

GLEANINGS II - 822
Thursday August 29th, 2019

Quote of the week - "America's traditional allies have learnt that the United States does not need to be treated with complete deference *anymore*. If a previous American president had publicly derided the Danish Prime Minister as "nasty", it would have created a political crisis in Copenhagen. But now they have learned (along with Canada, France & Germany) that a furious American president, a hollowed-out State Department and an isolationist foreign policy is not the end of the world." - Scott Gilmore (in an article in Canada's Maclean's magazine entitled "When the World Stopped Listening to America" - *If its allies may no longer respect the USA, its non-allies, like China, Russia & Iran, utterly disdain it.*

China's fiscal conditions are deteriorating - YTD budgetary revenues are up 3.1% YoY vs. 10.0% in the year earlier period while expenditures are up 9.9% YoY vs 7.3%. And in 11 of the country's 26 provinces revenues were down YoY, vs. only 4 a year ago and, by July 31st, with the year 60% over, the provinces had used 83% of their bond issuance 'quota'. Meanwhile, on Monday August 26th President Xi chaired a meeting of the CCFEA (Central Commission for Financial and Economic Affairs), the Communist Party's most important economic policy-making body that, according to the China Daily, stressed "the necessity to foster a united, open and complete economy and let the market play a decisive role in resource allocation." (???) For since the Chinese economy (*like the state itself?*) functions like a collection of not *particularly well*-integrated regional fiefdoms, the theory is that a more unified national market will generate efficiency-, & productivity-, boosting economies of scale that will induce more rapid economic growth. Xi is pushing this even though he also promotes greater State/*(Party?)* control. Meanwhile the 'national social credit' system will apply to corporate-, as well as to individual citizen-, behaviour (*which is likely to have a negative impact on the corporate sector, incl. the foreign-owned part thereof that is fearful it will be used by Xi as a pawn in the China-US trade war*). Also on Monday August 26th Wang Shouwen, the Vice Minister of Commerce, announced the creation of six new Free Trade Zones in the Guangxi-, Hebei-, Heilongjiang-, Jiangsu-, Shandong-, & Yunnan Provinces [in the expectation this will boost foreign trade with the ASEAN countries (Guangxi & Yunnan), Russia (Heilongjian), and Japan & Korea (Jiangsu & Shandong), with Hebei Province being a special case (where the objective is to promote its biomedical industries)].

If the Stalin era Soviet Union experience is anything to go by, a higher rate of State/Party control over the economy will likely prove counter-productive in economic efficiency terms; for there it led to widespread 'siloed thinking' as suggested by two examples quoted by Khrushchev after he came to power. One was that one ministry had cargo barges going down the Volga River fully loaded & going back empty upstream, while another had its barges go empty downstream & go back fully loaded upstream, while in another case the manager of a shoe manufacturing plant with an annual 'quota' of two million pairs of shoes decided that the simplest way to meet his quota was to make four million shoes for the same foot & then box two of them together to make a "pair"

Greta Thunberg – Those who may have been intrigued by the story about her in Gleanings 820 may be interested to know that she arrived in New York, right on schedule, on August 28th, after a journey she told the press was not as hard as she had feared because she "never was seasick".

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US 30-YEAR BOND YIELDS HIT RECORD LOW, CURVE INVERSION GROWS
(Reuters, Richard Leung)

- UST yields fell on August 28th, with those of the 30-year maturity settling at all-time lows as fears about a recession and the US-China trade tensions stoked an unrelenting demand for low risk debt. As a result, inversion spread across the yield curve as far out as 30 years, unsettling investors as this often precedes a recession. This caused Brian Rehling, Co-head of Global Fixed Income at the St-Louis MO-based Wells Fargo Investment Institute to observe “A deeper inversion is sending a stronger statement that a meaningful slowdown is coming ... A recession is a possibility in the next 12 to 18 months, but it’s not a done deal.” and James Barnes, Director of Fixed Income at the Devon PA-based US\$19.3BN AUM Bryn Mawr Trust Co. that “it is hard to see where the end is with the trade tensions.”

While later in the day on Wednesday August 28th the yield on the UST 30-year bond went back up to 1.943% from the morning’s all-time low 1.907%, this was still not enough to ratchet it up to a yield higher than that on 1-, or 3-, months Treasury Bills. Meanwhile, the fact that in July shipments of US capital goods fell to a nearly three-year monthly low was seen by many as a sign of continued weakness in US business investment & of a likely slowdown in economic growth in the Third Quarter. The latest, August 30th, Atlanta Fed’s GDPNow reading was 2.0 %, down from 2.3% only four days earlier, albeit it still up marginally from the 1.9% a month ago

TRUMP GIVES A STUNNING DISPLAY OF INCOHERENCE AT THE G-7 (NYT, Editorial Board)

- On Friday he called President Xi an “enemy” & said “we don’t need China” but on Monday called him a “good leader” & a “brilliant man” with whom his administration would probably soon strike a trade deal. He repeatedly touted a trade deal with Japan only to be contradicted by Prime Minister Abe *himself* & have the Japanese Foreign Ministry telling the world that the negotiations were *still* at a preliminary stage. He said there was “tremendous unity” in his talks with the other leaders while the US delegation blocked consensus on trade & other issues. He skipped the meeting on climate change ¹ and his pitch to have Russia restored to the group was flatly rejected by, among others Germany & Britain (*despite the fact Boris Johnson is now its Prime Minister*). And when President Macron sought to jumpstart US negotiations with Iran at the Summit by inviting Iranian Foreign Minister Mohammad Javad Zarif to Biarritz, he conceded that Macron’s idea of a meeting between him & Iran’s President Hassan Rouhani within weeks was possible, only then to cite a set of conditions quite different from-, & less stringent than-, those previously set by Mike Pompeo, his Secretary of State, and then suggested he would support new loans to Tehran if talks got underway; but while something may well come from the Macron initiative there was no way to be sure whether he was contemplating a change of tack on the Iran issue, just as it was anyone’s guess whether he was having second thoughts about his trade war with China, as he seemed to suggest on Sunday (although his staff later indicated that he wished he had raised the tariffs even higher). The one thing on which he seemed steadfast was on his plan to have next year’s G-7 Summit [*that the US is scheduled to host (which will make it difficult, if not impossible, to keep him from inviting his ‘good friend’ Vlad)*] at his Doral golf resort near Miami (*to inject a huge stimulus into a business that appears to struggling?*) & when asked if he was trying to use his office for

¹ On the excuse, as confirmed by White House Press Secretary Stephanie Grisham, that he had “scheduled meetings and bilaterals with Germany and India” while in the real world the leaders of both those countries were in attendance at the climate change meeting he was skipping!

personal gain (which would be a clear infraction of the Constitution's 'Emoluments Clause'), he ducked the question & claimed that being president has cost him US\$3-5BN.

And he told reporters after the G-7 Summit had ended that all his seemingly contradictory statements had been intentional since that's "the way I negotiate ... It's done very well for me over the years. It's doing very well for the country." - The first part of the latter statement may well have been the case when he was a real estate 'hustler' dealing with 'small fish' in the New York real estate 'bush league', but seems to be less effective in the global (Inter)National League; thus according to Wang Huiyao, president of the 'non-government' Beijing-based Center for China and Globalization think tank & an adviser to China's Cabinet, "I think there is a lot of fatigue with President Trump's 'art of the deal' ... It's like a roller coaster ... He says one thing one day then hits the world with a surprise the next day ... But the more they (i.e. China's decision makers) deal with him (& the more he tweets), the more they figure him out."

TRUMP SAYS US AND CHINA TO RESUME TRADE TALKS THURSDAY (CNBC, Yun Li)

- On Monday August 26th he said that China in recent phone conversations had expressed a desire for a deal & that the two sides will get back to the negotiating table, while China has repeatedly denied being aware of any of the phone calls Trump referred to. Then, on Wednesday 28th, he told Fox Radio News that the US & China are set to have trade talks on Thursday (*the 29th*) "at a different level", without elaborating what he meant by that, telling it "Let's see what the end product is; that's what you have to judge it by"(and telling CNBC that "both sides remain in communications at different levels").

*It may well be, & there likely is, some ongoing chatter between individuals involved in the trade war dispute in Washington & Beijing but not between those who matter. And while Beijing may **want** a deal, albeit not on Trump's "my way or the highway" terms, it must be increasingly aware that he **needs** a deal (for domestic political & self-esteem reasons) & has underestimated China's staying power & the 'asymmetric (in this case economic) warfare' relationship in negotiations between democratic-, & dictatorship-, nations. And the self-styled "Great Negotiator" is beginning to look more like a "Great Dummy Negotiator" by the standards of the 2006 book by Harvard Business School Professor Michael Watkins entitled Breakthrough International Negotiations that iterates the following seven qualities of Truly Great Negotiators :*

1. They shape the structure of the negotiations - *Trump likes to 'fly by the seat of his pants';*
2. They organize to learn - *his officials supposedly are frustrated by his inability to learn;*
3. They are masters of process design - *see 1. above;*
4. They foster agreement when possible but employ force when necessary - *this is not part of bully tactics practitioners' lexicon - for them power is a matter of first-, not last-, resort;*
5. They anticipate & manage conflict - *Trump has apparently been surprised repeatedly by Beijing's ability to withstand economic pressure & its lightning speed response to his latest tariff hike proposals;*
6. They build momentum toward agreement - *Trump is single-minded in his "my way or the highway" approach; and*
7. They lead from the middle - *immediately see above.*

LINDSEY GRAHAM TO U.S. CONSUMERS : 'ACCEPT THE PAIN' OF TRUMP'S TRADE WAR (Huffington Post, Amy Russo)

- He said on Sunday August 25th on CBS' Face the Nation program "The Democrats for years have been claiming that China should be stood up to ... Now Trump is and we just

got to accept the pain that comes with standing up to China. How do you get China to change without creating some pain on them and us? I don't know". And he opined that his South Carolina constituents will just have to withstand "some" consequences of Trump's escalating tariff battle, incl. a hike in consumer prices since "We're now at that point in the trade war where you feel increases at Walmart." All this was in direct conflict with White House Trade Adviser Peter Navarro's contention on CNN's State of the Union program a week ago when he contended there has been "absolutely no evidence in the price data of the effects of the trade war" & that it is "not showing up in the CPI."

A remarkably politically "tone deaf" observation by a Senator with a psychology major in university who has to face his South Carolina constituents in next year's elections, and has a Net Worth in the half million dollar range & as a bachelor an annual income well over 3x that of the median family income of his constituents, and who gets 72% of his health insurance costs paid by tax payers & in addition has access to free medical outpatient care at any military facility on the Washington, DC area. He appears blinded by his willingness to justify Trump's behaviour, come what may.

ELECTION 43 : HALF THE ELECTORATE UP FOR GRABS; HEALTH CARE, AFFORDABILITY, HONESTY ARE THE TOP ISSUES FOR FLEXIBLE VOTERS (Angus Reid Institute)

- The Institute's most recent survey showed that 52% of voters don't have-, & only 48% do have-, a party they will "definitely support" *in next October's Canadian federal election*. Uncommitted voters are more likely to be female than male (by a ratio of 58% to 42%), with 74% of women < 35 still undecided while 61% of men > 55 have already made up their minds. Of those still uncommitted one-third say that in 2015 they had voted Liberal, 20% NDP & 15% Conservative. While overall the top issue for Canadians is climate change (23%), as it is for 33% of 18-34 year-olds, it comes second for those over 55 for whom health care is the No. 1 issue. While the Conservatives, with 25%, have the highest number of committed voters, their scope for growth is blunted by the public perception of their position on issues most important to them among the as yet not locked-in voters, specifically climate change & housing affordability and, while the Liberals get high grades in top issues for them such as healthcare & climate change, the SNC-Lavalin affair hurts them on another top vote-moving issue, ethics & transparency in government.

Since this was written several other polls were made public; while all over the map, from a tie to a seven point lead for the Conservatives [with one giving the Liberals an (anti-Doug Ford?) 17 point lead in Ontario (which would translate into a significant gain seat-wise)], they had one thing in common, all had been taken after the publication of the Ethics Commissioner's report which, rather strangely & surprisingly so, seems to have had little impact on voting intentions - Small wonder the Justin Trudeau regime has been showering money it doesn't have with great abandon on political 'eye candy' projects from coast to coast.

LEBANESE PRESIDENT AOUN COMPARES ISRAELI DRONE STRIKES IN BEIRUT TO A 'DECLARATION OF WAR' (Reuters, Ellen Francis)

- On Sunday August 25th two Israeli drones crashed in Southern Beirut Hezbollah-dominated suburbs prompting it to warn Israel to expect a response & Prime Minister Saad Hariri to appeal to foreign diplomats to help prevent a "dangerous" escalation, and President Michael Aoun, a Hezbollah ally, the next day to declare his country had the right to defend itself.

If Hezbollah were to make good on its promise, it would play right into Netanyahu's hand. For, in the run-up to the September 17th election, he is in the fight of his political life; for if he loses he will not just cease to be Prime Minister but could end up in jail if found guilty of one, two, or all three of the criminal charges he faces & is presently scheduled to appear for in court in mid-October. He appears to be betting that some military adventurism, or even a 'little war', might gain him public support; so in the past while he has not just executed this attack on Iranian military interests in Lebanon but on others in Iraq & Syria (one of the latter of which killed the commander of Iran's Quad Force, its most important military force in Syria). Nevertheless, in the past month the needle on various Israeli pre-election polls has barely budged : while in the popular vote Likud is consistently a smidgen ahead of the Blue & White combo, in the possible Knesset seat count the best that the last government's coalition has been able to do in the last month was 58-62 on August 18th while the last three polls all had it trailing 56-64 [largely due to the popular support for Avigdor Lieberman's Yisrael Beiteinu party (who refused to join his coalition after the last election, thereby necessitating a second one in just five months) having doubled. And this is not the only place in the world where the danger gauge is flashing ORANGE, with the others including, but not limited to, Kashmir, Turkey/Northern Syria, the Strait of Hormuz, Hong Kong and possibly the Sahel (the land from the Atlantic to the Red Sea across Africa South of the Sahara).

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Butler County MO - It is located in the Southeastern part of the state and has a population that's older, sicker, poorer & more under-insured than the rest of the nation (with even those who are insured often unable to pay for their co-payment deductibles). Per capital income is US\$20,282 (< 40% of the national average) & 18.6% of its population actually is below the poverty line, vs. a national average of 13.7%. Its county seat is Poplar Bluff (pop. 17,000) the residents of which are 68% Evangelical & 92% white (vs. *the state's 82%*) and every single one of its elected officials is Republican. After other hospitals in the state offering emergency care closed in recent years for financial reasons, the only one still doing so is the Poplar Bluff Regional Medical Center; but it has had to turn to suing people for their outstanding medical bills at a rate as high as 34 weekly, in a standoff between it & its patients as to whom will go broke first - *It will be interesting to see how the 2020 elections will play out in this county & state (currently seven of its eight members of the House are Republican (the exception being William Lacy Clay Jr., who has represented its First District since 2001 ²), while with the 45.4-51.4 defeat of the three term incumbent Democrat Senator Claire McCaskill last fall, Missouri now has two Republican Senators for the first time since she was elected in 2007 (neither of whom are up for re-election next year).*

IT'S RAINING PLASTIC IN CANADA, SCIENTISTS SAY (NP, Devika Desai)

- A May US *Geological Survey* study made headlines around the world with its eye-catching title It is raining plastic; for geologists researching the effects of nitrogen pollution unwittingly had found tiny plastic fibres, beads & shards in rainwater samples collected on the remote slopes of the Rocky Mountain National Park near Denver CO, with Gregory Wetherbee, the study's lead researcher, noting "It wasn't entirely surprising to find them in an urban environment ... but when we saw them in the remote areas of the mountain, we started to become a little more surprised ..." But according to Liisa Jantunen, *a scientist*

² That includes all of the city of St. Louis & the Northern part of St. Louis County; it is 99% urban & 50% Afro-American and 47 % white, whereas the state as a whole is 30% rural & 82% white.

at the Egbert ON³-based Centre for Atmospheric Research Experiments (CARE), who has been researching microplastics in the Canadian Arctic & the Great Lakes since 2017 “We’ve been collecting snow samples in places like Whitehorse, Alert and Eureka⁴ as well as in southern Ontario and ...found microplastics in all our snow samples, often in microfibre form ... We’ve found them deep in the ocean sediment and in plankton⁵ ... Everywhere we look we find it.”

- The level of microplastic concentration tends to be higher in urban environments because household appliances such as dryers & vacuum cleaners produce it in the form of lint & dust. Earlier this year European researchers found tiny plastic fibres in the French Pyrenees Mountain region, which they say were carried there on the wind, & they estimate that France is “blanketed by 2,000 tons of plastic particles” annually. And a report earlier this month said that Swiss researchers had found alarmingly high concentrations of microplastics, as many as 14,000 particles per litre, in snow samples from the Arctic snow fields, as their minuscule size, often due to the degradation of larger plastics, make them particularly buoyant & easily transportable through the atmosphere & water systems.

Microplastic pollution differs from (& is more insidious than?) big plastic pollution since it can self-transport itself as big plastics cannot & can enter into the human bloodstream with little known as yet as to whether it stays or is secreted, and what the health consequences may be if it stays.

N.B. TURFS CHINA-BACKED CONFUCIUS INSTITUTE (NP, Tom Blackwell)

- On August 26th the New Brunswick government of Conservative Premier Dominic Cardy announced it will cancel, effective immediately, the cultural lessons delivered in the Province’s elementary & middle schools by the local Confucius Institute but will allow its high school language courses to continue until 2022 to comply with the contract the previous government had signed with an agency of the Chinese government. This came several months after the Montreal-based Chinese Consul-General, the top Chinese diplomat in Eastern Canada, had paid an unannounced visit to the Province’s Education Minister to warn him not to eject to Confucius Institute from its schools since doing so could imperil the Province’s growing trade with his country. In his decision the Minister cited reports received from parents about the Institute restricting or distorting discussions of China, teachers not being allowed to discuss the 1989 Tiananmen Square massacre and handing out maps that showed Taiwan as part of China.

There are Confucius Institutes all over Canada & all over the world. They have been promoted & funded since 2004 by an agency called the Office of the Chinese Language Council International in the Chinese Ministry of Education. While its officially-stated goal is to promote Chinese language teaching abroad & facilitate cultural exchanges with other countries, there has been

³ Located 16 mi/26 km South of Barrie ON.

⁴ Alert is located in the Nunavut Territory is located 500mi/800km South of the North Pole & 2,150 mi/3,500 km North of Winnipeg, and its 62, mostly military, inhabitants the Northern most largest human settlement in the world.

⁵ A generic name for a wide range of, sometimes microscopically small, organisms at the bottom of the marine food chain with some of the smaller ones the main food source for some whales.

little evidence that it is a two-way street with respect to the latter but significant evidence that it promote Beijing's vision of the world in other countries to undermine the Western version thereof.

THE RACE FOR QUANTUM SUPREMACY (WP, Jeanne Whalen)

- Over a decade ago the now 49 year-old Chinese physicist Pan Jian-Wei (*whom the Chinese media now call the "father of quantum"* ⁶) came home from Europe to oversee research into some important 21st century technology. At a conference in Shanghai this summer he & his team of 130 researchers at the Shanghai-, & Hefei-, based University of Science and Technology (USTC) offered a rare peek at work he called a "revolution" & spoke of the hacking-resistant communications networks they' are building across China, the sensors they are designing to see through smog & around corners, and the prototype computers that will far exceed the computational power of any existing machine.
- All of this is based on quantum technology, an emerging field that could transform information processing and confer big economic-, & national security-, advantages to those countries that will dominate it. And to the dismay of some US scientists & officials, China's formidable investment is helping it to catch up with Western research in this field &, in some areas, pull ahead of it, triggering concerns in the Trump administration that some scientific collaboration with China is aiding the PLA & hurting (*critical?*) US interests; thus in a recent report about China's quantum ambitions the Center for a New American Security, a Washington DC-base bipartisan think tank, wrote "The United States must be prepared for a future in which its traditional technological predominance faces new, perhaps unprecedented challenges."

All this scientific stuff is above my pay grade but may not be beyond yours; if so, you may wish to review the entire page & a half-long article. My concern is more mundane, namely the risk that the world my grandkids are going to live in will have many of the trappings of either or both of George Orwell's Animal Farm & Aldous Huxley's Brave New World. On the other hand, I remain convinced that China is little more than a 'Potemkin Village' that in due course will, to use a term coined by George Orwell, 'fall on evil days' due to its many internal social & demographic-, financial & economic -, and environmental contradictions that President Xi isn't addressing.

⁶ Whom in 2017 the British journal Nature named one of the "10 people who mattered this year".