

Quote of the week : “The whole of economic life is a mixture of creative & distributive activities. Some of what we ‘earn’ derives from what is created out of nothing and adds to the total available for all of us to enjoy. But some of it merely takes what otherwise would be available to others and therefore comes at their expense. Successful societies maximize the creative and minimize the distributive. Societies where everyone can achieve gains only at the expense of others are ... impoverished. They are also usually intensely violent ... Much of what goes on in financial markets today belongs to the distributive end.” - Roger Bootle (age 63). *A PPE Oxford graduate who also studied at Nuffield College, after teaching economics at Oxford & a couple of decades at UK banks, founded London-based Capital Economics in 1999, that is now a leading global macro-economic advisory firm & in 2012 won the first ever £250,000 Wolfson Economics Prize¹ for the best proposal on how the Eurozone could be safely dismantled.*

Moscow becoming the new power in the Middle East? - On October 23rd Saudi Prince Turki al-Faisal (age 70)², all but said as much when he told a group at the Washington-based Center for Strategic and International Studies that Putin had outmanoeuvred the US & now could demand more attention & respect in the region and, more specifically, that “Putin is a man who has done so much harm to innocent people throughout the area in Syria ... (*but*) we have to deal with him. And it’s not that you *can* ignore him or cast him off as a megalomaniac. He has a vision of the world (*that envisages Russia having more say in global affairs than it has had for many years*) and a strategy to put that vision in place^{3 4}.” Furthermore, that by hosting Assad in Moscow he sent a message that those wishing to oust him would have to deal with him. And finally, that, while Putin ‘may not be sincere’ (*a euphemism for ‘lying’*) when he says he wants to fight ISIS, the US-led coalition has not been forthright either by failing to commit the resources needed to oust it - *once Saudi Arabia was the ally of the US in the Middle East. But this is the logical outcome of the US’ reduced dependence on Saudi oil which, together with the seemingly lessened threat from Russia & the rising one from China, led to Obama’s much-vaunted “pivot to Asia”, & of his subsequent pussy-footing policy on Syria. For this created a void Putin was only too happy to exploit. The question now is whether his Russia is a Potemkin village & whether he may have overextended its reach (just as the Soviet Union did thirty years ago), & whether he will be able to use his newfound influence in the region to ‘convince’ Saudi Arabia to cut its oil output so as to restore the price of oil to a more ‘sensible’ level (which could negatively impact on a world economy in which growth by all appearances may already be decelerating).*

October was a month of upset elections - On October 4th in Portugal, the outgoing right-of-centre Prime Minister got only 37% voter support & a group of leftist parties slightly over 50%. Nevertheless he was mandated by a President, who couldn’t “tolerate a left-wing, anti-

¹ Funded by Simon Wolfson, CEO of the Next plc. retail clothing chain.

² Who served as Saudi intelligence chief for 23 years ending in 2001 and then for a couple of years as Ambassador to the UK & for another fifteen months to the US.

³ This is what the German (anti-establishment) politician Ludwig von Rochau (1810-1873) called Real Politik, the idea that politics is based on practical-, rather than ideological-, moral-, or ethical-, considerations or, as he himself put it : ‘the law of power governs the world of politics just as the law of gravity governs the physical one’.

⁴ The late Vaclav Havel, a Czech writer & philosopher who from 1989 to 1992 was Czechoslovakia’s first democratically-elected President in 41 years, ; once described Putin’s Russia as “ an expansionist power pursuing a 19th century agenda with 21st century tactics and methods.

European” government, to form a minority government (*that is unlikely to survive for long*). Then on the 19th in Canada the opposition Liberal Party under a new, photogenic leader (“with nice hair”, as the attack adds warbled ad nauseam) grew its seat total in Parliament five-fold to 184 (out of 338), trouncing Prime Minister Harper’s seemingly well-intrenched Conservative Party. And on the 25th there were five elections in disparate countries, all of them bad news for ruling parties. The world may never know if in Tanzania’s presidential election the candidate of a group of four opposition parties, a former prime minister from the ruling party, had beaten, or had not beaten, the candidate of the party that has ruled the country for the past 54 years; for, with the vote count nearly complete, the head of the Electoral Commission on the offshore, quasi-autonomous island of Zanzibar annulled the result, prompting the opposition to claim he had done so since its candidate had won. In Guatemala a former 48 year-old TV comedian in the second round, head-to-head run-off for the Presidency walloped a former First Lady 67-33. In Argentina Christina Kirchner’s hand-picked successor, who had been well ahead in the polls, ended up in a 35-35 tie with the Mayor of Buenos Aires, necessitating a November 25th run-off. And in Poland the more Europe-centric, left-of-centre party that had held power for the last eight years, during which its GDP growth rate had been the envy of all of Europe, went from 197 to 138 seats in the 460-seat Parliament, while the right-of-centre, anti-immigrant, Euro-skeptic opposition party went to 235 seats from its pre-election 134, in an election hallmarked by a 26 year-record high turnout in which key issues were the growing social inequality, the high youth unemployment & the fact that 2MM people (out of 40MM) had gone abroad in pursuit of opportunities greater than they believed were available at home - *meanwhile, in the first round of a sixth election that Sunday, in Haiti, a 54 candidate field contributed to the election process being so chaotic & the election officials’ abilities so overtaxed that it may take as much as ten days before even partial results will be available.*

The November 1st Turkish election - In the June 25th election the AK(Justice & Development) Party, formerly led by now President Recep Tayyip Erdogan, lost its parliamentary majority, largely due to a syphoning off of votes from its voter base by the Kurd-friendly HDP Party. This trashed the President’s ambition to win a big enough majority to be able to change the political system to an ‘Executive President’ one (to greatly enhance his powers at the Prime Minister’s expense). Since then all coalition talks have come to nought, while both the economic-, & security-, situation has worsened. If the polls are to be believed, next Sunday’s outcome may not be all that different from that five months ago; if so, Erdogan would again fall short of being able to realize his Executive President ambitions.

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IMF SET FOR GREEN LIGHT ON CHINA’S YUAN JOINING CURRENCY BASKET (Reuters)

- The IMF Executive Board is scheduled to decide in November, on the basis of a checklist of technical criteria evaluated by the IMF staff, on whether or not to put the yuan, effective October 2016, on a par with the dollar, yen, euro & sterling *by including it in the ‘basket’ of currencies used to determine the value of its benchmark SDR*). Three people who have been briefed on the IMF staff discussions on the subject said that it has reached a favourable conclusion on including the yuan in the basket.

In & by itself this is not really that big a deal because the SDR (that was introduced in 1970) has totally failed to live up to its creators’ expectations. But it is an emotional issue for the Chinese leadership who deem inclusion to be more evidence of their country’s growing global stature. For very much the same reason inclusion has been opposed by the US from the get-go in the,

by no means unfounded, belief that over time it will erode the US dollar's hitherto unassailable reserve currency role in the system. And if the staff recommendation indeed will be favourable, it will be a political decision; for one of the criteria for inclusion is that the currency in question be "freely usable" (which does not appear to be fully applicable to the yuan). While in the past SDR basket decisions have been taken with a 70% majority vote, there is a provision that under certain circumstances an 85% majority vote may be required & the US can be expected to take the position that the less than freely usable nature of the yuan activates the 85% voting provision (in which case its 17% weighted vote would give it a veto). And if it were to get its way, it would not go over well in Beijing & would constitute a victory for those in the US Congress who for the past five years have been dragging their feet on the much-needed reform of the IMF voting arrangements cum replenishment of its resources (one side effect of which would be to reduce the weight of the US vote).

JUSTIN TRUDEAU SHOWS YOU DON'T HAVE TO BE ANGRY TO SUCCEED IN POLITICS (WP, Fareed Zakaria)

- His sweeping victory is one more indication Western world politics are becoming more populist (*as witnessed by the support in Europe for parties of the extreme right & left?*) & voters are moving left (*in reaction to the growing inequality in society?*). While Trudeau benefitted from the 'ten year itch', from Harper being seen as smart but uncharismatic, from name recognition (his father was Canada's most famous Prime Minister *in modern history*) & from his personal charisma, the main reason for his success was that he ran a campaign that was neither overly left-wing⁵ nor unduly populist. For, while the hallmark of populism is anger & *while both his main opponents displayed elements thereof*, he was resolutely cheerful and talked of "positive politics" & *more recently*, of "sunny ways". And, *while his opponents promised parsimonious balanced budgets*, he proposed to run modest deficits for three years to fund infrastructure projects (something mainstream economists support), refused to hike the corporate tax rate, promoted the idea of a slightly higher *marginal* tax rate for the top 1% to fund a middle class tax cut, was non-committal on the TPP (a position to the right of Hilary's) & in favour of legalizing marijuana, and promised more enlightened climate change policies.
- There is lots of angry populist talk in the US from both the right & left, critical of the big city power elites that they say run the country. But while populism makes news, gets lots of attention & may even move issues to the forefront, it rarely wins elections.

'Attack ads' may underestimate the independent voters' innate intelligence & sense of fair play.

THREE TAKEAWAYS FROM THE CANADIAN ELECTION AS SEEN FROM AMERICA (WSJ, Dante Chinni)

⁵ While his position may not have been "overly left-wing", it was still resolutely centre left, while for reasons not clear to anyone outside the NDP war room, this traditionally center left party, chose to challenge Harper on his centre right home turf, thereby making Trudeau the sole beneficiary of the anti-Harper sentiments cum protest vote.

- **Conservatism is out up North** - Some Democrats think this bodes well for them in 2016 since there are some similarities in their platform & that of Canada's Liberal Party, incl. a call for higher taxes on high income earners;
- **Time for a change** - Nine years is a decent run, especially in turbulent times. At some point voters desire change & this year it was the Conservatives' turn to take the hit (*but in the past 15 years Canada has voted left when the US went right & vice versa*); and
- **The liberalizing metro vote** - In Toronto the Liberals went from seven-, to 40-, seats, in Vancouver from 2 to 18, in Calgary (& also in Edmonton) from zero to two, & in Winnipeg from one to seven (although there were also lots of rural areas that went Liberal).

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WHEN OBAMA HOSTS NETANYAHU, IT WON'T BE PLEASANT, BUT IT MIGHT BE PRODUCTIVE (Times of Israel, David Horovitz)

- On November 9th Obama will host Netanyahu at the White House. They will put on a good show, talking about shared interests & values, and their countries' unshakable partnership (wall of it with more than a ring of truth to it). But at the personal level their relationship is toxic. Netanyahu thinks Obama's Iran deal is evil & Obama resents him having tried to turn lawmakers, incl. some Democrats, against him, and while Netanyahu thinks Obama has given Mahmoud Abbas a pass even as he incites terrorism, Obama blames Netanyahu's settlement policies or the failure of the peace talks.
- Nevertheless, this week's visit to Washington by Israeli Defense Minister Moshe Da'alon, himself no Washington favourite, may herald a return to a closer-, & less fractious-, working relationship, as did the visit last week, less than a month into his new job, by the new US Chief of Joint Staffs to Israel. And strangely enough, the fact that the Iran deal is now *for all intents & purposes* is a done deal, & the peace process moribund, may ease the situation, as will the fact the US-Israel US\$30BN, ten-year defense assistance agreement will expire in 2018, with Israel having a long list of military goods it would like the US to provide (& pay for) under a successor agreement. Be that as it may, for Netanyahu the end of the Obama era cannot come soon enough, while for Obama one post-presidential bonus will be no longer having to 'make nice' with Netanyahu.

One must wonder to what extent there is an element of wishful thinking in this review, especially since the Netanyahu initiative outlined immediately below irritated the White House to the point that it moved quickly to protest strongly against Netanyahu ordering it.

NETANYAHU ORDERS 'DISCUSSION ON THE STATUS' OF PALESTINIAN AREAS (AP)

- An Israeli official confirmed on October 26th that the Prime Minister had (*due to the fact that many of the recent deadly assaults on Jewish Israelis were perpetrated by teenagers from East Jerusalem?*), ordered a review of the status of the Palestinians in certain neighbourhoods of East Jerusalem, that could result in stripping tens of thousands of them of their Israeli residency rights.

This could draw renewed international condemnation of the way he deals with the Palestinians & result in further unrest among them; for the loss of residency rights would deprive those involved from access to social services, incl. healthcare & affect their ability to work in-, & travel inside-, Israel. While in the best possible scenario this is seen by Netanyahu c.s. as a way to

pressure Israeli parents to get a better grip on their children's behaviour, it risks being seen by Palestinians as a first possible step on a slippery road towards the removal of Palestinians from East Jerusalem, or even from Israel proper, as extreme right wingers who have Netanyahu's ear have long advocated.

CHINA CUTS RATES AGAIN IN EFFORT TO SPUR ECONOMIC GROWTH (AP)

- On October 19th Beijing reported Third Quarter GDP growth had slowed to a 6.9% annual rate & September factory output had been up 5.7% YoY, down from August's 6.1% even though consumption had been up 10.9% YOY, up from 10.5%, further unnerving investors around the world & governments of countries that supply China with raw materials. In the wake of this, the People's Bank of China four days later cut its benchmark rates on loans & deposits for the sixth time in a year, in line with moves by other major central banks in (*unsuccessful?*) attempts to spur economic growth.
- China is attempting one of the most audacious economic transformations ever *from export-driven GDP growth to more sustainable domestic consumption-driven growth*. But in so doing it is encountering a problem in that the growth in consumer spending & services isn't quite offsetting the decline in older (*mostly state-owned?*) industries, with the resultant slower economic growth raising fears of job losses & social unrest.

There has long been a saying in the US financial markets that trying to make people borrow when they don't want to is like 'pushing on a string'; the People's bank of China (& other central banks) may be running head-on into that phenomenon. And with China's monetary policy now the easiest in at least seven years, there will be a growing risk of still more incremental bank lending to enterprises that financially already have 'one foot in the grave & the other on a banana peel'. Meantime, despite Premier Li's warning in a talk on October 23rd at the Central Party School (for rising officials) that the economic difficulties facing China should not be underestimated & that, while the GDP growth target for this year was 7%, "We have never said we should defend to the death any (growth rate) goal", a top central bank official the very next day echoed earlier sentiments by other insiders that the 16th Five Year Plan being finalized this week will be based on a GDP growth rate in the 6-7% range for the rest of this decade.

BATTLE OVER CHINA'S ARTIFICIAL ISLANDS HAS JUST BEGUN **(Bloomberg View, Josh Rogin)**

- After months of internal debate, the White House allowed the Defense Department to have one ship, USS Lassen, a guided missile destroyer, on October 26th, *while shadowed at a distance by a Chinese warship*, make a 72 mile trip through the South China Sea that took it to within 12 miles from the Subi Reef in the Spratly Archipelago that was underwater until China built an artificial island on it. The next day Defense Secretary Ashton Carter told the Senate Armed Services Committee the US has the right to do so & supported the idea of more such "freedom of navigation" operations. While the US waited until after President Xi's visit to Washington in September when he said, among others, his government had no intention to "militarize" its artificial islands *in the South China Sea*, it didn't wait, as Secretary of State Kerry had wanted, until after the *November 30th - December 11th* UN Climate Change Conference in Paris.
- The next day the Chinese Foreign Ministry called this a "deliberate provocation" & had US Ambassador Max Baucus on the carpet to lodge a formal protest, and said it might have to "increase & strengthen the building up of our relevant abilities, while the Defense Ministry called it a "coercive action that seeks to militarize the South China Sea region."

- The question now is what & when to do next. The Pentagon, supported by the Republicans & others in Congress wants to do more of this [with Sen. Cory Gardner (R.-Colo), Chairman of the Senate Foreign Relations Asia Subcommittee saying “this cannot be a one-off occurrence”], while others, incl. Adm. John Richardson, the Chief of Naval Operations, advocate less confrontation & more engagement with the PLA.

While China’s neighbours welcome the US flexing its military muscle to counter China’s bullying (under international law it has no business in the Spratlys, 1,000 kms from landfall on China’s Hainan Island & 250 kms from the Philippines), Xinhua called the move “irresponsible” & “brinkmanship” & the Global Times (a paper with a nationalistic bent & close ties to the Party) came out of the gate with an editorial two days later that “In [the] face of the US harassment, Beijing should deal with Washington tactfully and prepare for the worst ... This can convince the White House that China, despite its unwillingness, is not frightened to fight a war with the United States in the region, and is determined to safeguard its national interest and dignity.”

GERMANS ACCUSE AUSTRIA OF DRIVING MIGRANTS TO THE BORDER AFTER DARK (Thomson Reuters)

- On October 28th Germany’s Interior Minister, Thomas de Maziere, told the media “The behaviour of Austria in recent days was out of order ... We observed that refugees, without warning and after dark, were driven to the German border without processing ... Austria agreed yesterday to return to an orderly process. I expect this to occur immediately.”

*There is a real risk that Germany ‘ain’t seen nothing yet’; for, while the EU wants Turkey to stem the refugee flow across its border, Turkey expects the Russian air strikes on targets in non-ISIS rebel-held areas in three Northern Syrian provinces abutting its Southern border to lead to the displacement of 2MM more Syrians, half of whom it expects will cross into Turkey & that, as one of its officials put it, “It’s like a glass, overflowing from the top” (this scenario seems confirmed by leaked German documents showing that while German officials talk about the need to have to accommodate 800,000 refugees, they believe the **real** number could go as high as 1.5MM⁶).*

IS SOUTH AFRICA’S ‘RAINBOW NATION’ COMING TO AN END? (BBCNews, A. Leithhead)

- Nelson Mandela’s vision is now seen by young, post apartheid-born South Africans as a failure. They are not happy, demand more change than the country has seen in the 21 years since apartheid ended, & ask why there is now more wealth in white hands than there was then. Students demand more black professors (who are still a small minority) and are part of a young black generation with middle class aspirations that sees society as “a vast huge black majority at its bottom with a layer of white cream & a few sprinklings of chocolate on top” (the latter being the small black elite that profited hugely from the attempts to shift wealth from white-, into black-, pockets. And this discontent is being aided & abetted, and taken advantage of-, & fueled by-, radical leftists, spouting socialist theories borrowed from Russia, Cuba, Venezuela & even Zimbabwe.

⁶ Which is disconcerting because unlike the Turks, who have a vested interest in using the refugee flow to wring concessions from the EU, German officials have no such incentive.

This all started with the hoi polloi's unrealistic expectations at the onset of the post-apartheid era⁷, since compounded by one government that was ineffective (Mandela's), and two that were both ineffective & thoroughly corrupt (Mbeki's & Zuma's). And it is worth noting that throughout history revolutions were started by half-educated people with middle class aspirations like these. And, while two decades ago optimists expected South Africa to become the engine of growth for all of sub-Sahara Africa Messrs. Mandela, Mbeki & Zuma squandered that opportunity.

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Thus in the immediate post-apartheid era, when an African lady waxed eloquent in an interview about her chances of getting a better house, complete with running water & electric light, the interviewer asked her how long she thought that to take, her answer was "Two or three years."