Several things to note. It's early because I am going back to Edmonton later today. The formatting is a mess & driving me crazy, but I don't have time to fix it. It looks longer than usual but isn't really because my computer insists on wider spacing & I haven't got the time to fix, nor a clue how to do that either. There is a long, 'below the line' think piece on China that will hopefully interest most, but perhaps not all of, you.

Quote of the week - "It is not enough to be busy : so are the ants. The question is : what are we busy about." - Henry David Thoreau, a poet & philosopher, and man of many other accomplishments who was born in 1817-, & died in 1862-, in Concord, Mass.

Quote of the week No. 2 - "If you see 10 troubles coming down the road, you can be sure that nine will run in the ditch before they hit you." - Calvin Coolidge, 30th President of the United States (from 1923-1929) - *it is usually not the troubles one can see "coming down the road" but the 'black swan' events that for many people 'come out of nowhere', that prove most problematic; for most economists & policy wonks, and ordinary folks, like military planners, fight the last war.*

All is not well in the world of economics & finance - In the last week or so the South African Rand suffered a brief "flash crash" (& after recovering is now down only one-third YoY vis a vis the US$). HIBOR (the Hongkong Overnight Interbank Offered Rate) briefly spiked to 66.8%. A BAML (Bank of America Merrill Lynch) economist told a conference in Hongkong that, if the top 3% of Chinese were to shift just 7% of their assets abroad, this would give rise to a US$1.7TR capital outflow (i.e. half of China's much vaunted FX reserves could go Phhht)[1] The Atlanta Fed's GDPNow reading is down two-thirds, to 0.7%, from less than a month ago. Brent oil hit a US$30.26 20-year low "on weak demand" (with growing talk of it going to as low as US$10-US$20). There were growing predictions of US oil companies going bankrupt - a number are already in bankruptcy protection. The first crack appeared in the fiction that the US banking system had adequately provided for the impact from the ever-lower oil prices (see below). There were unsettling reports of US crude oil storage capacity being severely tested & of "product" (i.e. gasoline, diesel & distillate) inventories ramping up sharply. And last, but by no mean least, news emanated from China watchers that during 2015 there had been a major change in the composition of capital outflows from that country from a steady drip of local-, & speculative foreign-,capital to an accelerating flow of the former &, more worrisomely, of FDI (foreign direct investment) in anticipation of further yuan depreciations.

Bank reality check? - The banks have for the past year been making soothing noises that, in the face of cratering oil prices, they had made adequate Provisions for Losses for their exposure to the energy sector. But their credibility was shaken by the announcement, on January 13th, by the century-old, US$31BN asset, US$3.4BN market cap, Tulsa, Oklahoma-based Bank of Oklahoma (BOFK-NASDAQ), that previously had announced US$3.5MM to US$8.5MM Provision for Losses, that, due to its exposure to a single energy producer, it had to boost this to US$22.5MM &.furthermore that it was seeing "increased impairment in our energy portfolio" -

---

1 Last year China's FX reserves declined by US$500+BN (13.5%), US$108BN in December alone.

Needless to say, the market didn't take this kindly : at the market close on January 12th its share price was US$54.46, while the next day it opened at US$51.30 & closed at US$50.02.

Canada's cross-country road link in jeopardy - There is a single choke point in the 7,821 km/ 4.860 mi.Trans-Canada Highway system, a bridge across the Nipigon River in the Northwestern Ontario bush; if it goes out, all road travel between Central-, & Western Canada must go South of the Great Lakes, through the United States[2]. On January 10th, it did (go out). Three years ago, the Province of Ontario started building a $106MM replacement for the existing almost 80 year-old two lane bridge in the form of two, side by side, two-lane 'cable-stayed' bridges. While last November one was opened with much fanfare (& demolition of the old one started), last Sunday it failed when, according to eyewitnesses, a sudden gust of wind caused the bridge deck to buckle at an expansion joint & rise 60 cms. Fortunately, the Ontario Department of Transportation had, seventeen hours later, jury-rigged a temporary solution that made the bridge sort of usable again.

Canada's 2015 job growth number is more iffy than usual - It's always open to question since it doesn't distinguish between full-, & part-, time jobs, nor between higher-, & lower-, paid ones. And last year it was made even less meaningful because of the 158,000 new jobs created, 91,500 were in the self-employed sector (that may not be voluntary) with over two-thirds of the remainder accounted for by the public sector, mostly in healthcare & education.

Global significance of the Chinese stock market - As of October 2014 the market capitalization of the NYSE & NASDAQ stock markets was US$28TR (160% of its GDP), that of Hongkong US$3BN (10x its GDP) and that of the Shanghai & Shenzen stock markets US$5TR (half its GDP). Moreover, the **real** capitalization of the latter two is overstated since it doesn't take into consideration the fact that a number of major companies listed on them are still part government-owned (so that a significant portion of their shares is not part of the 'float' - in fact, the actual float may be significantly less than half their official market cap).

Greatest impact of China's economic slowdown - According to the IMF, between 1995 & 2012 many Asian countries increased the share of their total exports going to the 'Middle Kingdom' big time**,** to wit : Australia from 3.7% to 31.0%, India 1.2% to 7.0%, Indonesia 3.0% to 13.0%, Malaysia 4.8% to 10.0%, New Zealand 1.8% to 14.0%, Philippines 2.0% to 17%, Singapore 1.4% to 4.3%, South Korea 1.9% to 15.0%, Taiwan 5.6% to 20.0%, & Thailand 7.0% to 11% - *by comparison, roughly 3% of Canada's exports are China-bound, 3.2% of those of the UK, 3.7% of France's, 7.6 % of those of the US & less than 8% of Germany's.*

Hilary flaming out? - An Iowa poll completed January 10th by Hamden, Conn-based Quinnipiac University showed Bernie Saunders leading her by 5 points (while its previous one, completed on December 13th, had shown her ahead by 11 points). Another one in New Hampshire by West Long Branch, NJ-based Monmouth University had Saunders ahead in that state by double digits. According to the NYT, nationwide only 48% of Democratic primary voters now favour

---

[2] According to one local official "There aren't even any back roads" and to another "It's mind-boggling to think that Canada's such a vast country and it bottlenecks to roughly 100 feet wide."

Hilary vs. 41% Saunders, while a month ago she had led him by 20 points. And yet another poll, by Mercury Analytics, a firm that works for both parties, after Trump's first campaign ad had been aired, of 916 likely voters on line, found that 20% of Democrats would vote for Trump if he were the Republican standard bearer (& only 16% of Republicans for her if that were so), and that 25% of Democrats "completely"-, & another 19% "somewhat"-, agreed he had raised good points in the ad. And the firm's CEO, Ron Howard, a Democrat, told the U.S. News & World report "The challenge to Hilary, if Trump is the nominee and pivots to the center ... as a problem-solving, independent-minded, successful, 'get it done' businessman is that the Democrats will no longer be able to count on his personality and outrageous sound bites to disqualify him*self* in the voters' minds."

Housing starts decline - CMHC (Canada Mortgage & Housing Corp.) Reported that December housing starts were down 18.5% to 172,965 saar, way down from the 200,000 expected, and elsewhere that in November municipal building permit issuance had been down 19.6% MoM to $6,23BN (albeit after having risen 9.9% in October).

On January 12th a suicide bomber killed 10 in the touristy heart of Istanbul - Nine Germans & one Peruvian. Turkey's Deputy Prime Minister Numan Kurtulmus said the perpetrator was a 27 year-old recent Syrian refugee who had not been on its list of suspected militants.

Outlook for business worst since 2009 - This was the word from on high (in the latest Bank of Canada business outlook survey that was made public on January 11th, fueling speculation that the Bank will therefore announce a cut in its trend setting interest rate later this month.

Saudi Arabia's Aramco IPO - From a purely asset management perspective this makes sense; for in the past 18 months oil refining spreads have widened & refiners are making out like bandits, with Aramco, with its varying degrees of ownership in 5+MM bbld daily refining capacity, sharing in this bounty; so this would be a good time to 'take some money off the table'. More importantly, with its market value estimated to be North of US$2TR range (6x ExxonMobil's), selling even a small minority interest & some judicious use of its unused borrowing capacity[3], would significantly boost Saudi Arabia's capacity to live longer with lower oil prices & and reduce the need for cutting the various subsidy programs that help prop up its domestic social & political stability.

A potential setback to Ted Cruz's Presidential ambitions? - The New York Times carried a story that, while he has always told an "endearing story" of funding his 2012 upstart campaign for the US Senate by liquidating his & his wife's "entire ... liquid net worth and put it into the campaign", it had in fact been facilitated by two half a million dollar loans from Citigroup & Goldman Sachs (where his wife was working at the time as a ix figure executive in its Houston office), a fact he had failed to disclose in his mandatory campaign financing report.

US inventory-to-sales ratio - The St. Louis Fed started tracking this back in 1992 at a time it was roughly 156%. Over the next 13 years it declined steadily to 125, with a brief hiccup during

---

[3] It has an infinitesimally small debt-to-equity ratio; & selling some Aramco may help its credit rating.

the 2001 recession (when it went from 139 to 145). Then during the Great Recession it spiked from 125 to 148, only to decline again to 125 by late 2010/early 2011. At last report (October 2015) it stood at 138 - *Going by the last two recessions, this may be a 'leading indicator'; furthermore, the current expansion, modest as it may have been, is now in its 73rd month, midway between the 63 months' average length of the ten post WW II expansions & the 86 months of the last four. And while consumer confidence, the lack of which supposedly is a factor in killing expansions at last report stood at 92.6, up from 87.2 last summer, it was down from 98.1 a year ago; in addition the overall Consumer Confidence Index has for months been the average of a higher-than-average "Current Conditions" sub-index & a lower-than-average "Future Expectations" one.*

<u>GLEANINGS II – 649</u>
Thursday January 14th, 2016

<u>SELL EVERYTHING AHEAD OF STOCK MARKET CRASH</u> (The Guardian, Nick Fletcher)

- In a Note to Clients Andrew Roberts, the credit head honcho at RBS (Royal Bank of Scotland) said "China has set off a major correction and it is going to snowball. Equities and credit have become very dangerous, and we have hardly even begun to retrace the 'Goldilocks Love-in' of the last two years"; so, he said. investors face "a cataclysmic year" in which the stock markets could fall 20% & oil slump to US$16, and hence should "Sell everything except high quality bonds. This is about return of capital, not return on capital. In a crowded hall, exit doors are small." Finally, that it is reminiscent of 2008 when the Lehman collapse led to the financial crisis and this time "China could be the crisis point."

As one seemingly better grounded market observer put it "Reduce, not eliminate". Selling everything is bad advice for investors but good for the advisor's bottom line (with another windfall in the making when they are later advised to buy back in (at a higher price?) - reducing is a horse of an entirely different colour & many savvy investors have already done so. Credit is "dangerous" only if used unwisely. The size of the exit doors doesn't change; *only that of the crowd that has been panicked does. The stock market "could fall by 20%"? - big whoopee, that's a run of the mill "correction|, not a "cataclysmic event" : the S&P 500 is already down 9.1% since last July 17th , and between May 24th, 2000 & October 4th, 2002 declined 47.5% & between July 3rd, 2007 & March 6, 2009 56%, but in both cases recovered over time.*

<u>TALKING THE BLACK SWAN</u> (Geopolitical Futures, George Friedman)

- The Chinese stock market *again* fell out of bed last week; while this sounded significant (*or was made out to be so by the media*), it wasn't; for the value of the companies in it doesn't correlate in any way to the price of their shares & its size is relatively small compared to its economy. But what **was** important was the January 7th PBOC announcement *that received little, if any, media coverage* (*since it was beyond the mental acuity of the hoi polloi, or the scribes?)* that China's FX reserves had, for the first time in 23 years, declined during the year. For this suggests China has entered a new era & is now in uncharted waters, with President Xi faced with the need to try & maintain social stability, and reform & control the PLA (which is key to his survival), amidst a sea change in his country's fortunes.

- All of Eurasia, home to 70% of the world's 7BN people, is in turmoil. But for India, *South-, & Southeast*-, Asia faces instability (*fallout from the situation in China*). Europe struggles with massive economic & political divergences. Russia must deal with an economic crisis brought on by lower oil prices. The Middle East is in chaos. The Central Asian states are caught between Russian & Chinese dysfunctionality and Muslim discontent at home. While until recently the CW was that China's economy would continue to flourish, Europe sort out its problems, with the US largely gone the Middle East calm down & Russia learn to live with a 'new normal', today instability & uncertainty prevail as increasingly impotent regimes struggle with problems beyond them. And while interdependence & globalization once were a panacea for global growth, they now spread problems as nations struggling to deal with their own crises find themselves constrained by the impact of those of other countries.
- George Soros says we are heading for another crisis like 2008. But he is wrong, it never ended. And that economic crisis was trivial compared to the conflicts within Europe & along the European- Russian border, the chaos in the Middle East & China's disfunctionality; the 2008 crisis is now defining a new Eurasia where stability is increasingly hard to find.

The entire article can be accessed by googling "George Friedman on the Witching Hour in China". He founded Austin, TX-based Stratfor in 1996 & as its Chairman & Chief Intelligence Officer was instrumental in its growth to a 100-employee prime purveyor of geopolitical advice to major corporations & governments. But last May he resigned from both posts & from the Company to start a smaller new venture entitled Geopolitical Futures that, rather than advising large entities, will be an online publisher eeking to provide "the public with an intelligence capability focused on the future". His predictions for 2016 are : the economic-, & refugee-, crises and concern over terrorism will prompt a limiting of the free movement of people, & later of goods, within the EU, with member countries regaining more autonomy & Brussels' power diminished, ISIS will focus on defending its core turf in Syria & Iraq, and seek to expand it in Syria into areas currently controlled by the al-Assad regime & other rebel groups, and in China the growing dictatorship of the Communist Party will intensify & its underlying economic problems prompt spasmodic crises[4].

L.A. RESIDENTS FLEE GAS LEAK (AP, Ellen Knickmeyer)

- A massive gas leak has since last October been spewing up to 1,200 tons of climate-changing methane gas into the Porter Ranch subdivision once billed as a sanctuary, sickening residents, and causing thousands to have to leave their homes & two schools to be closed, in what Los Angeles Councilman Mitchell Englander calls "one of the most devastating disasters in the history of California" & Los Angeles County Supervisor Michael D. Antonovich "a massive failure" of state oversight. The irony of it all is that the

[4] What is driving President Xi is the spectre of what happened in the Soviet Union in the 1980's when Gorbachev tried to reform that country's Communist Party control by introducing perestroika (political reform) & glasnost (openness) : the place imploded & the Communist Party lost control.

leak is not from a producing well but from one of the country's largest natural gas underground storage facilities (owned by the Southern California Gas Co.). Governor Jerry Brown last week toured the area & afterwards declared a state of emergency in the area, having long dragged his feet on doing so, waiting to make sure that the company, not the state, would be tagged with the cost of solving the problem.

Amazing the residents have put up for so long with his inaction.

CHINESE BANKS' NEW BAD LOANS MORE THAN DOUBLED[5] IN 2015 (Reuters)

- According to two sources with insider knowledge, at a government 'working conference' on bank supervision Shang Fulin, the Chairman of the CBRC (China Banking Regulatory Commission) revealed that during 2015 the "commercial banks' non-performing loans had increased" from 1.43TR-, to 1.95TR (US$297BN)-, yuan & had now done so for 17 quarters in a row, and that bank profit growth had decelerated from 39.5% to 2.3% YoY.

To put this into perspective, even the regulators themselves have long alleged the banks cheat on their non-performing loan reports & this 36.4% CAGR was the preceding 3 years' average.

SOCIAL MEDIA HELPS TOPPLE MAO STATUE (NYT, Didi Kirsten Tatlow)

- Several month ago construction began of a 37 metre high, golden statue of Mao Tse Tung in the small village of Zhushigang in Henan Province. 1,000 kms NW of Shanghai & 700 kms almost straight South of Beijing. But late last year it went viral on the Internet as a source of ridicule & criticism (some because the money might have been put to better use in what is one of the poorer of China's provinces & some because of the irony of erecting a statue of the man in a province that had been among the hardest hit by famine during his Great Leap Forward Program). Be that as it may, on January 7th a work crew appeared out of nowhere & razed it.

A sign of how sensitive Beijing is becoming of anything that may make it look as if it doesn't know what it is going on (for this was instigated by locals, and not an officially-sanctioned project).

EUROZONE JOBLESS RATE HITS 4-YEAR LOW (AP, Pan Pylas)

- Following recent surveys suggesting that the 19-country eurozone economy is poised for solid, *albeit it not spectacular*, growth in 2016, the Eurostat agency reported that in November its unemployment rate had declined from 10.6% to 10.5% MoM & that the number of unemployed had declined by 103,000 to 16.9MM (in a population of 330MM). But great disparities remain between Germany's 4.6% & Greece's & Spain's 20+% (driven in both countries by the nearly 50% unemployment rate in the 15-24 year age cohort). On the other hand, the agency also reported that retail sales declined in November for the third month running (something that has confounded many economists who had expected the low gasoline prices & low inflation to give retail sales more of a fillip).

---

5 The incremental amount doubled.

With Germany accounting for close to one-quarter of the Eurozone's total population, its low unemployment rate has a reality-distorting effect.

-o-o-o-o-o-o-o-o-o-

I have for several years already argued that China is a "Potemkin village", all front & little of any substance behind it, and a "giant with feet of clay" (Daniel 2 : 31-33), and that its leadership is fully aware of this, with its aggressive international stance driven by the need to 'make hay while the sun shines'.

As a result of the decades-long one-child policy, its population size is now plateauing [& rapidly aging, with few outsiders realizing the speed at which this is taking place – according to China's National Bureau of Statistics (NBS), the number of workers in its *prime* 16-30 year age cohort declined from 42% to 34% in just four years (2010-2014)]. The resultant rise in the "aged dependency ratio" will increasingly become a 'boat anchor' on its GDP trend growth rate.

While Beijing now has woken up to the long-term deleterious effect of this policy, its efforts to reverse it faces serious headwinds. One is the apparent reluctance of women of child bearing age to have more than one child. Two, worse still, after decades of girl baby infanticide, there is a relative shortage of breeding age females which will make it more difficult to ratchet the current 1.66 fertility rate not just to the usual 2.1 replacement level, but to the higher level needed to play 'catch up'. Three, even if the regime were somehow able to miraculously pull this off, the payoff would not come for at least two decades, while in the meantime the growing number of children in its society would increase the overall "dependency ratio" & require a great deal of, in the short-to-medium-term non-productive, investment in their future.

Another consequence of the one child policy-driven girl baby infanticide phenomenon is the growing number of testosterone-laden young males, tens of millions of them, unable to find female partners which may lead to asocial behavior that will negatively impact on social stability. This has been accentuated by the fact that the scarcity of marriageable-age women has driven up the 'price' they & their families can extract from potential suitors (in this context it was interesting to note that a Chinese university professor recently suggested the time had come to start thinking of young men "sharing a wife" & that young Chinese males are said to have started travelling abroad, to Japan, Korea, Vietnam & even Ukraine, in search of bridal material & that some entrepreneurs have launched international match-making services).

According to the NBS, in 2014 there were 274MM 'migrant workers', 36%) of its total 770MM total work force, of whom of 168MM (60%) were "long distance migrants". This has resulted in an estimated 60MM "left-behind" children (in six provinces with a total population of 350+MM over 50% of all rural children fall into this category) who will be under-educated & traumatized by the experience to the point where in their adulthood their potential contribution to the nation's economic wellbeing will be negatively affected by their lack of education & their inadequate levels of social-, emotional-, & behavioural adjustment.

Another phenomenon that may affect the future quality of China's work force is the "Little Emperor Syndrome", that of the children in the new middle class one-child families that have been coddled & spoiled by their parents to the point where as adults they may have a hard time dealing with adversity (the Robert Ford/'affluenza' phenomenon).

Since the turn of the century, much money was invested in China in 'heavy industry' & 'ghost cities' that are likely to become "stranded assets", & hence a potential 'drag' on future economic growth, in the years to come, if the government were to succeed in shifting its economy from an investment-, cum export-, led one to one that is consumer spending-driven. And while Beijing expects to fill the latter with the hundreds of millions of people it plans to 'urbanize' in the coming years, this may endanger its food self-sufficiency objective since China is the world's largest rice producer (accounting for roughly one-quarter of the global output thereof, rice accounts for almost half of its total grain production & has become of growing importance in its people's diets, while growing it is very labour-intensive, with possibly only limited, if any, scope for mechanization. Furthermore, with one Beijing objective, for social stability reasons, being to have the rural population share to a greater degree than it has hitherto in the benefits of economic growth, the incentive for rurals to move into the cities may is be reduced.

Next is the state of health of China's financial system. The following provides an overview of the evolution of its Total Debt/GDP ratio this century :

	2000	2007*	2Q/14
Total Debt/GDP ratio	121%	158%	282%
Of which :			
Household	8%	20%	38%
Financial Institutions	83%	72%	125%
Non-financial corporations**	7%	24%	65%
Government	23%	42%	55%

*Prior to the onset of the Great Recession.

**Including the shadow banks.

The McKinsey Institute (see below) calculated global debt CAGRs during the 2007-2014 years; they are shown below alongside the comparable numbers for the Chinese economy :

	McKinsey	China
Total	5.3%	8.6%
Household	2.8%	9.6%*
Financial Institutions	2.9%	8.2%

Corporations	5.9%	15.3%
Government	9.3%	3.9%**

*The logical outcome of, if not a prerequisite for, the shift to a consumer spending-driven economy.

**While this means that the government is well-positioned (as McKinsey points out below) to orchestrate bailouts, this would involve, as it did in the US in 2007/2008, a downloading of the cost of private stupidity onto the public purse.

Beijing's response to the Great Recession was massive stimulus & extremely lax monetary policy (the volume of bank loans outstanding went up 32% in 2009 & 20% in 2010, vs. an annual average growth rate of 15% during the preceding decade). So the Chinese banking system is now not just plagued on a concurrent basis by weak corporate earnings growth & the economic slowdown, but by a legacy of excessive exposure to real estate & generally deteriorating asset quality, and by increasing numbers of non-performing loans & diminishing capital cushions. Worse still, while prior to 2007 virtually all lending in China had been done by heavily-regulated, mostly state-owned banks, since then much of it has been done by "shadow bank" entities that are lightly regulated, if at all, whose financial durability ranges from occasionally OK to mostly awful. And, while during the 6½ year period ended June 30th, 2014 the overall Debt/GDP ratio, i.e. the degree of leverage in the Chinese economy, almost doubled, from 158% to 282% (i.e., at an 8.6% CAGR), that of the corporate bond component thereof almost tripled & grew at a CAGR nearly double that (15.3%) – so it's not surprising that last October 24 Yi Gang, Vice Governor of the central bank (the People's Bank of China), was quoted in the media as saying it was looking at leverage levels in the debt market. On top of all this, one study found that as of the end of 2014 over one in four domestically-listed firms, had a ratio of EBITDA to interest expenses of < 1, i.e. their operating cash flow was insufficient to serve the interest on their debt. Finally, to make the system potentially still more vulnerable, there has been a great deal of 'mismatching', both by financial intermediaries borrowing "short" & lending "long", and by corporations borrowing cheaply in US dollars without having US dollar cash flows so that the growing US dollar strength vis a vis the yuan is costing them dearly. As the McKinsey Institute puts it in a February 2015 report entitled <u>Debt and (not much) Deleveraging</u> "three developments *in China's debt run-up* are potentially worrisome : half of all loans are linked, directly or indirectly, to China's overheated real estate market; unregulated shadow banking accounts for nearly half of new lending; and the debt of many local governments is probably unsustainable." (while it goes on to say that Beijing has the capacity to bail out the financial sector, it warns that going forward the challenge will be to contain future debt growth without (*further?*) putting the brakes on economic growth).

Earlier generations of Chinese, like our own forefathers, were not stupid : they settled in areas with the greatest agricultural potential, i.e. with the best soil. This means that in China, as elsewhere, industrialization & urbanization have caused much of the most productive farm land to be blacktopped. In addition, shortsighted soil management practices have led to salinization & desertification [the Gobi Desert is said to have grown in size by 52,000 sq. kms (roughly 4%) in just the five years ending in 1999]. As a result the stock of productive farm land in China has shrunk to a level that is approaching what Beijing deems the minimum required for a reasonable degree of food self-sufficiency, **and** its average food production capacity has declined.

As a result of its decades of untrammeled growth, China is now a country where one cannot breathe the air, drink the water, or eat the food (it was noted in these pages a year or so ago that one district was so replete with chemical plants & their toxic effluent that local farmers would not eat the food they grew, and, while the long-term public health effects on those who do consume it can only be guessed at, they will likely prove costly in the years to come). And the triple whammy effect of this may not prove a good foundation for the world power status that Beijing is claiming (a claim that it has so far succeeded in the world accepting at face value).

Another factor is that China for years has been bleeding financial & human capital outflows (the former of which have skyrocketed in the past year), creating a growing risk that in the years ahead the Chinese economy will be 'hollowed out'.

The history of China has been one of warlords. And since the death of Mao it seems to have increasingly "regressed to that mean", with the central government having less control over local governments than normally associated with dictatorships. So Xi's war on corruption is a misnomer; in reality this designation is just a fig leaf to obscure the nature of its real target, increasing the power of the central government in the hope this will enable it to better deal with the economic, political & social hurdles in his country's, & system's, path.

All of the above are among the considerations seemingly justifying the designation of calling Xi's China a "Potemkin Village"