

GLEANINGS II - 844
Thursday July 23rd, 2020

Quote of the week - “In the current environment of rising protectionism, downturn in the world economy and shrinking global markets, we must give full play to the advantages of the domestic super-large market, and add impetus to my (???) country’s economic development by prospering the domestic economy and smoothing the domestic economic circulation.” - President Xi (*as per Xinhua*), who a day or so later in a meeting with the business community reassured them that “It is by no means to close China’s door” - *This follows up on the Politburo Standing Committee’s decision last May to introduce “dual circulation” (i.e. making the economy less vulnerable to external shocks) as an important new framework for economic policy making.*

Corporate Facebook advertising boycott - It was prompted by its lack of a policy on divisive content (*and could seriously affect the company since advertising accounts for 90+% of its revenues*). With US\$210MM Facebook’s top advertiser in this year’s First Half, Disney has slashed its advertising [& halted all advertising by Disney-controlled Hulu that had spent US\$16MM on advertising on Facebook in the six weeks to June 30th) - *Mark Zuckerberg is accused of ‘being afraid of Trump’ and/or of having made a secret deal with him.*

Judy Shelton for the Federal Reserve Board? - A year ago President Trump sought to fill one of the two lengthy vacancies on it by naming Judy Shelton, *another think-alike but not quite ‘up to snuff’ candidate*). While during her Senate Banking Committee confirmation hearings last February both Democrat & Republican Senators expressed concerns about her views, on July 21st it voted 13-12, along party lines, to advance her nomination to the full Senate for confirmation (to serve a four year term) - *In her mid-to-late 60s, she is a Trump economic adviser (who flopped from being a lifelong “hard”-, to an opportunistic “soft”-, monetary policy proponent as she did). As a libertarian she has long been critical of the Fed since ‘its (bond buying) actions interfere with market forces’ & in 2012 called it “almost a rogue agency”, and advocates a return to the gold standard. This is an attempt by Trump to politicize an entity that in the US, as in other developed countries, has traditionally been apolitical. So unless four Republican Senators vote to toss her nomination, she will become a Federal Reserve Board Governor. But that may not work out the way Trump expects. For she will have only one of twelve votes on the policy decision-making FOMC & her reception in the Fed will be not unlike that of ‘a skunk at a garden party’, given her views & academic credentials (a BSc in Education, an MBA & a Ph.D. in Business Administration).*

Retail trading in the US stock market is soaring - TDAmeritrade, the No.4 retail broker in the US, has done well YTD, adding 608,000 new retail accounts to its 10+MM client base in the First Quarter & 688,000 in the Second, and reporting Second Quarter EPS of US\$1.09 on sales of US\$1.59BN (vs the 85¢ & US\$1.41MM expected). And, as shown below these newcomers must be riding high, since the market seems to have recovered from its March ‘sinking spell’ :

	S&P 500	DJ 30	NASDAQ
January 2, 2020	3,257.85	28,868.80	9,092.19
March 23, 2020	2,237.40	18,591.93	6,860.67
July 22, 2020	3,276.02	27,005.84	10,706.13

While the average age of the ‘newbie’ retail investors is 31 years, the current stock market reminds ‘old timers’ of 1999 & 2008 when many such investors also jumped onto its ‘band wagon’ & got

badly burned. Today their exuberance is fed by the zero commissions introduced by Charles Schwab & the liquidity poured by the Fed into the US economy (which has allowed much of this retail trading activity be done on a "margin" basis). Moreover, a not insignificant portion of this newbie investor activity has involved highly leveraged options' & futures' trading (where money can be made fast & lost even faster). And interesting anecdotal evidence originated with a former Goldman partner who tweeted "my son's friends don't have time during the day to play video games, they're too busy trading stocks ... (and) and my son is 10".

WSJ Dollar Index - Created in 2012 to measure the US\$ value vis a vis a basket of seven other currencies, their number was since expanded to sixteen (that account for 80% of the US\$5.3TR-equivalent daily global FX trading volume). On July 22nd it was 89.73, down 7.3% from 96.80 on March 20th, & a post- June 22, 2019 low - *This 'weakening of the US\$ accounts for a goodly portion of the recent rise in the US\$ price of gold, that on July 24th surpassed its 2011 high to set a new all-time high when it broke through US\$1,900, up 7.2% MoM, 22.4% YTD & 32.1% YoY.*

While nobody was paying attention ... the US trade balance with China worsened - YTD imports from China were down 20% YoY in January, 30% YoY in February & 37% YoY in March, but only 10% YOY in April & 7% YoY in May (when they were up 9% from January while last year in the same four months' period they had been down 6% - *a shutdown side-effect?*

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STATE DEPARTMENT ORDERS CHINA TO CLOSE ITS CONSULATE IN HOUSTON **(Politico, Quint Forgy & Gavin Bade)**

- On Wednesday July 21st *it gave it 72 hours to comply "to protect America's intellectual property ... and the private property of US citizens".* In Washington Morgan Ortagus, a State Department spokesperson, accused China of engaging "for years in massive illegal spying and influence operations throughout the United States against US government officials and American citizens ... The United States will not tolerate the PRC's violations of our sovereignty and intimidation of our people, just as we have not tolerated the PRC's unfair trade practices, theft of American jobs and other egregious behaviour", while in Beijing Wang Wenbin, her Chinese counterpart, called it an "outrageous and unjustified move that will sabotage relations between the two countries ... The unilateral closure of the Chinese Consulate-General in Houston within a short period of time is an unprecedented escalation of its recent actions against China." *(that have included sanctioning CPC officials for the internment of Muslims & the new security law that has effectively ended Hong Kong's independent legal status, cutting off the trade talks, threatening to ban Chinese-owned mobile aps like Tik Tok, removing Chinese technology from the electrical grid & penalizing China since "They could have stopped" the pandemic).*

Also on Wednesday Assistant Secretary of State David Stilwell called the move "long overdue", after a series of "malign activities", incl. visa fraud & research theft that "had accelerated since the coronavirus pandemic". And other US officials noted "FBI investigations into allegations of economic espionage and influencing operations (had) often led back to the Houston consulate". The next day the China Daily called the Houston Consulate move "A new gambit in the US Administration's bid to paint China as a malevolent actor on the world stage ... the move shows that lagging behind his presidential election component ... the US leader is going all out ... to portray China as an agent of evil", Pompeo added fuel to the US-China tension in an address at

the Richard Nixon Presidential Library in Yorba Linda CA ² when he told those present “Today China is increasingly authoritarian at home and more aggressive in its hostility to freedom everywhere else ... The free world must triumph over this new tyranny”, appearing to seek regime change by calling the Chinese people “dynamic and freedom-loving ... (and) completely distant from the Chinese Communist Party“ (words that experts on China say will only ‘bolster support in China for President Xi and deepen anger towards the United States’). Following this, Beijing ordered the closure of the US Consulate in Chengdu, Sichuan Province, explaining this was a “legitimate and necessary response to the unreasonable action taken by the US” in Houston. While President Trump has mused it was “always possible to shut down more Chinese consulates in the US”, such a tit for tat game would end in a draw, since both have five consulates in each other’s country, although China may have more to lose than the US, given the far greater freedom of movement & association its diplomats have in the US than their US counterparts do in China.

IS SAUDI ARABIA PUSHING ITSELF INTO A NUCLEAR TRAP? (al-Jazeera, Patricia Sabga)

- Its nuclear ambitions date back to 2006, when, jointly with other members of the Gulf Cooperation Council, it started exploring nuclear power options to allow the export of crude hitherto consumed at home, thus generating more income for the state & creating career opportunities for its young people in a new hi-tech industry.
- The UAE is right now loading fuel rods into the first 1,400 MWh unit of its Barakah four reactor, 5,600 MWh complex that will be the Arab world’s first nuclear power plant. And 388 miles to its West Saudi Arabia is building its first research nuclear reactor at the King Abdulaziz City for Science and Technology. And MBS has built nuclear power into his “Vision 2030” blue print to diversify the Saudi economy & in 2018 told a US news channel “Without a doubt, if Iran develops a nuclear bomb, we will follow suit as soon as possible.”
- Critics question this push towards nuclear power-generated electricity since there are safer, simpler & more cost-effective ways of doing so (*especially since the region ranks high in the world by its average daily hours of sunshine*). According to Paul Dorfman, Honorary Senior Research Fellow at the University College London’s Energy Institute, “nuclear costs are enormous” (according to the 172 year-old, now Hamilton, Bermuda-based financial advisory/asset management firm Lazard, utility scale unsubsidized lifetime solar power costs are US\$40/MWh & nuclear energy’s US\$155/MWh). And according to the 61 year-old, Paris-based Mycle Schneider, publisher of the annual World Nuclear Industry Status Report, “There are no economic or energy policy or industrial reasons to build a nuclear power plant ... If countries decide to build a nuclear power plant, then we have to discuss *the ...* issues that are actually the drivers for these projects.”

In a best case scenario these drivers are merely of a ‘pecker-stretching’-, but in the worst case of a more sinister, nuclear weapons’ building-, nature.

EUROPE’S E750 BILLION RECOVERY FUND IS AN ECONOMIC POP-GUN - BUT A POLITICAL HOWITZER (The Telegraph, Ambrose Evans-Pritchard)

- Its macro-economic value lies somewhere between modest & trivial since part of it is just a matter of reshuffling of money that would have been spent anyway and much of the rest spread over many years (*rather than now when it is most needed?*). But its macropolitical

² Rather ironically it was (*the Henry Kissinger-engineered*) Nixon visit in 1972 that “normalized” the US-China relationship and it seems counter-intuitive that Pompeo talks about what the “free world” should do when Trump seems to be doing his best to end US leadership thereof .

significance could be massive. For it portends a major change in the structure & character of the 'European Project' that has been abuilding since 1945, & at an accelerating pace since 1993. For it gives the EC (European Commission) *what it has long aspired to*, the power to access global capital markets in its own right.

The deal was finally agreed to on Tuesday July 21st after 90 hours of talks since the Friday before. The "Next Generation EU" idea was opposed for fiscal reasons by the "Frugal Four" (Austria, Denmark, Netherlands & Sweden) with support from Finland, since it would endow the European Commission with direct access to financial markets & on political grounds by Hungary & Poland due to its emphasis on the "rule of law" (which both have been stomping all over). But all were finally brought on board, the former by reducing the grant component of the package (that will mostly benefit Italy & Spain), from 500BN to 390BN Euros & the latter by fudging the applicable language in the final draft. But this is not totally a 'done deal'; for it still requires approval of the EU Budget by the European Parliament & there could still be delays at the national level.

The promoters of the deal were France's President Emanuel Macron & Germany's 'swan song' Chancellor Angela Merkel (who was inveigled into agreeing to it by Macron, despite the fact that, while France could become a beneficiary-, Germany, like Holland, will be a big funder of it)⁴. For after the failure of the February summit they needed success this time since another failure would require another summit while they wanted to get back to focusing on their domestic economic & healthcare programmes. Moreover, time was running short since the present EU budget expires at yearend and further delays might cause new opposition to the deal, or allow other problems to be resurrected by some of the not quite so happy signatories.

Dutch Prime Minister Mark Rutte has been the unofficial leader of the Frugal Four. He may herald a new approach to political leadership. Age 53, he is a 6 foot 5 inch bachelor with an MA in History from Leiden University & a Business degree from the Lausanne, Switzerland-based IMD (International Institute for Business Development) that has been the Financial Times' top-ranked 'open program' business school in the world for the past nine years & has even longer than that been almost as highly ranked by Forbes. It's alums include scads of current & former CEOs of world class companies incl. UBS, Royal Dutch Shell, Royal Philips Eindhoven, McKinsey & Company, and T-Mobile, as well ministers & senior officials of developing countries. and some Indian billionaires. He came to politics after a career at Unilever, lives in a modest apartment, bicycles to work, two hours a week teaches history at a local high school & believes in 'living within one's means'. He is the leader of the (liberal) VVD (People's Party for Freedom and Democracy) & has been Prime Minister since 2010 at the head of three different coalition governments & right now has to tread carefully since the current one doesn't have a majority in Parliament & faces an election next March, if not sooner, and the country's mood was reflected in a video last April (retweeted many times since) of a garbage collector shouting at him "not to give money to those Italians and French". And when attacked for having a large trade surplus with the rest of the EU & tax structures that "rob" other EU members of billions of tax revenue receipts, the Dutch response is 'we just have a tougher work ethic & a higher pensionable age'.

SAUDI ARABIA'S KING SALMAN ADMITTED TO HOSPITAL FOR TESTS **(Global News, Aya Batrawy)**

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In contrast to Britain's Johnson, both Merkel's & Rutte's Approval Ratings have benefited significantly-, & Macron's marginally-, from their management of the coronavirus crisis.

- The Kingdom's Royal Court announced on Monday July 19th that the 84 year-old King had been admitted to the King Faisal Specialist Hospital for medical tests in connection with his cholecistitis (inflammation of the gall bladder).

This was enough for Crown Prince Mohammed (MBS) to rush back to Riyadh from his palace in Neom to be at his father's bedside and for Foreign Minister Prince Faisal bin Farhan al Saud to announce that at the very last moment "In recognition of the importance of the visit and the desire to make it succeed, our wise leadership in coordination with our brothers in Iraq has decided to postpone the visit" of the Iraqi Prime Minister Mustafa al-Kadhimi (since May)] who was scheduled to meet with the King that day (and whose Ministers of Finance, Electricity & Planning had already arrived in Riyadh a day earlier), presumably to seek financial help in dealing with the Iran-backed militias in Iraq that have become harder to control since the January US airstrike killing of their sponsor, Iran's Maj-Gen. Qasem Soleimani.

Neom is a major component of MBS's Vision 2030 dream that he announced within months of the June 2017 palace 'coup' that made him Crown Prince & that, along with his lack of success as Defense Minister in the conduct of the Yemen War and the low oil price-driven drying up of benefits for Saudi citizens, has eroded his popularity at home. It envisages, at an estimated cost of US\$500BN, turning 10,200 square miles (1.2% of Saudi Arabia's landmass & about the same land mass as Massachusetts) of desert in the Kingdom's very Northwest corner, bound to the West by the Red Sea, to the Northwest by the Gulf of Aqaba & to the North by the Kingdom of Jordan, into a futuristic commercial-, cum tourism-, destination megalopolis like no other on earth, complete with flying taxis, robot dinosaurs in a game park & artificial rain. Phase One, incl. the Neom International Airport (& various Royal Family palaces?) is on track to be completed by yearend & the entire project by 2025.

But there may be at least three hurdles to its realization. The price of oil has caused the Kingdom to have a nearly US\$40BN annual 'cash burn', as a result of which it's government debt-to-GDP ratio has gone from 5.8% in 2015 when King Abdullah died & Salman became King to 28.4% this year & a possible 41.5% (if not higher), by 2024 (while still low in absolute terms, this represents a rate of growth not likely sustainable). Secondly Jamal Khashoggi's murder has made some of the counted-on many billions of FDI (Foreign Direct Investment) funding to be less forthcoming. And finally, by 2025, global 'deglobalization' & the pandemic's after effect on global economic growth may affect people's willingness & ability to go vacationing in far away exotic places, thereby undermining the viability of Neom's-, & Vision 2030's-, business model.

The Riyadh-based, 50,000+ circulation English language daily Arab News (that targets businessmen, corporate executives and diplomats), had a headline "Prayers Pour in for King Salman on Social Media after Medical Tests. And so they should. For MBS's becoming Crown Prince had not sat well with many in the 6,000+ Royal Family, and he has done nothing since to make them change their minds by his treatment of them & his (lack of) achievements. So the odds are that upon the King's demise there will be a, possibly extended, period of instability in the Kingdom (and hence in the region as a whole?).

EAST CHINA SEA : JAPAN 'CONSTANTLY SCRAMBLING JETS' AS TENSIONS WITH BEIJING MOUNT (SMCP, Julian Ryall)

- On the assumption they are going to probe Japanese defenses in the uninhabited but Japan-administered, but China-disputed, Senkaku/Diaoyu Islands in the East China Sea, Japan's Air Self Defense Force (ASDF) is now scrambling interceptor jet fighters every time Chinese military aircraft are detected taking off from an airbase in Fujian Province.

And it is now also operating costly dawn-to-dusk combat air patrols over the islands, rather than just scrambling in response to Chinese moves.

- While once China conducted its operations near the islands from a base in Zhejiang Province, last year it shifted it to a base in Fujian Province from where its jets can reach their airspace in 20 minutes while it takes Japanese ones 25 minutes to do so from their base on Naha Island (at the very South end of the Ryukyu island chain).
- In June Beijing demanded that Tokyo have its fishing boats quit “trespassing” in its “territorial” waters around “its” Diaoyu islands & that it reverse an Ishigaki city ⁵ council decision to rename the sea around the islands in a way that it deemed an attempt to reinforce Japan’s claim on the islands (to which Tokyo responded that it could not interfere with a local council’s decision - *which was of course totally alien to Beijing thinking*).
- A China expert in the Japanese government opined “The present situation is an opportunity for Beijing because the US, Japan and other countries in the region are focused on dealing with the coronavirus pandemic. For many governments, there are not enough resources to ‘push back’ “ & Japan expects Beijing to keep aggressively pushing its territorial claims after the pandemic has abated, thereby raising the possibility of an incident involving the military forces on both sides (that could easily get out of hand).

As noted before, one of the most common ways of dealing with domestic discontent in a dictatorial state is to create a foreign enemy to distract the hoi polloi’s attention. And this likely will put an end to the planning for an official visit to Japan next spring by President Xi.

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CAN AMERICA HALT ITS DECLINE AND DOES IT WANT TO?

(Tällberg Foundation, Christine Loh)

- What is wrong with America? What has turned the world’s superpower & self-defined moral leader into a nation whose President insists it needs to be made “great again, *thereby* implying it is no longer so? “Such a capable country, such a talented country, such a rich country, America has stopped investing in itself”, I recall the day, decades ago, when my father returned to Hong Kong from his first trip to America, totally amazed at its wealth & modernity, especially so when compared to the then poverty in Asia.
- Today that is reversed. America’s infrastructure is battered, its schools poor & governance weak. Meanwhile, “I think America ... finds it hard to believe ...they are behind”, causing some Asian observers to grow skeptical about the very basis of the American story & to ask “Maybe we don’t want an American kind of democracy .. explaining ...that this does not mean ... all democracy is not worthwhile ... *just* that perhaps ... there is something about the American system that ... results in division and polarization.”
- Next she notes “If you get deeper into it, you realize that the politics is not spending on these basic things (*like infrastructure & education*) ... then you look at Asia and other parts of the world where [you] have less money ... *but* plow your money back into your own people. This is the fundamental point for Asians in judging America.” And “*you’re* not having the kind of discussion one would ... associate with a presidential campaign” and, if the US doesn’t quickly address these problems “I’m afraid other parts of the world will continue to develop, while America will not be able to solve its very basic problems”. And last but not least, while she expects the US to struggle to regain its self-appointed role as

⁵ The main city (with 50,000 inhabitants) on the Yaeyama Islands 170 kms Southeast of the Senkakus, and like it part of the Okinawa prefecture.

the global moral leader, she wonders if the country “ really wants to play that role any more”, & suspects the needed solutions won’t appeal to leaders more interested in playing politics than good governance ... that hence real change must come from the grass roots.

Her final conclusion may well already be in the making. It is called populism. And America’s willfully blind political elite still is mindlessly clinging to a now grossly outdated ‘business model’.

- The contents of this article first saw the light of day in a discussion in the Tällberg Foundation’s “New Thinking for a New World” podcast series (that can be accessed on the Foundation website and among others, on Twitter’s & Spotify’s podcast platforms) between Christine Loh & Alan Stoga, the Chairman of the Stockholm-based Tällberg Foundation (that was founded in 1981 to help leaders understand the challenges posed by the then starting to globalize world but that over the years has morphed into focusing on the systemic problems from the growing imbalance between nature & human activities. Alan Stoga is currently Chairman of NYC-based Zemi Communications US (a geopolitical & business intelligence information firm) and at various times during his career has been a risk manager for the First Bank of Chicago (long since sucked into the JP Morgan Chase orbit), a member of the Reagan-created Bipartisan Commission on Central America, a Board member of the Alliance Capital mutual fund complex & a Managing Director at Kissinger Associates. And Christine Loh is currently Chief Development Strategist at the Institute for the Environment at the Hong Kong University of Science & Technology & a Visiting Professor at UCLA’s Anderson School of Management, and a one-time Hong Kong legislator.

WHO’S NEXT : THE UNITED STATES AND THE WHO (New England Journal of Medicine, Barry L. Bloom Ph.D., Paul E. Farmer MD, Ph.D & Eric J. Rubin, MD, Ph.D.)

- Suppose a large forest fire hits California. Millions of acres are on fire. Forest Service fire fighters do all they can, using weather models to predict wind directions that prove faulty. So winds come from unexpected directions, destroying several towns & causing billions of dollars in damage - in such an event the Trump administration would have shut down the Forest Service; at least that’s what it is doing by announcing plans to withdraw from the WHO (& severely cutting back on the GDC’s international programs).
- The WHO has many roles in global health & touches the lives of many millions of people in the world, incl. the United States; for, as we have seen, infectious diseases respect no borders. What happens to our neighbours, & even in distant countries, can affect our health too. WHO is not perfect; governed as it is by a 194 member state consensus, its decision-making can be slow & bureaucratic. And it relies in outbreaks on information provided by the countries effected and to investigate outbreaks must be invited by the government(s) affected, often lacking the funding to *properly* to do those investigations.
- There is no question that, as the pandemic recedes, the international community must review & re-evaluate the WHO’s priorities & needs, and provide the funds to enable it to quickly & effectively respond to future such events. And while at some point there must be a reckoning & evaluation as to why the United States did so poorly (& *was so badly prepared?*) and who was responsible for the resultant needless deaths & economic damage, we must not make the mistake of firing the firefighters in the midst of the fire.

All three authors are professors in relevant medical disciplines at the Harvard Medical School, & Dr. Rubin has been Editor-in-Chief of the NEJM since last year.