intricate issue, necessitating a multifaceted approach for effective mitigation. Addressing this challenge mandates a harmonised effort that transcends political and geographical boundaries, requiring the implementation of well-crafted and adaptable policies. While the present political landscape and ongoing geopolitical tensions may present obstacles to achieving consensus, it is encouraging to observe the US government's recognition of the urgency of the fentanyl crisis, now a prominent priority on both Republican and Democratic agendas.

The US holds an array of strategic options to confront this crisis, yet their successful implementation hinges on a policy shift and the collective determination to enact these changes. Throughout its history, the US has triumphed over crises by fostering innovation and a commitment to individual freedoms, hallmarks of its capitalist ideals. However, in the face of the fentanyl crisis, it may necessitate a re-evaluation of some of these very principles. This, undoubtedly, presents a profound challenge that the US must address to avert a fate akin to that of China during the Opium Wars.

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- [1] http://afe.easia.columbia.edu/special/china_1750_opium.htm
 - [2] <https://history.state.gov/milestones/1830-1860/china-1>
 - [3] <https://www.nam.ac.uk/explore/first-china-war-1839-1842>
 - [4] <https://www.washingtonpost.com/health/2022/12/22/us-life-expectancy-decline-2021-covid-fentanyl/>
 - [5] <https://www.bbc.com/news/world-us-canada-66826895>
 - [6] <https://www.ft.com/content/5d030731-4625-4521-81e4-b492108a87d7>
 - [7] <https://www.washingtonpost.com/national-security/2023/03/29/fentanyl-mayorkas-threat-dhs/>
 - [8] <https://www.brookings.edu/articles/the-economic-impact-of-the-opioid-epidemic/>
 - [9] <https://www.canada.ca/en/health-canada/services/opioids/federal-actions/overview.html>
 - [10] <https://www.hhs.gov/overdose-prevention/>

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INVESTMENT - RETIREMENT - FINANCIAL PLANNERS

October 2023

MARKET REPORT

31 October 2023

		3m	YTD	1yr	3yr pa	5yr pa	10yr pa	5yr Vol1	10yr Vol1
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LOCAL MARKET INDICES

FTSE/JSE All Share Index (ALSI)	ZAR	-10.4%	-1.3%	8.3%	15.0%	9.8%	7.9%	16.9%	14.1%
FTSE/JSE SA Listed Property	ZAR	-6.1%	-8.2%	-1.3%	19.1%	-3.8%	0.9%	27.0%	21.3%
SA All Bond Index (ALBI)	ZAR	-0.9%	3.2%	7.9%	7.3%	7.9%	7.3%	8.4%	8.1%
SA Cash Index (SteFI)	ZAR	2.1%	6.6%	7.7%	5.4%	5.9%	6.4%	0.5%	0.4%
Balanced Benchmark	ZAR	-6.3%	2.8%	8.5%	12.2%	9.1%	8.5%	11.5%	9.6%
SA Inflation (1 month lag)	ZAR	1.9%	4.7%	5.4%	6.0%	5.0%	5.2%	1.4%	1.4%

GLOBAL MARKET INDICES BASED TO USD

Global Equity (Datastream World)	USD	-9.2%	8.3%	11.0%	8.7%	8.8%	8.1%	18.2%	14.7%
Emerging Markets Equity (Datastream EM)	USD	-12.1%	-1.8%	11.3%	-3.3%	2.0%	1.6%	18.9%	17.0%
Global Property	USD	-12.3%	-8.8%	-4.6%	0.1%	1.0%	3.1%	18.9%	15.3%
Global Bonds (Barclays Global Bond Index)	USD	-5.4%	-3.4%	1.7%	-7.3%	-1.6%	-0.7%	6.9%	5.8%
Global Cash	USD	1.3%	4.2%	4.9%	2.0%	1.9%	1.3%	0.5%	0.4%

MAJOR INDICES BASED TO RANDS

FTSE/JSE All Share Index (ALSI)	ZAR	-10.4%	-1.3%	8.3%	15.0%	9.8%	7.9%	16.9%	14.1%
Global Equity (Datastream World)	ZAR	-4.3%	19.4%	13.3%	14.0%	14.1%	15.1%	16.1%	15.3%
Emerging Markets Equity (Datastream EM)	ZAR	-7.3%	8.2%	13.5%	1.4%	7.0%	8.1%	13.6%	13.3%
Global Property	ZAR	-7.6%	0.5%	-2.7%	5.0%	5.9%	9.8%	17.2%	16.1%
SA All Bond Index (ALBI)	ZAR	-0.9%	3.2%	7.9%	7.3%	7.9%	7.3%	8.4%	8.1%
Global Bonds (Barclays Global Bond Index)	ZAR	-0.3%	6.5%	3.8%	-2.8%	3.2%	5.8%	14.2%	13.8%

COMMODITIES

Gold (US Dollars)	USD	1.3%	10.1%	21.8%	2.0%	10.4%	4.2%	14.5%	13.8%
Gold (Rands)	ZAR	6.8%	22.2%	24.3%	7.0%	15.8%	10.9%	18.6%	17.3%

CURRENCIES

Rand / Dollar	ZAR	-4.8%	-9.8%	-1.8%	-4.7%	-4.8%	-6.4%	15.1%	14.9%
Rand / GBP Pound	ZAR	0.9%	-10.3%	-7.8%	-2.5%	-3.8%	-3.5%	12.9%	14.3%
Rand / Euro	ZAR	-0.7%	-8.2%	-8.9%	-1.4%	-3.4%	-3.8%	12.6%	13.1%

Spot Rates		31-Oct-23	Latest Quarter	1 Year Ago	5 Years Ago	10 Years Ago	20 Years Ago
CURRENCIES							
Rand/US\$	Rand	18.7	18.8	18.4	14.8	10.0	6.9
Rand/GBP	Rand	22.8	23.0	21.2	18.9	16.1	11.7
Rand/EUR	Rand	19.8	19.9	18.2	16.7	13.6	8.0
RATES							
Libor 6m \$	US\$	5.9	5.9	4.9	2.8	0.4	1.2
Repo Rate	Rand	8.25	8.25	6.25	6.50	5.00	8.50
Prime	Rand	11.75	11.75	9.75	10.00	8.50	13.50
All Bond Index Yield	Rand	10.7	10.8	11.6	10.0	8.0	9.7
COMMODITIES							
Gold (\$/oz)	US\$	1,995.9	1,856.8	1,638.0	1,215.5	1,323.6	387.3
Platinum	US\$	940.0	923.0	935.0	834.0	1,450.0	753.0
Oil (Brent Crude) \$	US\$	87.5	95.4	95.8	75.7	109.1	28.2
INFLATION							
SA Inflation	%	5.4	4.8	7.6	5.1	5.4	9.4

data provided by FE Analytics

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