

**Quote of the week :** “When an accident is waiting to happen, it eventually does. When countries become too deeply indebted, they are headed for trouble. When debt-fueled asset price explosions seem too good to be true, they probably are.” Kenneth Rogoff & Carmen Reinhart in (their maligned) book This Time is Different : Eight Centuries of Financial Folly.

Following is a condensed version of feedback received on last week’s Ukraine-focused Gleanings. ‘When my family lived there from Catherine the Great’s time until the Revolution its 12-15 foot deep topsoil was among the most productive in the world. When we visited there two years ago, productivity was low. Vinyards in Crimea, while still producing, were overgrown with weeds & unattended. The corrupt administrations of the past 20 years had made no progress. I feel for Ukraine but see no short-term solution’.

Thomas L. Friedman recently observed that since the breakup of the Soviet Union Ukraine’s per capita GDP had declined 25% to US\$6,394 while in other former Soviet vassal states like Hungary, Poland, Romania & Slovakia is had grown to US\$17,000. So he wondered why anyone was surprised the Ukrainians should want closer ties to the West (he also noted that Moore’s Law<sup>1</sup> seems to be gaining a foothold in the clean power industry; for “the price of solar power is falling so fast that more and more homes, and even utilities, are finding it as cheap to install as natural gas ... *(and)* wind is on a similar trajectory, as is energy efficiency.” - *if so, this is bad news for the Russian, Saudi Arabian and, real close to home, Alberta treasuries*.

President Obama saying on TV “Russia is a “regional power ... that is threatening its neighbours not from strength but from weakness” may have been true & good domestic politics as a way of seeking to defuse criticism of his ‘weak-kneed’ foreign policy response to the Ukrainian crisis, but in geopolitical terms was dumb : it will have the same effect on Putin as the proverbial red flag on a bull, and to retain any credibility at home & abroad he must respond - *and then what?*

Far too few people appreciate that where Russian natural gas is concerned, it is a Mexican standoff. Western, and especially Central & Eastern Europe, depends on on it, but Russia depends on its natural gas exports for half its government’s revenues (& its other sources of revenues will suffer as its already weak domestic economy starts feeling the consequences of capital flight & the faltering ruble) - *thus for once I could agree with Prime Minister Harper, when he told a business audience in Munich, Germany on March 26<sup>th</sup>, the day before he was to meet with Chancellor Merkel (whom he, quite uncharacteristically, buzzed on both cheeks when he met her), that Russia doesn’t have as much manoeuvring room as some people believe to punish the West by cutting its natural gas exports since this would be disastrous for its treasury*.

As expected, former Ukranian Prime Minister Yulia Tymoshenko, only recently released from three years in prison on supposedly trumped-up charges related to a 2010 natural gas deal with Russia (that had also earned her a US\$188MM fine), has thrown her hat in the ring for the May 25<sup>th</sup> Presidential election (at the press conference announcing this she appeared in a hairdo more severe-looking than her trademark wrap-around braids), even though she is currently running third in the polls. This came on the heels of her leaked telephone conversation (in Russian) with one Viktor Shufrich, a former government official, in which she said, among others, “I am sorry that I am not able to be there and not in charge of these processes, they wouldn’t have had a f\$%^&\* chance of getting Crimea off me ... I would have found a way to

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<sup>1</sup> Gordon Moore was a co-founder of Intel. In 1965 he postulated that the processing power of microchips would double every two years, which by & large has proven to be the case.

finish off these bastards ... *(I would)* get the whole world to rise up so that not even scorched earth would be left of Russia.”

Meanwhile the IMF has agreed, subject to Board approval next month, to lend Ukraine US\$18BN<sup>2</sup> over two years, conditional upon it letting its currency depreciate, cutting corruption & ending its subsidies on natural gas (that amount to 8% of GDP) while Russia has announced that, effective April 1<sup>st</sup> it will raise the price it charges Ukraine for the stuff - *this is likely to make Ukraine more, rather than less, of a tinder box, & increases, rather than reduces, the likelihood of it becoming a real train wreck. For according to the IMF the purpose of the loan is to prevent it from defaulting on its debt. So most of its money will disappear into the pockets of Ukraine's Western creditors, with Gasprom syphoning of whatever may be left after they get their cut, with little, if any, of it doing Ukraine's hoi polloi any good (thereby inflaming the ethnic Russian-dominated Eastern part of the country). This is reminiscent of the Irish government six years ago being prevailed upon to bail out its banks to leave their German & French creditors whole. But whereas the Irish people have since showed a resiliency, & willingness to take on the chin, that is now enabling the country to make a (modest) comeback, in Ukraine the gas tank is empty &, as the saying goes, "You cannot get blood out of a stone." A more propitious course of action for Ukraine would have been for it to take a leaf out of Iceland's book & tell its creditors to get stuffed. That would have gotten some attention and might have gotten the West serious about finding the oligarchs' hidden, ill-begotten wealth & resulted in it getting some real help. But that could have created a European bank crisis that the IMF money is designed to head off/postpone.*

Lev Ponomarev is a septuagenarian physicist by training, a veteran of Russia's pro-democracy movement & opponent of Putin, a one-time member of the Duma (*the Lower House of the Russian Parliament*) & now Executive Director of the All-Russia Movement "For Human Rights". Twenty-three years ago, when the Soviet Union collapsed, he thought democracy was in the ascendancy but quickly learnt differently. He calls Putin's public posture, & the Russian people's support thereof, an "imperial syndrome" that seizes people when a great country falls on hard times & compares the bruised, angrily nationalistic mood in Russia today with that in Germany between the Wars, saying "People ... are not thinking about their families, of how the economic situation might become bad [if Russia is isolated] ... national fervour is controlling things now."

According to the Bank of Russia individual Russians' (*i.e. the oligarchs'*) financial assets outside the country are US\$500+BN (i.e. 25% of GDP). Despite the shock they received last year when they were partially dispossessed in Cyprus' financial meltdown (which prompted a US\$61BN shift of funds to the British Virgin Islands), it remains their favourite safe haven destination, with a 35% market share, followed by the Netherlands (15%), BVI (12%) & Switzerland (3%) and lesser amounts in the US, UK, Luxemburg, Germany, Austria, the Bahamas & Turkey.

BNP Paribas SA is the world's 4<sup>th</sup> largest bank by assets, with 190,000 employees worldwide, 145,000 of them in Europe. It has just announced it is cutting 1,600 jobs (20+% of its staff) at its Ukrainian unit. It makes one wonder what, other than the oligarchs' billions, possessed its management to have over 5% of its total European staff in Europe's second-most deadbeat economy. And while this move may make sense from the bank's micro perspective, geopolitically it is a lousy one; for the last thing Ukraine needs is more unemployment. Meanwhile the bank's CFO told CNBC "We're still keen on Eastern Europe".

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Which it claims will "unlock" another US\$9BN in loans from, among other, the US & EU.

The Head of US Pacific Command, Adm. Samuel Locklear, told the Senate Armed Services Committee on March 25<sup>th</sup> that the latest class of Chinese submarines will be armed with long range nuclear missiles which “will give China its first credible sea-based nuclear deterrent, probably before the end of 2014 ... Beijing’s aim is to deny the US access to the Western Pacific during a time of crisis or conflict , and to provide the means by which China can bolster its broad maritime claims in the region.” (according to the Congressional Research Service since 1995 China has been building new submarines at a three vessel annual clip).

A Census Bureau chart on the trend in ‘real’ US median household incomes shows it rose from US\$49,000 in 1992 to US\$56,000 in 1998. Following the dot.com recession it declined to US\$54,000 in 2004, but recovered most of the lost ground by 2007. Since then it has been all downhill : at last report it was US\$51,000, i.e. the 1995 level (& *with it becoming more accepted that the US economy’s trend growth rate is henceforth going to be less than it used to be prior to the financial crisis, this is likely not to get any better & could get radically worse*).

The Georgia Legislature on March 20<sup>th</sup> passed a new gun law that only needs the Governor’s signature to take effect. It loosens gun licensing rules, provides for a stronger “Stand Your Ground” defense, and allows the carrying of concealed weapons in more places, incl. bars, unsecured areas of airports & churches (although the latter will require prior approval of the church). But it doesn’t permit it on college campuses (despite serious Republican attempts to allow it), nor in the State Capitol & other government buildings with security check points (while allowing it in those without them, *which seems counter-intuitive*) - *the curious part, & the sad truth, is that since the 2013 Newport, Conn. primary school shooting, contrary to expectations, in jurisdiction after jurisdiction gun laws have been eased, rather than tightened*.

There has long been a widening productivity gap between Canadian & American companies. Research by Deloitte<sup>3</sup> points as a primary cause thereof to a dearth of investment by Canadian companies in capital assets & technology, particularly as they age. Thus it found that for every dollar a typical US company spends to equip its workers with the latest machinery & tools, its Canadian counterpart spends 65¢, & for computers & updating their systems 53¢.

StatsCan compiles a New Housing Price Index (2007 = 100). Between 2009 & 2013 it rose Canada-wide from 101.0 to 109.9. The outlier cities on the upside were Winnipeg where it went from 113.0 to 135.6, a 4.66% CAGR, Regina (133.3, 158.2, 4.37%), Toronto/Oshawa (103.4, 119.6, 3.71%), & St. John’s, Nfld (133.3, 149.8, 2.96%) whereas those on the downside were Victoria (92.1 to 84.6)<sup>4</sup> & Windsor, Ont. (100.5 to 99.5). Rather interestingly, while between 1990 & 2007 household debt in the US & Canada had grown at a similar rate, since 2007 in the US it has declined to 130% of household income while in Canada it has kept climbing merrily to 160%, much of it accounted for by a more than doubling of mortgage debt between 2004 & 2013 from \$560BN to \$1,225TR (a 8.14 CAGR).

Anger & bitterness among Chinese relatives of MH-370 victims may seem overdone. But in a one-child environment the loss of a son or daughter means losing one’s entire offspring & the chance of ever having grandchildren. Having one child is the social equivalent of having all of one’s savings invested in a single company : if it goes phhht, so does one’s financial security!

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<sup>3</sup> The largest of the Big Four auditing (& a wide range of other services providing) companies, the others being PwC (PricewaterhouseCooper), Ernst & Young & KPMG.

<sup>4</sup> Which ought to be good news for Baby Boomers aspiring to retire there.

As if the airline didn't have enough troubles already, in the early morning hours of March 24<sup>th</sup>, Malaysian Airlines flight MH066 from Kuala Lumpur to Seoul, this one an Airbus 330-300, was diverted to Hongkong after its main power generator failed (although its auxiliary backup one provided the power needed to continue operating) - *this may well be the end for it; for it (which was already on thin ice before the MH370 event, and its attendant costs & loss of reputation.*

The latest puzzling aspect of the seemingly Keystone Cops-like MH370 saga, was the news on March 28<sup>th</sup> that the plane supposedly had flown faster than believed earlier & hence burnt fuel faster & traveled less far than previously believed, causing the target area for the search of debris to be shifted 1,000+ kilometres North. *This seems to contradict earlier news that the plane's engines had sent out 'handshake' signals for seven hours after it went missing.*

In her first press conference as Fed Chair, following last week's FOMC meeting Janet Yellen seemed to talk out of both sides of her mouth when she re-affirmed a highly accommodative monetary stance remained appropriate but also noted a possible need to start interest rate 'normalization' sooner than previous suggested. This, & the Fed elsewhere having raised its notional target interest rates for the end of 2015 & 2016, has led to a market perception that it has adopted a *slightly* more hawkish (or rather less dovish) bias, *the very opposite the market had expected Bernanke's replacement with Yellen to portend.*

Although still in positive territory, support in the US for the Keystone XL pipeline may be waning. Whereas last year 74% of those polled said they were in favour of building it & 70% that they had a generally positive view of it, the latest Nanos poll found that these percentages had declined since to 63% & 57% respectively, with Nik Nanos saying the Harper government hadn't helped its cause by *publicly* criticizing the approval process. The general consensus is that the longer a decision is delayed the less likely approval is to be forthcoming. And the project's opponents likely took heart from the testimony at a Senate hearing on March 13<sup>th</sup> by James Jones, Obama's former National Security Adviser, that rejecting the pipeline would be a gift to Vladimir Putin & "make his day", taking it as a sign its proponents are running scared.

Two weeks ago, hostilities flared up again in Gaza. It started when, according to the Israeli military, locals on March 11<sup>th</sup> fired mortar rounds at an IDF patrol 'just inside Gaza's border' (*without inflicting any casualties*). As usual the Israelis overreacted with what they deem 'appropriate force, a bombing run that killed three Gaza residents it claimed had been the perpetrators of the attack. This prompted the Islamic Jihad to fire a barrage of 41 rockets into Southern Israel on March 12<sup>th</sup> (of which the Israeli said three had been intercepted by its *much-vaunted* Iron Dome defense system<sup>5</sup>) that caused some material damage & wounded one person. This in turn caused the Israelis to hit two sites with artillery fire & follow that up with airstrikes on 29 "terror sites". And words flew freely : Islamic Jihad said the rockets had "established a new phase : Any aggression will be met with fierce resistance", Netanyahu, while acknowledging the rocket attack had come in response to Israel's 'interception attacks', said "we will not be deterred", and Palestinian leaders expressed outrage about Israel's "purposeful escalation" & the shooting by the Israeli military of a Jordanian judge of Palestinian descent (who it said had tried to grab a soldier's weapon) & of an Israeli teenager near the Israeli

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Which ought to give them food for thought given that they believe Hezbollah in Southern Lebanon have an arsenal of 10,000 rockets, many of them far more sophisticated than anything Hamas can muster in Gaza (the only 'saving grace' being that Hezbollah is currently otherwise occupied helping to prop up the al-Assad regime in Syria.

settlement of Beit El<sup>6</sup> <sup>7</sup>. Hostilities ceased on the 13<sup>th</sup> after Egypt brokered a cease-fire - *all this obscured a more possibly more significant development, the passage by the Knesset on March 13<sup>th</sup>, after years of heated debate & political wrangling, of a law that will end the exemption of ultra-orthodox seminary students from compulsory military service.*

In all the kerfuffle about the Crimean referendum, it all but escaped the media's notice that five days later, close to 90% of the 2+MM people in the Venice region of Italy, 73% of those eligible to vote in a referendum not recognized by Rome, supported the idea of splitting from Italy. While this is non-binding & hence, unlike Crimea, not a 'done deal', this could further compound the Italian government's political & economic problems since the region accounts for a disproportionate share of Italy's GDP & its tax revenues.

A recent chart comparing major Eurozone countries cost of GDP per unit since 2000 was worrisome. During the first half of this century's first decade, it actually declined in Germany, after which it started rising at a moderate pace. But in all others, they had grown rapidly, more or less in harmony until 2007, after which they declined substantially in all countries, although remaining well above Germany's, but for France & Italy, where they kept on rising as if nothing had happened. This goes a long way towards explaining Germany having become the Eurozone's unchallenged leader but bodes ill for France & Italy, & hence the Eurozone's future; for they are its No. 2 & No. 3 economies & its citizens seem as yet unwilling to get off the gravy train driven by incessant & unsustainable government borrowing.

**GLEANINGS II - 555**  
**Thursday, March 27<sup>th</sup>, 2014**

**STRESS TESTING THE FED (FRBSF Economic Letter, Jens H.E. Christensen)**

- The Fed in the past six years has accumulated a portfolio of longer-term securities several times that before the financial crisis, prompting worries it could incur significant losses when interest rate rise. In fact, the minutes of the December 2013 FOMC meeting noted "concerns about potential reputational risks to the Federal Reserve from any future capital losses" (that could also reduce its remittances to the Treasury, *thereby increasing the deficit*). But we judge that adverse outcomes that could cause serious concerns for the Fed are quite unlikely, that there is only a remote chance that declines in Treasury bond prices could lead to mark-to-market losses on the Fed's portfolio & that such low probabilities for these adverse outcomes should assuage concerns about its portfolio holdings & income.

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<sup>6</sup> An Orthodox settlement that has been in the news in the past year. For the Israeli tore down some illegally constructed buildings there (only subsequently promising to replace them), there have been allegations by the Palestinians that some of the land on which it sits was "bought" from a man long dead with forged documentation, and Netanyahu's statement earlier this year that a precondition of any peace settlement would be that the El Beit settlement 'bloc' would be the fourth such bloc Israel would insist on retaining.

<sup>7</sup> Then on March 22<sup>nd</sup>, three young Israelis were killed when Israeli soldiers stormed the Jenin refugee camp near Ramallah to arrest someone and responded to opposition & rock throwing with gun fire).

*The San Francisco Fed is Janet Yellen's alma mater. Prior to the financial crisis Alan Greenspan too thought risk could be made to disappear. The only way the Fed may have inoculated its UST & MBS portfolios against risk would be by hedging it in the US\$600+TR global derivatives market which, while it might leave the Fed whole, would just leave someone else holding the bag. The statement that its portfolio of UST-, & MBS-, securities carry the US government's guarantee & hence are "essentially free from credit risk" is open to question. And the bit about the potential impact on the Fed's remittances mixes up stocks with flows. All in all, this seems more like cavalier, politically-driven daydreaming, & an attempt to create a fig leaf, rather than serious work by Ph.Ds in economics.*

**SCIENTISTS TO CLIMATE CHANGE SKEPTICS : GET REAL (CBSNews)**

- At a meeting in Tokyo of scientists from 100 countries to put the finishing touches on the sextennial report of the UN International Panel on Climate Change, Michel Jarraud, the Secretary-General of the World Meteorological Organization (WMO), said that much of the adverse weather that has wreaked havoc in Asia, Europe & the Pacific (& *North America?*) is due to human-induced climate change. According to WMO the year 2013 was the sixth-warmest on record, & 13 of the 14 warmest years in recorded history had occurred in this century (*seeing that this is only 2014, this means that this applies to every year this century*). Rising sea levels have led to increasing damage from storm surges & coastal flooding. Australia is in the midst of its hottest year ever. Weather-induced disasters have caused US\$22BN of flood damage in Central Europe, US\$10BN from Typhoon Fitow in China & Japan & another US\$10BN in drought damage in China.
- The Panel's previous reports were ignored since climate change's effect seemed too far away in time & distance to worry about, an attitude Pennsylvania State University scientist Michael Mann says must change since "It's not far-off in the future and it's not exotic creatures ... it's us & now." And the Panel's forthcoming report too will say that the climate change risks are far more immediate than the scientists once thought, and are not just about melting ice & threatened animal & plant species, but about hunger, disease, drought, flooding, refugees and war.

*"An ounce of prevention is worth a pound of care". The climate change deniers & shortsighted politicians have led the world down the garden path to the point where the ounce of prevention days have gone the way of the auk & dodo bird, and remedial action is going to be painfully expensive. On the other hand, Nature has been proven in the past more forgiving & restorative, if given a chance, than the doomsayers would have us believe; all it will take is for Mankind to start working more **with** Nature, and to be willing to pay the price of, & change its mind set for, doing so rather than ignore it or, worse still, think it can control it.*

### **PATH TO ENERGY INDEPENDENCE MUDDIED (BB, Asjlyln Loder)**

- According to the Paris-based IEA (International Energy Agency) the output of shale oil wells drops *significantly* faster than that of conventional oil wells<sup>8</sup> & it will take 2,500 new wells a year to maintain a sustained 1MM bbl output from the Bakken (& *how many to maintain output from the other shale oil & gas plays in the US on which its energy independence dreams are built?*). Thus Houston-based Sanchez Energy Corp. plans to spend US\$600MM on its Eagleford lands this year, 2x the revenue it will derive from them, & in a February 17<sup>th</sup> regulatory filing said it was pumping 5x as much water as oil at its Sante North 1H well. Energy independence will depend on two things, easy credit & oil prices of over US\$100, and even with those two in place shale producers are still spending more money than they're taking in. So the US oil industry must sprint faster to stay in place, & expect to spend US\$2.8 TR by 2035 even though output will have peaked a decade earlier (by comparison Middle Eastern producers will spend less than one-third that to produce 3x more oil). Shale boosters have fostered a one-size-fits-all misconception that wringing oil & gas from shale is easily replicated everywhere in the country. But Tad Patzek, Head of the Department of Petroleum & Geosystems Engineering at the the University of Texas (Austin), disputes this, saying oil bearing structures may be quite different as little as two kilometres apart & what works in one county may not work at all in the next.

<sup>8</sup> According to Austin, Texas-based DrillingInfo Inc. While the output of conventional oil wells may take two years to decline 55% & level out, that of shale wells drops 60-70% in just the first year -so "*Drill Baby, Drill*" becomes a necessity.

*Critics have argued for some time that shale oil & gas is like fool's gold (while often skeptical of anything the IEA pontificates, this time it may be onto something).*

### **HAS PUTIN BOUGHT INTO THESE DANGEROUS IDEAS? (G&M, Doug Saunders)**

- In his March 18<sup>th</sup> speech Putin didn't refer to Russians as "Rossiskii" (citizens of Russia) but as "Russkii" (ethnic Russians), to Sevastopol as a "Russkii city", & to the Orthodox Church as the institution that "predetermined the overall basis of the culture, civilization and human values that unite the peoples of Russia, Ukraine and Belaurus". This blend of Orthodox Christian ethnicity & Russian nationalism tinged with conspiratorial anti-Americanism is known as neo-Eurasianism, an ultra-nationalist political philosophy that has *become an important inflammatory* rhetorical tool for him. The brainchild of Alexander Dugin, who has frequently spoken for him to the media during the current Ukrainian crisis, it portrays Russians as a third "civilization" between East & West that rejects liberal democracy, modernism & the Enlightenment as dangerous imports from the West alien to Russia's proud & independent history. In his 2009 manifesto, The Fourth Political Theory, which became a sensation in Moscow, Dugin derided liberalism, fascism & communism, and promoted "National Bolshevism" which he described as "socialism without materialism, atheism, progressivism and modernism". During his first two terms as President, & early on in his third, Putin displayed little interest in being an ethnic nationalist or Eurasianist, & it only crept into his oratory after Russia's new, liberal middle class revolted against him early into his third term, after which he started using it to cement his power.

*The problem with (geo)political opportunism is that, particularly if emboldened, it often ends up can overreaching.*

### **RUSSIAN ECONOMY GRINDING TO A HALT (Reuters)**

- Andrei Klepach, Russia's Deputy Economy Minister, said on March 24<sup>th</sup> that the economy is barely growing, inflation rising (*largely due to the cratering ruble*) & capital pouring out. While February GDP growth was only 0.3% YoY, he called this "not bad" & "better than expected", presumably since it beat January's 0.1% (but his expectation of zero growth for the First Quarter as a whole, implies an expectation of negative growth in March). He also noted it was "too soon to talk about a turn-around in economic trends, about a recovery from stagnation ... (for) unfortunately the investment slump is continuing", & said his Ministry expects inflation to be 6.9-7.0% in March, up from 6.2% in February, and First Quarter net capital outflows to come in at between US\$65-70BN ("and closer to US\$70BN"), vs. US\$62.7BN in all of 2013.

*Earlier this year his boss, Economy Minister Alexei Ulyukayev, publicly warned President Putin, not to count on a GDP trend growth rate of more than 2% per annum (while the consensus is that his ambitious plans for his country need a 5% rate to be sustainable).*

### **US CRITICIZES SAUDI ARABIA FOR BARRING ISRAELI PAPER REPORTER (AF-P)**

- The Jerusalem Post's Washington bureau chief, Michael Wilner, was the only journalist denied a visa for Obama's brief visit to Riyadh on March 28<sup>th</sup> (despite a personal appeal by his National Security Adviser, Susan Rice, following which her Deputy, Ben Rhodes, said "We are very disappointed by the Saudi decision" & Wilner himself that he was "an

American journalist covering the travel of an American President ... *with little doubt ... my access was denied either because of my media affiliation or because of my religion.*")

*The Obama Administration should have bigger fish to fry than, & not have wasted its political goodwill on, this. It has alienated Saudi Arabia in recent years by its foreign policy pivot towards the Pacific & East-, & Southeast Asia, its failure to have a more decisive policy stance on the Palestinian issue, its policy vis a vis Iran & its decidedly less-than-proactive role in the Syrian civil war. Wilner exaggerated his own importance : he was collateral damage, not a target*

### **JAPAN TO CURB FEEDING BED-BOUND ELDERLY BY TUBE (BB, Kanoko Matsuyama)**

- About 250,000 elderly Japanese survive with feeding tubes. The government wants to cut its US\$422BN annual health care bill by having patients released from hospitals faster & curbing the number of elderly kept alive, sometimes for years. Once feeding tubes are in, they are seldom taken out, even when patients regain the ability to take food by mouth.

*This is a harbinger of the type of unpleasant decision that will increasingly face all countries in the developed world & that will boost the potential for inter-generational strife. For as populations age as there will be fewer taxpayers & more elderly requiring more care<sup>9</sup>, & a more subdued GDP growth potential. Meanwhile, while the latest budget of the Abe Government anticipates that, due to the increased consumption tax<sup>10</sup>, in the next fiscal year tax revenues will be higher<sup>11</sup>, & bond issuance lower, than in the current one, the fact remains that, even so, new borrowing will continue to account for 43% of total government revenues (which is clearly unsustainable, the more so since its Debt to GDP ratio is already at a level that makes Greece's, Ireland's & Italy's look outright modest.*

### **INDONESIA'S MILITARY FLEXES MUSCLE AS SOUTH CHINA SEA DISPUTES LOOMS (Jakarta Globe)**

- On March 18<sup>th</sup> Indonesian Air Commodore Fahu Zaini, a member of the Defense Strategy Unit in the Office of the Coordinating Minister for Political, Legal & Security Affairs, said China had included the Natuna Islands within its so-called Nine-Dash line

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<sup>9</sup> A 2004 Michigan study, using data from 3.75MM Blue Cross members in the state, found that per capita lifetime health care costs are one-third higher for women than for men (less than half of it accounted for by their longer life expectancy), that nearly half of them are incurred in people's "senior years", and of those who reach age 85 over one third of their lifetime health costs will accrue during their remaining years. And a 2006 StatsCan study found that the number of seniors 85 years of age & over had increased from 196,000 to 492,000, i.e. from 0.8% to 1.5% of the population) between 1981 & 2005 & that while their number will increase to 800,000 by 2021, as a share of the population it will increase to only 2.0% of the population, but that thereafter, as the Baby Boomers enter this age group, their numbers will balloon to 2.5MM & to 5.8% of the population.

<sup>10</sup> Although it remains to be seen whether this will in fact happen; for the government has indicated that it intends to offset the drag on GDP growth from the tax increase by more government spending.

<sup>11</sup> Which shouldn't be difficult; for last year total tax receipts were at 24-, and corporate tax receipts at 50-, year lows.

(that delineates its territorial claims in the South China Sea, often stretching a thousand or more miles from its nearest land fall, on the map that has been part of every Chinese passport issued since 2009<sup>12</sup>). The week before Gen. Moeldoko, Indonesia's military's Chief of Staff, had been in Beijing to share with his Chinese counterpart Indonesia's commitment to stabilize the volatile South China Sea area; but upon his return to Jakarta he said he would strengthen Indonesia's military presence on the islands due to their 'strategic location'. Meanwhile, Japan has ended its 50-year ban on weapons' exports by selling to the Philippines' Coastguard, which has been on the front line of the region's states' dispute with China over its *unwarranted, bully tactics'* territorial claims in the South China Sea (which, of course has done nothing to improve Tokyo's relationship with Beijing & *could be used by it as another excuse for military action against it*).

*There is a good reason for China to cast covetous eyes on-, & for Indonesia to be prepared to go to the wall to keep-, the Natunas. For in 1996 a 46TCF natural gas field was brought on stream there by a Pertamina<sup>13</sup>-led consortium (incl. ExxonMobil, Total SA and Thailand's PTT Exploration & Development) that now produces 350MMCFD. But the real prize is the 222TCF Natuna East gas field, said to be the largest untapped natural gas field in Southeast Asia.*

### **SHARIA LAW TO BE ENSHRINED IN BRITISH LEGAL SYSTEM** **(Sunday Telegraph, John Bingham)**

- The Law Society has issued a guidance for solicitors drawing up "Sharia compliant" wills recognized in British courts. They could deny women an equal share of inheritances & exclude unbelievers altogether, prevent illegitimate, or adopted, children from inheriting, & recognize only Muslim weddings (excluding all church-, & civil marriages from succession). Nicholas Fluck, the President of The Law Society, says this will promote "good practices" in applying Islamic principles in the British legal system. But many others disagree. Some lawyers called this "astonishing". Others warn it constitutes a major step towards a parallel legal system for the country's Muslims. And Baroness Sox, a 'crossbench' peer<sup>14</sup> & a leader in a campaign to protect women from religiously-sanctioned discrimination, called it "deeply disturbing ... this violates everything we stand for ... Everyone has freedom to make up their own will ... and to let those wills reflect their religious beliefs. But to have an organization like the Law Society promote ... a policy which is inherently gender-discriminatory ... is a matter of deep concern."
- The guidance suggests deleting or amending standard legal terms, such as "children" (to ensure those deemed illegitimate are denied inheritance claims), hands responsibility for drawing up some papers to Sharia courts, suggests Sharia principles can override British practices, & gives examples of those that may need testing in British Courts. While a network of informal Sharia courts, possibly as many as 85, already exists in

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<sup>12</sup> that lays claim to almost the entire South China Sea to within shouting distance of the coasts of the other riparian states in total disregard of current international law; thus the Natuna Islands are 1,115 miles, as the crow flies, from the nearest Chinese landfall on Hainan Island vs. 150 miles from the Western-most point of the Island of Borneo.

<sup>13</sup> Indonesia state-owned national oil company with revenues last year of US\$71BN (equal to about 8% of its GDP)

<sup>14</sup> A member of the House of Lords without formal party affiliation.

Britain, incl. some that are recognized under the Arbitration Act, this is the first time that an official body has recognized the legitimacy of Sharia principles.

*Political correctness run amok that is asymmetrical : for if non-Muslims visit, or work in, Muslim countries, they are expected to abide by local rules (as common sense & common courtesy demands they should); so why should it be different for Muslims choosing to live in non-Muslim countries; for as the saying goes "What's good for the goose is good for the gander."*

### **CUBA TO ALLOW WHOLLY-OWNED FOREIGN COMPANIES (CNBC)**

- Hitherto in Cuba foreign investors were limited only to owning pieces of "mixed companies" majority-owned by the government. A new foreign investment law, expected to be approved March 29<sup>th</sup>, will allow wholly-owned subsidiaries of foreign companies to operate in Cuba (except in health, education & the military). In addition, the profits tax rate will be cut in half to 15%, and (new?) investors given an eight year tax holiday.

*It will be interesting to see if the government will allow Wal-Mart or Cosco to set up shop there.*

### **EBOLA OUTBREAK CONFIRMED IN GUINEA (CBC News)**

- Since early February a mysterious illness had killed 59 people in Conakry, the capital city of this West African country, & in three nearby towns. The government has since received confirmation from a laboratory in Lyon, France that half of its *blood and/or tissue* samples had tested positive for Ebola, *one of a group of hemorrhagic fever diseases that are* among the most virulent & *contagious* pathogens known to Man & kill up to 90% of those infected. While this is the first time *in decades* it has affected humans in West Africa, in 1994 an Ebola-type disease was found in chimpanzees in Ivory Coast's Tai National Park.

*There have since been unconfirmed reports of the disease in other West African countries, prompting some to close their borders, & there is currently a man in isolation in a Saskatoon hospital who, upon his return from Liberia, fell ill & displayed hemorrhagic fever symptoms.*