

GLEANINGS II – 883
Thursday May 27th, 2021

Quote of the week – “The current war is not the final war with Israel, there will be more ... It’s not like it was in Vietnam and elsewhere, where things ended up with negotiations. This is just one of a series of wars and a war will come when we negotiate with them [*i.e. the Jews*] about the end of their occupation and their leaving Palestine ... Israel will come to an end as it began, and our Palestinian people will return to their homes because injustice cannot last and our people must get what is rightfully theirs ... we are not dreamers ... Where did the Soviet Union go? Where did the Berlin Wall go? The day will come when people will ask “Where did Israel go?” - According to The Times of Israel this was part of an interview that Abu Marzouk, Hamas’ Deputy Political Chief, gave on Monday May 17 to RT/Russia Today (a Russian government owned-, & funded-, TV network that targets foreign audiences) - *For Hamas the pain endured by the Gazans is worth it to sideline the “accommodative” Fatah* ¹ *(The difference between the two is that the latter tolerates the idea of a Jewish state provided the Palestinians get a state of their own, while Hamas doesn’t). Netanyahu may well be playing into Hamas’ hands by the conditions under which he keeps the Gazans and in doing so hat may well, rather ironically, strengthen the hold Hamas’ has over them. And Abbas postponed the elections not because he would lose but, while Poll 79, the first this year by the Ramallah-based PSR (the Palestinian Center for Policy and Survey Research), had found that “public attitudes seem to shift ... away from Hamas”, in last year’s poll No. 78, had found two-thirds support for ‘demanding President Abbas’ resignation.’”*

China, a giant with feet of clay? (Daniel 2 : 31-35) – In the past two decades, i.e. ever since it joined the WTO (& *disappointed the Bill Clintons of this world who had expected Beijing to “play nice” & observe its rules*), its economy has grown so fast that, whereas in 2001 it was the sixth largest in the world, today it is No. 2. This was driven by three facts : globalization, massive China government investments in SOEs (State-Owned Enterprises) & foreign countries and the post-1979 Deng Xiaoping-inspired policy framework that unleashed China’s entrepreneurial ‘animal spirits’. But the COVID 19 experience has sensitized decision makers elsewhere to the downsides of globalization (and *Premier Li Keqiang’s efforts to switch China’s economy to a domestic consumption-, rather than export-, orientation have been slow to bear fruit, in part because of Chinese exports has been greater than ever; thus last March US imports from China were US\$40,229MM, up 103% YoY & 35% from March 2016, the final year of the Obama regime*). Beijing’s investment endeavours have led to an unsustainable increase of China’s M2 (its annual growth rate doubled from 14% in 2001 to 29.7% in 2010, then halved by 2016 & again by 2019 only to mount again to 12% last year, while during that same at 20-year period US M2 grew steadily by a 6.12% CAGR (until last year when it more than quadrupled to 26.5%, prompting the Fed to end four decades of publishing its M2 data series). But the SOEs are notoriously inefficient, local government investments typically don’t pay their way & many of its foreign loans are to governments of a marginal credit quality ². So China’s financial structure may be a sort of government-sponsored Ponzi scheme that must continually create more

1 In which it has likely failed. For while Mahmoud Abbas delaying the first election in a decade was because, if the polls were correct, he would not win, Hamas wouldn’t have won a majority either.

2 China at last report had a net creditor position vis-a-vis the rest of the world, with at mid-2020 claims of US\$5.6TR (up from US\$1.6TR in 2006) & debt of just US\$2.4TR. But there is a quality difference in that China’s debtors are mostly low income countries with increasingly questionable debt sustainabilities one of the reasons it has been a less active foreign lender abroad since 2018 (the other being borrowers’ growing concerns about Chinese lending practices & conditionalities.

money faster than the economy needs to keep going. And along the way the, mostly government-owned, banks would only lend to SOEs for security reasons, forcing the more entrepreneurial privately owned enterprises into the arms of lightly regulated lenders. And President Xi has done his utmost to reverse the Deng reforms, incl. giving the Party more say in economic decision-making (which proved instrumental in the demise of the Soviet Union).

Finally, a government for Israel? - On Sunday May 30, with a June 2 deadline looming³ Naftali Bennett in a public address announced he intended “to work with all my might towards establishing a unity government with Yesh Atid Chairman Yair Lapid, ... it’s either that or a fifth election.” Netanyahu immediately, citing Bennett’s earlier public promises not to join up with Yair Lapid, called this the “fraud of the century” & came up with a (*desperation?*) scheme for a government that would have Gideon Saar, whose New Hope party will have 6 seats in the Knesset, as Prime Minister for 15-, he himself for 24-, & Bennett for the rest of its term (*a deal immediately rejected by Saar, a long time Likud member who had rebelled & started his own party for the very purpose of ending Netanyahu’s grip on power*) – *Under this deal Bennett, a software millionaire and long a Netanyahu supporter will achieve his long-held dream; for he will be Prime Minister for ‘first two years and Lapid for the second’ which in a way makes sense because he has far more experience in government than Lapid although no one in his right mind should expect this government to last even two years*).

This will be a “unity government” in name only. For the eight parties three are politically right wing (Yamani with six seats in the Knesset, Ysrael Beitenu with 7 & New Hope with 6 seats), two centrist (Yesh Atid with 17 & Blue & White with 8) & the remaining two leftist (Labor with 7 & Meretz with 6), and are in unity on one issue only (“get Netanyahu out!”). And between them they have 57 seats in the Knesset & must depend on the informal support of the Arab Ra’am party’s 4 seats to get the 61 seats needed for a bare majority. So the moment Netanyahu has been appropriately dealt with in court on his three separate corruption-, bribery-, & breach of trust charges & is safely in jail, on cometh the fifth election in 3 years.

US becoming a ‘failed state’? - The Encyclopedia Britannica spends a couple of pages describing what are the features of a failed state. They include :

- citizens no longer believing the government is legitimate;
- feeble & flawed institutions;
- a barely functioning executive;
- crumbling infrastructures & an inability to effectively build it;
- deficient human development indicators, such as child mortality;
- inability to maintain a monopoly on the use of violence; and
- failure to minimize internal conflict & deliver physical security to its citizens.

By those standards, the US now has some of the trappings of a failed state; while this does not necessarily mean it must become one, it does mean that a wholesale change in attitude is required on the part of both the governed & of the governors, if it is to avoid becoming one. And with 232 shooting fatalities YTD [& 31 in 20 shootings in the past 10 days alone (that also resulted in 110 people being injured)], the US certainly seems to qualify on the physical security criterion. And any return to ‘normality’ will hinge on a return among all of a sense, to paraphrase

³ After which the Knesset has 21 days to agree on a new government, before another election must be called.

John Kennedy, of 'ask not what your country can do for you, but what you can do for your country' among the governors, incl. the police, & the governed.

US FY 2022 budget (for the 12 months ending September 30, 2022) – It was to be made public at 1400 hrs on Friday May 27. According to the NYT, it will call for expenditures of US\$6TR & a deficit of US\$1.8TR (i.e. it will only 70% revenue-funded ⁴ and only be partly paid for by higher taxes on corporations & the 'ultra-wealthy' ⁵). And it assumes that consumer prices will not rise any faster than 2.3% during the year & that the Fed will slowly increase interest rates *from their historically ultra-low levels*. It's cost is driven by tBiden's "American Jobs"-, & "American Families"-, Plans (*the Administration's fancy names for its "physical"-, & "human"-, infrastructure building programs*). And it envisages that expenditures will rise to US\$8.2TR by 2031 (i.e. grow at a 3.5% CAGR, vs. 2.9% in the decade ended in 2020) & produce annual deficits in the US\$1.3TR range.

World's fastest-sinking cities – The seven sinking the fastest (at 1-2 cm/0.4-0.8 inches per year) are Shanghai, Mexico City, Bangkok, Venice, Lagos, London & Dhaka. And those sinking fastest in the US are Houston, New Orleans & Washington. The most common cause for this is a combination of the weight of their urban build-up & the soil compression from the depletion of their subterranean groundwater reservoirs due to unsustainable drawdowns.

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THE BOTTLENECK ECONOMY (The Economist)

- After a decade of worries about inadequate demand & consumer spending power in the aftermath of the global financial crisis *a decade ago*, signs of insufficient supply are now cropping up as red hot demand is met slowly, or not at all. There are signs that supply bottlenecks are leading to nasty surprises to upset the post-pandemic recovery; nowhere are shortages more acute than in America where a boom is underway, consumer spending is growing at a 10+% rate as consumers deploy the US\$2+TR of savings accumulated in the past year, as more stimulus is still being doled out.
- The boom is creating two kinds of bottlenecks. One relates to supply chains. There are shortages of everything, from timber to semiconductors. The cost of shipping goods from China to America has (*more than?*) tripled, while companies report supplier delays worse than they have seen in decades & are trying to go from 0 to 60, and it shows. And the second is in labour markets. While in April in America far fewer new jobs were created than expected, vacancies are at all-time highs & employers struggling to fill them, while economists argue over whether *unduly* generous unemployment benefits are creating incentives to be not overly interested in going back to work.

While this article mentions the American experience in passing, it most applies to the US, where the personal savings rate has gone from roughly 8% early last year to a high of 32% &, at last report, of 23%. But this may create a false image. For the lion's share of the aggregate personal savings in the US is accounted for by the uber-rich. And they have a low 'propensity

⁴ This compares to a recent high of 40.2% in the 2009 recession year & a recent low of 5.9% in 2007.

⁵ Historically, the belief was almost axiomatic that increasing tax revenues had to involve the mass of the far more numerous lower income taxpayers to make in worth while. But in today's era of super high income in equality that may not be true any longer.

to consume' (i.e. to spend a lesser share of any increase in their income on consumption, & hence saving more of it. Thus the latest date available noted the bottom 90% of US income earners had a personal savings rate of 1+%, the middle 9% of 11% & the top 1% of 39%.

THE COMING COVID-19 BABY BUST IS HERE

(Brookings Institution, Melissa S. Kearney & Phillip Levine)

- In the final quarter of 2020, on an annualized basis there were 53.9 births per thousand women in the US, down 6.6% from the 57.6 births YoY. But this is not necessarily all due to COVID-19. For the birthrate has been falling since 2007, and if it had continued to do so last year fall at the previous years' 2.3%, the "excess decline" is just 4.3%. And the greatest declines occurred in the 15-24, & 35-44, age groups in which according to some the desire or plan to have a baby is most "marginal".

Elsewhere the CDC reported that while the overall birth rate had declined by 73% since 1991 it has been continued growing at an almost constant, albeit relatively slow, annual rate for women in the 40-44 year age group. And according to The Economist, this phenomenon was not only apparent in the US; for in the 21 countries that had reported the relevant date for January there had been an average 11% YoY fewer births

FOR BIDEN, IT'S BACK TO THE FUTURE IN THE MIDDLE EAST (WP, Ishaan Tharoor)

- US & Iranian officials are *once again* convening in Vienna for their latest indirect round of indirect talks about Tehran's nuclear program and international organizations counting the cost of reconstruction in the Gaza Strip after the last fight between Israel & Hamas⁶, while Netanyahu grouses-, & warns-, about the US latest efforts towards rapprochement with-, Iran. All this reminds one of the Obama era, when he first cheered in Arab Spring in 2011, then accommodated Egypt's *Defense Minister* Gen. Abdel Fatah-al-Sissi after he had come to power in a 2013 coup *against the elected Muslim Brotherhood President Mohammed Morsi in the aftermath of which hundreds, if not thousands, of Muslim Brotherhood supporters were killed*, looked on as Israel pummeled Gaza for 50 days in 2014, and then, despite intense lobbying by the Republicans & Netanyahu, did the Iran nuclear deal in 2015.

Biden was Obama's deputy through all this and many senior officials who were in the White House then are now back there again, with the latest Gaza confrontation having raised havoc with their plans to revive the Obama 'Pivot .to the East' policu initiative

MY THREE TRIPS TO GAZA (Boston Globe, Jeff Jacobi)

- It's first sentence is "I first visited Gaza when I was in my teens" & its last "Peace will never come to Gaza until Hamas is destroyed and the Palestinian culture liberalized and detoxified, Sadly there is no prospect of that happening in the foreseeable future ... my three trips to Gaza will never, alas, be augmented by a fourth."

⁶ That ended with both sides claiming victory, Netanyahu a military-, & Hamas a political-, one – *but often the latter prove the more meaningful.*

In between is a well-told informative first hand story. Unfortunately his reference to the Palestinian culture being detoxified may be confusing cause & effect. For the vast majority of Palestinians in the West Bank & in Israel itself seem to have sort of accepted, to some degree or other, “the realities of life”. And two things seem to have enabled Hamas to remain in control in Gaza, the corruption & ineffectiveness of Fatah in the West Bank, & the miserable Netanyahu-imposed living conditions in Gaza even when there’s no armed combat.

INTERPRETING CHINA’S ‘WOLF WARRIOR DIPLOMACY’ The Diplomat, Zhiqun Zhu)

- Recently the Chinese Foreign Ministry has taken an increasingly strident tone against the US, Australia and other countries *that displease Beijing*. This resultant “Wolf Warrior Diplomacy”⁷ is popular in China & involves a transition of Chinese diplomacy from a conservative, passive & low-key stance to one that is assertive, pro-active and high profile, *as behooves, at least in President Xi’s eyes, a world power*. Thus on March 2 Foreign Ministry spokesperson Zhao Lijiang tweeted “if someone claims China’s exports are toxic, then stop wearing Chinese-made masks and protective gowns “ & ten days later followed that up with “It might be (the) US Army who brought the epidemic to Wuhan.” *The Wolf Warrior idea is not shared by Cui Tiangkan (69), a Chinese Foreign Ministry ‘old hand’ & a Johns Hopkins Paul Nitze School of Advanced International Studies alum, who was Ambassador to Japan in 2007-2009 & has been Ambassador to the US since 2013. Last February he told a forum in Beijing that China & the US must clearly define their policy boundaries & have an accurate understanding of each other’s strategic priorities, only to be ‘blown out of the water’ a month later when Secretary of State Antony Blinken in his opening remarks at his Alaska ‘summit’ with the Chinese raised the Taiwan, Tibet & Xinjiang issues after the State Department had been warned by Cui’s people in Washington not to do so since they were “sensitive issues”.*

President Xi seems intent on undoing the Deng policies that have been given credit for China’s rising star in the past three decades on the global firmament of countries/economies. For in recent years he has reversed Deng’s move away from state socialism & his upgrading of the private sector, & now he seems have abandoned Deng’s “taoguang yanghui, yousuo zuowei” “Keep a low profile while trying to accomplish something” approach to foreign policy. But while this brazen behaviour on the international scene makes the Chinese people ‘feel good’ & boosts their nationalistic fervour [which he has also sought to further by having the Communist Party promote his “four confidences (in “our chosen path, ... political system, ... guiding theories, ... and culture], and by advocating, in his addressing military & party officials, the need for a “fighting spirit, all this may well come at the price of some of China’s soft power on the global scene. Thus the ramming & sinking in early April by a Chinese Coast Guard vessel of a Vietnamese trawler fishing near the disputed Paracel Islands, with all eight crew members rescued by other Vietnamese trawlers nearby may have done little to foster goodwill among other Southeast Asian governments. And neither has the move, a few days later, by the Ministries of Natural Resources & of Civil Affairs when they upset other South China Sea riparian nations’ governments by unilaterally renaming 80 geographical features in their, by existing international law, territorial waters in it (for the first time since 1983).

⁷ Named after to popular block buster action movies featuring the PLA’s Special Forces that have inspired greater greater nationalism among the hoi polloi.

CHINESE SKYSCRAPER EVACUATED AFTER STARTING TO SHAKE FOR NO APPARENT REASON (CBS News)

- In the early afternoon of Tuesday May 18 the 1,000 foot high SEG Plaza skyscraper in the Futian district of the 13MM inhabitant 'tech hub' city of Shenzhen, 50 kms/31 miles NW of Hongkong, began to shake, prompting the 15,000 people in it, & the thousands in the streets around it, to flee in panic. There was no readily apparent reason for it doing so, & the most likely reason, an earthquake, was quickly ruled out, and 'experts' in fairly short order issued a statement that they had found "no safety abnormalities in the main structure and surrounding environment of the building."

China is home to five of the world's tallest buildings, with the 632 meter/2,073 feet Shanghai Tower being No 2, between No.1, the 828 meter/2,717 foot Burj Khalifa in Dubai & the 601 meter/1,971 foot No.3, the Abraj Al-Bait Tower in Mecca. And the tallest building in Shenzhen, the 599 meter/1,965 foot Ping An Financial Centre, is the world's No.4,. Due to the country's lax building standards building collapses are not uncommon (although none as yet with anywhere near the height of the SEG Plaza). And the shaking may well have been a function of the above-noted emptying of the city's underlying aquifer - And I remember that, when in 1970 I was visiting a former boss of mine in Finance, who was then working for Morgan Stanley on the 26th floor of a high rise on Wall Street, that on a day of strong winds the chandeliers were gently swinging and the elevators had trouble operating.

PALLADIUM ON ITS WAY WAY TO \$3,000 AS SUPPLY-DEMAND IMBALANCE GROWS (Kitco, Neil Christensen)

- After 10 years already in a supply shortage situation as a result of which its price increased nearly six-fold, things may get worse; for two months ago Russia's Nor Nickel, the world's largest producer of the metal, announced that by fall mine closures due to flooding will reduce its palladium output by 710,000 ounces (about one percent of total global output, *that has barely grown in the past two decades*).

While the lion's share of the palladium produced goes into the production of automotive catalytic converters (that reduce the harmful emissions produced by gasoline-powered engines) it also has a wide, & growing, range of uses in dentistry and in the manufacture of jewellery, watches, blood sugar strips, aircraft machinery, surgical instruments & electrical contacts. And the metal is also said to be the foundation of the next generation of batteries