

GLEANINGS II - 795
Thursday January 31st, 2019

Quote of the week - “I am seeking to mobilize all the sons and daughters of *ethnic Chinese* to work together for the greater national interests and the realization of the Chinese Dream” of *President Xi* - From Yu Zhengsheng’s opening address at the March 3rd, 2018 Annual Meeting of the People’s Political Consultative Conference - *Now age 73, Yu is a now retired CCP ‘insider’ who from 2012 to 2017 (i.e. during Xi’s first five year term as President), was the No. 4 ranking member of the CCP’s all-powerful Politburo of the Standing Committee (& from 2013 to 2017 also Chairman of the Conference, a largely ceremonial entity). It’s interesting that he chose the occasion of what may well be his ‘swan song’ as a public figure to proselytize President Xi’s vision of the overarching duty of all ethnic Chinese in-, or out-,side China being loyalty to the “Motherland” (i.e. he expects every ethnic Chinese resident abroad to be a spy).*

Quote of the week No. 2 - “Jerome Powell is a prisoner of the institutions, and the history he has inherited. Among his inheritance is a \$4 trillion balance sheet under which the Fed has \$39 billion of capital, representing a 100-to-1 leverage. That’s a symptom of the overstretched state of our debt and the dollar as an institution.” James Grant - *Now 73 years of age & still of a Libertarian Republican bent, he has, for the last three plus decades published the respected, “value-oriented, contrary-minded” bi-weekly Interest Rate Observer market letter, in which he commented in the early 1990s that “Canada is ten percent covered with water and ninety percent with debt”, the latter part of which now seems to apply to much of the world.*

Sen. Kamala Harris - Age 52, her CV includes seven years (2004-2011) as the San Francisco District Attorney, another six (2011-2017) as Attorney-General of California & two as California’s Junior Senator, In the “Me too” era, being female & having a Jamaican father & a Tamil Indian mother, she certainly has the right attributes to have Presidential aspirations. At her January 28th CNN “townhall” event in Iowa she pushed all the ‘right’ centrist/left of centre voter appeal buttons, calling the Trump Wall a “medieval vanity project” ¹, and for higher taxes on the rich & the “largest tax cut in a generation for the middle class” (*which puts her at odds with the leftist Democrat Party followers of the self-avowed deliberately non-Democratic Party member Bernie Sanders, who want tax cuts for the working class & therefore see her as a ‘centrist’*), medicare-for-all & lower cost university education ², but answered some questions in a true politician’s diversionary manner & appeared less than well-versed on the details of some issues.

US Budgetary Situation - In 2017, the first year of the Trump era, the US Treasury borrowed US\$519BN, so in that year about 13% of the government budgetary spending was financed with borrowed money. In 2018 it’s initially forecast US\$995BN borrowing requirement was upped later in the year to US\$1.3TR (a post-2010 high), which caused the share of government spending funded with borrowed money to rise to 32% ³. This century the compound annual growth rate of the US national debt was 7.6% from 2001 to 2007 & 9.2% from 2007 to 2015, and since then it has grown at a 7.7% annual rate in 2016, 3.1% in 2017 & 6.4% in 2018, and is

¹ Not long ago he expressed the hope that in the future it would be known as the “Trump Wall”.

² Which, given the above facts on the US government’s fiscal situation would require an extreme level of ‘financial alchemy’.

³ While this is roughly the same ratio as the Japanese government has had for many years, there is one difference : **all** of Japan’s government funding is done locally whereas at least part of the net new UST securities issued are placed with foreign investors.

expected to do so by 4.7% this year; in other words, in all but 2016 the rate of growth of the US national debt exceeded that of GDP **plus** inflation with the result that the US national debt-to-GDP ratio has nearly doubled this century to 100+% (with 90% the level at which it is believed to become a 'boat anchor' on the trend GDP growth rate). And this century the per capita national debt has grown at a 6.96% compounded annual growth rate from US\$19,581 to US\$65,656 (i.e. from US\$78,324 to US\$262,624 for a family of four) - *So for two decades American taxpayers appear to have essentially been living 'on the dole' at the expense of their grandchildren (which at some point in the, perhaps not too distant future, could set the stage for serious 'inter-generational warfare'?)* ⁴.

Who to believe? - Last week's edition included an item entitled "The next economic downturn scares me more than anything", a view expressed by Bridgewater Associates' founder Ray Dalio in Davos. But according to White House Economic Adviser Larry Kudlow a couple weeks earlier "There is no recession in sight ... The American economy is growing at 3 percent, job gains are huge and businesses are investing big time ⁵ ... It's a much better optimistic picture than what we've been getting in the past month or two." - *Meanwhile the latest Fed's forecast for 2019 GDP growth was in December 'marked down' to 2.3% (from 3% last year & its September 2.5% forecast) & the latest Atlanta Fed's GDPNow number is (a political considerations-driven?) 2.7%, down from 3% six weeks ago but just 0.1% from the 2.8% early on in the government shutdown. And while Kudlow for decades was an Wall Street analyst & economist rather than a hands-on money manager until he launched a career as a 'talking head' on TV, Dalio's Westport CT-based Bridgewater Associates is the world largest hedge fund with AUM of well over US\$100BN that in its 30+ years' existence averaged an annual rate of return of 12% (with only three years of negative returns), while in 2018 its Pure Alpha Strategy Fund return was 14.6% in a year the S&P 500 had a negative return of 4.4% & the average hedge fund one of -6.7%.*

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REPUBLICANS MAY BLOCK TRUMP FROM ANOTHER SHUTDOWN **(Politico, Burgess Everett et. al.)**

- They cannot stomach another shutdown & dread the thought of possibly another one by February 15th. While the House Republicans would go along if the President were then to instigate one, those in the Senate don't share that view; thus according to Sen. Roy Blunt (R-MO), one of the key negotiators trying to get a bipartisan deal on border security by that date, "I did not love the shutdown. I wouldn't think anybody would have another shutdown." And while most GOP lawmakers dutifully stuck with Trump in public as the shutdown dragged on, privately GOP support began to crack as both their polling, & economic numbers began to suffer, as a result of which half a dozen Republicans recently defected & *voted with the Democrats* and Trump dropped his demand for the Wall before a full-scale revolt corrupted (*although he has recently resumed talking about it, being quoted early Sunday morning February 3rd that "If there is no Wall in their (i.e. the bipartisan Congressional Committee's) report, I won't even read it" (even though he has a reputation for never reading anything).* And while White House aides have conceded that shutting down government is not an effective way to extract concessions,

⁴ And this does not take into account the 'invisible' debt from the growing entitlement programs' & environmental contingent liabilities.

⁵ A contention that isn't borne out by the St. Louis Fed's various Business Investment data series.

White House Press Secretary Sarah Huckabee Sanders & Rep. Mark Meadows (R-NC), the Chairman of the House Freedom Caucus & a close Trump confidant, both declined to rule out another shutdown if the bipartisan Congressional committee fails to come up with a border security package acceptable to the President (which most observers think is highly likely ⁶), with Rep. Meadows saying Trump's "preferred manner of going forward would be some type of executive action vs. shutdown". Meanwhile according to Sen. Mitt Romney (R-UT) "I don't think we want to face another shutdown. And I certainly don't think we want to have emergency action taken. So the president and Congress will have to come together ... It almost goes without saying that shutdowns are a very bad idea. And we should not use them as a political weapon", to Sen. Chuck Grassley (R-IA), the most senior GOP senator, "There's lots of lessons to be learned. Just like I learnt in 1995 when I thought it was a good thing to shut down the government ... Government's a service provider for the people of this country and they can't be served if the government's not functioning" & to Sen. Susan Collins (R-ME) "There is little appetite for it (*another shutdown*) ... Those who thought that shutdowns were a good idea have been disabused by that". On the other hand, Rep. Mike Simpson (R-ID) said on January 27th "I think the committee will come up with a deal ... If they could come up with something that isn't crazy, I think it'll have enough votes to override a veto in the House and Senate ... because we've all learned, hopefully, that shutdowns don't work, and are stupid."

House Republicans seem less inclined to lock horns with their President than the Republican lawmakers in the Senate (but since January 3rd mean less in the overall scheme of things).

TRUMP IS ON A MAJOR LOSING STREAK (The Week, Joel Mathis)

- When a marriage of convenience becomes inconvenient, a divorce usually ensues. While Trump & the GOP establishment aren't there yet, more & more signs are cropping up that Congressional Republicans no longer find the alliance with Trump that convenient & he is increasingly finding himself the loneliest man in Washington.
- Thus note three recent developments :
 - On January 31st Sen. Grassley (R-IA), the Chairman of the Senate Finance Committee, called on Trump to lift the tariffs on Canadian & Mexican goods before Congress starts debating his NAFTA replacement treaty;
 - That same day Sen. Pat Toomey (R-PA) announced bipartisan legislation that would have Congress reclaim its tariff authorization *powers* from the President, supported in doing so by Sens. Ben Sasse (R-NE), Jerry Moran (R-KA), James Lankford (R-OK) and Lamar Alexander (R-TN); and
 - Senate Majority Leader Mitch McConnell has signaled he won't allow another government shutdown, is entertaining legislative proposals to end government shutdowns forever, & has introduced a measure criticizing the "precipitous" withdrawal of US troops from Syria and Afghanistan, saying "We are not the world's policeman ... But we are the leader of the free world and it is incumbent on the United States to lead."

⁶ If only because, while the Democrats US\$21BN opening gambit provides funding for more customs officers, repairing infrastructure at points of entry, expanding the Customs & Border Patrol air & water operations and dealings with migrants in custody, and for new technology for mail processing facilities & new imaging technology at points of entry, it doesn't provide a penny for a wall, barrier, and/or building new-, or repair existing-, fencing - *which seems stupid since if even a couple of billion had been included for fences, it may have given Trump reason to declare a victory.*

- The president is starting to look like a loser. The rout last November by the House Democrats was a sign Americans are getting fed up with Trump. The Mattis' resignation after Trump's US Syria troop withdrawal announcement demonstrated the GOP establishment's unwillingness to follow his every whim & his shutdown surrender *after 35 days* the failure of his "deal making skill on his favourite issue. All this losing is taking its toll. The party's favourability ratings have dropped. A recent CNN poll shows that, while he never was that popular with the general public, he is now losing support among the white middle class voters who were part of his 'base'. And a new WP/ABC News poll found that one-third of Republicans would prefer not to have him on their party's ticket in 2020. And while the GOP establishment is not yet ready to throw him under the bus, if he were to continue losing & his policies hitting their constituents' pocket books, the temptation for Republican members of Congress to declare their independence from an unpopular President is going to grow. The partnership has always been fragile &, while the Republican leaders have rarely overtly criticized him, they have occasionally let it be known that they don't like his approach to politics (although they were happy enough to go along with it when he made it easier to get tax cuts & more conservative judges). And while they are unlikely at this point to go along with any Democrat impeachment drive, there's only so much losing the GOP can tolerate.

While some of freshmen House Democrats are baying like hound dogs for impeachment, there are others who feel Nancy Pelosi should pro-actively move to 'bring them to heel' until the time comes that the GOP's disenchantment with Trump has gotten so pervasive they too start thinking in such 'trash talk' terms.

AMENDMENT REBUKING TRUMP OVER MIDDLE EAST TROOP PULLOUT (CNN, Ted Barrett)

- On Thursday January 31st the Senate passed 68-23 (well over the 60 voted needed for passage) an amendment critical of President Trump's push to remove troops from Syria & Afghanistan. In so doing the pack was led by the hitherto seemingly milquetoast Senate Majority Leader Mitch McConnell who not only authored the amendment but forced a vote on it (*the final vote, the one that counts, won't be until next week*) & went on record saying "I've been clear about my own views on these subjects ... I believe the threats remain. ISIS and al Qaeda have yet to be defeated. And American national security interests require commitment to our missions there."
- This came as the Republicans have become more deeply skeptical of-, & concerned about-, Trump's haphazard, 'by his the seat of the pants', approach to foreign policy that is pulling America off the world stage at a time US leadership is 'most needed'.

Rather interestingly, & surprisingly, 20 Democrat Senators, & a few Republicans, didn't vote for the amendment. But it's passage made it a double whammy bad week for President Trump; for two days earlier Dan Coats (whom Trump had named to be his Director of National Intelligence before he was even inaugurated) in the presentation of his office's annual national security review to the Senate Intelligence Committee had publicly contradicted Trump's views on ISIS & Syria, Afghanistan, North Korea & Russia, which annoyed him to the point of tweeting that "the intelligence people should go back to school."

LOBBYING SPENDING REACHES \$3.4 BILLION⁷ IN 2018, HIGHEST IN 8 YEARS (Open Secrets News, Karl Evers-Hillstrom)

- After several straight years of modest spending, 2018 was a banner year for lobbying firms in Washington with the Top Ten taking in US\$237MM between them. The top industry spenders were the pharmaceutical/health products- (US\$280MM), insurance (US\$155MM)-, & electronics (US\$149MM) industries. For the 19th year in a row the US Chamber of Commerce (US\$95MM) was the largest 'individual' spender, followed by the National Association of Realtors (US\$73MM). Conservative groups hiked their spending by 78% (with that by the Freedomworks think tank leaping from US\$130,000 to US\$1.88MM YoY, while that of liberal groups declined), the Savings & Loans one by 61% & the Marijuana one by 55%.

But as the saying goes, "there's many a slip between the cup and the lip"; for the same source also reported that the total cash received by all Democrats lawmakers had been US\$14.3MM & by all Republicans US\$15.8MM. Furthermore that the Top Five recipients in the Senate were all Democrats, as were eight of the Top Ten, with the top payout being US\$550,000 & change, while the reverse was true in the House where four of the Top Five, & eight of the Top Ten, were Republicans & the top cash payout US\$329,000. But these numbers likely do not include the cash value of the various non-cash benefits that lobbyists can shower upon law makers (& their families?) like dinners at upscale restaurants, tickets to sport events, holiday-, & ski-, trips, and other 'under the table' benefit transfers.

WASHINGTON STATE DECLARES EMERGENCY FOR MEASLES OUTBREAK (Forbes, Bruce Y. Lee)

- On Friday January 25th Democratic Gov. Jay Inslee declared a State of Emergency throughout the state due to a measles outbreak *in Clark County*⁸ that had affected 26 people (since raised to 43, including some across the Columbia River in Oregon), calling it an "outbreak ... whose effects impact on the life and health of our people, as well as the economy of Washington State, and ... a public disaster that affects life, health, property and the public peace". This means that the Washington State Comprehensive Emergency Management Plan will be implemented, i.e. that the State's Military Department, Emergency Operations Center & Department of Health, and local officials will coordinate their resources & efforts, using taxpayers' dollars & other resources that otherwise would have gone to other uses.

I grew up in Holland in an era when, if a kid had measles, other kids' parents would send them to visit the measles-stricken one to give them, whether they caught it or not, lifetime immunity. But I firmly believe in "vaccinations if necessary but not necessarily vaccinations"; so, while vaccinating against things like ebola (fatality rate 40%), polio & tetanus (both with fatality rates in the low double digit range) & polio (that often has very nasty, lifelong aftereffects) is a "must do" activity, vaccination for diseases like measles (the fatality rate of which is in the 0.0005% range) falls at best in the "could do" category, the more so since no vaccination is 100% risk-free. - Thus while in the UK's 2007 foot & mouth disease outbreak thousands upon thousands of

⁷ Or more exactly US\$3.37BN up from US\$3.15BN in 2017, but down from 2010's US\$3.57BN and equivalent to US\$2.96BN in 2010 dollars.

⁸ Located in the State's very Southwestern corner across the Columbia River from Oregon, it is, with a population of nearly half a million (6.4% of the state's total), its fifth most populous county.

hoofed farm animals were 'put down, a move that later was conceded to have been an "overreaction"', when a cow in an East African Maasai cattle herd gets the disease, its owner typically goes, cloth in hand, to the cow, sticks it into its mouth until saturated with its saliva & then goes through his herd sticking the cloth in each cow's mouth to have it build up immunity (and I remember first hand from my teenage years in Holland, when foot & mouth disease in cattle was not uncommon, albeit not endemic, that few of infected cattle died & that, while most suffered significant discomfort, if not pain, for a while, they typically recovered fairly, albeit at the cost of lower milk production.

OTTAWA WINS TRUST TO FREE DETAINEES **(Toronto Star, Mike Blanchfield & Nicole Thompson)**

- Last week John McCallum, Canada's Ambassador to China, twice publicly commented on the case of Meng Wanshou, Huawei's Vice Chairman & CFO (*who on December 1st, pursuant a US-Canada extradition treaty, was arrested in the Vancouver Airport while in transit from Hongkong to Mexico but who has been out on \$10MM bail since December 10th, living in one of the two houses she owns there until the US gets its act together*). He first told Chinese reporters on Canadian soil that Meng might have a "strong case" to avoid extradition ⁹ & then a couple days later, after having apologized for having "misspoken", telling the StarMetro Vancouver free daily it would be "great for Canada" if the US dropped its extradition request for Meng. So *in late January 25th, after this had become a political issue in the House*, Prime Minister Trudeau told him he was fired.
- While Washington-based Karim Lebour, a spokesman for the *Brussels-based International Crisis Group*, the employer of Michael Kovrig ¹⁰, one of two *Canadian* men detained in China *in apparent retaliation for the Meng arrest*, expressed confidence in the Trudeau government after McCallum's firing, saying "We trust them to pursue the best strategy to secure the release of Michael Kovrig", according to Lynette Ong, an Associate Professor at the UofT's Munk School of Global Affairs & Public Policy, McCallum's firing wasn't well received in Beijing that had come to view *him* as a friend of China & a promoter of stronger ties between China & Canada (*which have not been great recently years*), as witnessed by an editorial in the *Beijing government's China Daily* newspaper that praised those remarks of his about the Meng case.
- McCallum has been replaced, *pro tem & only with "chargé d'affaires" status (someone in charge of an embassy in an ambassador's absence)* by his deputy, 59 year-old Jim Nickel, who has been with the Foreign Affairs Department since in 1991, whose first order of business will be to continue pushing for the freedom of the two Canadians & for getting the third Canadian off death row. He is said to be 'highly skilled in Asian diplomacy' & a 'solid choice to carry out the diplomatic repair job' and, says Fen Hampson, Head of the Global Security Program at the Centre for International Governance Innovation in Waterloo, Ont. having a career diplomat at the helm in China instead of a former politician is a better bet.

There may well be much truth in the recent Macleans magazine headline that called this "the worst foreign affairs bungle in a decade". McCallum had arrived back in Canada on January

⁹ Apparently according to Canadian extradition lawyers with some justification since a) President Trump had "politicized" the case (which apparently creates an exemption under the treat, b) the extraterritorial nature of the arrest c) Canada had never signed on to the US anti-Iran sanctions regime.

¹⁰ An employee of Canada's Foreign Affairs Ministry, he is currently on leave of absence with the International Crisis Group.

18th, recalled to brief the Commons Foreign Affairs Committee on the Chinese perspective on the Meng case. There was something odd about his January 22nd meeting with Chinese reporters in Markham, 20 miles/32 kms North of Toronto, his place of residence in Canada; for no Canadian media type had been invited to attend. From a Beijing perspective the fact that Prime Minister Trudeau did not immediately send a replacement ambassador, or some other official with direct access to him, to Beijing to represent Canadian interests at such a critical time likely was taken as a signal that the Meng affair was not high on his 'bucket list' & that he would bow to Washington's wishes in it (which doesn't bode well for the three Canadians mentioned above, especially so since Jim Nickel as chargé d'affaires will not have the access to Chinese decision makers as McCallum, or any high profile alternate, would have had. Furthermore, Beijing may have concluded that, with Foreign Minister Freeland in Davos (where she observed that "the central job of an ambassador is to represent accurately the government's position, John didn't do that and that's why his position was untenable"), Prime Minister Trudeau had on his own orchestrated the McCallum utterances to curry favour with it but then, after the uproar in the House, had gotten 'cold feet'. If so, McCallum's firing could badly backfire on the PM, especially now that Washington has now formally charged Meng & requested her extradition (with McCallum having gone along with the gag since being Ambassador to China in retirement had proven for him to be a "poisoned chalice"); so the for domestic political reasons-driven McCallum firing may well have the opposite effect of that mooted by the Star's headline writer.

HUAWEI'S 'DARE TO DIE' BUSINESS MODEL (Epoch Times, Nicole Hao)

- In a December 20th, 2018 article Chinese economist Wang Shuangyi in his analysis thereof concluded that it serves as a "gan si dui"/"dare to die" kamikaze unit in Beijing's strategy to dominate the global *telecom equipment* market. Being a "privately-owned" (?) business, Huawei is supposed to be able to carry out activities that would be too diplomatically inappropriate for SOEs (State-Owned Enterprises). According to Wang, "under the banner of patriotism and localization, Huawei [and other Chinese companies] copied, plagiarized and stole" technology from foreign entities", reverse-engineered foreign technology and "pushed the foreign suppliers out of China". Then, "using their profits from the Chinese market & subsidies from China, they exercise active domination in overseas markets". The key to this, he says, is that Huawei products come with backdoors that provide channels for Chinese regime hackers. For "Huawei is the Communist Party's 'spear ... It carries the responsibility for comprehensively purchasing and stealing foreign technology". He predicts that as the pernicious nature of the Huawei model becomes more apparent to foreign markets & governments, it will face increasing backlash for its actions. Hence the Chinese regime reacting so strongly to Meng's arrest, detaining several Canadian citizens in China, staging high profile diplomatic protests & encouraging a boycott of the Canada Goose apparel line, thereby demonstrating how much the Chinese Communist Party values Huawei for its utility in gathering intelligence and expanding its global influence.
- In a speech last April to new hires (*who are said can expect to be routinely discarded at age 35 if they haven't already been literally worked to death*), Chen Lifang, a board member & SVP of Huawei, told them that China still lags decades behind the US in many technological fields and that "In precision and smart instruments, and test equipment, the gap is bigger ... for all testing devices, we rely on imports ... As for equipment banned by the Wassenaar Arrangement on Export Controls for Conventional

Arms and Dual-Use Goods and Technologies¹¹, our comrades who work **on the hidden front** (*bolding added*) have to take the risk and smuggle them”.

- According to Wang, Huawei has a three-phase catch-up plan for the developed countries. In Phase One, during this century's first decade, it copied the software of Cisco & sold the resultant product at half Cisco's price and, when Cisco sued, the CCP's strong backing of Huawei meant it could not succeed in court as the Chinese propaganda machine promoted Huawei as a "patriotic enterprise" & claimed that using its products was patriotic. During Phase Two it expanded its business overseas while disregarding international laws & regulations & had one advantage over US companies; for as the Chinese regime funded infrastructure projects in other countries it did so on the condition they installed Chinese-built equipment which resulted in it grabbing a big market share in Africa, South America & other developing countries¹². And in the current Phase Three the further development of the CCP's plans ranges from forcing foreign companies in China to hand over their technology to recruiting overseas experts & scientists to work for Chinese companies, and aiding foreign universities so as to have them develop *next generation* technology for it, with some CCP military experts posing as Huawei employees to receive training in-, & *gain access to-, the latest technology* at European and American universities.

Unable to track down the "Chinese economist" Wang Shuangyi & knowing that the Epoch Times is the public voice worldwide of the China-banned Falun Gong movement, there is a risk of this being 'fake news'; on the other hand, the article's story line seems credible.

¹¹ A multilateral export control regime intended to make the global legitimate arms' trade more transparent that negotiated in 1996 in the Dutch city of that name, near the capital The Hague, that today is its 'Embassy Row". Today it's membership numbers 42, mostly European, countries (incl. Russia & some other former Warsaw Pact countries) as well as Argentina, Australia, Canada, India (its latest addition in 2017), Japan, Mexico, New Zealand, South Korea, South Africa & Turkey, but neither China or Israel.

¹² This is nothing new in the 'aid biz'; for the US introduced the concept of "tied aid" decades ago.