

Weekly Commentary 7 – Feb 2023

From Balloongate to Munich

Balloongate is still not over. On the sidelines of the Global Security Conference that was held in Munich over the weekend, Wang Yi and Antony Blinken met. One topic among several others was the issue of Chinese balloons flying over America.

Huh??

The world thought that it was already well established that the single Chinese balloon shot down hysterically by the USAF was meteorological and peaceful (not a spy balloon) in nature, and every one of the next three were not Chinese but American balloons. Those four balloons, all without ill-will, were shot out of the sky with five (one missed...) expensive US\$500,000 Sidewinder missiles on million dollar missions, with a total bill of at least US\$5million, when the balloons that created the panic cost less than a few thousand bucks. But that is the nature of paranoid and panic. You overkill.

What else is there to discuss in Munich then? Wang Yi said America over-reacted, which was obvious, and Blinken said it must not happen again, which is like calling for wind patterns to be regulated. Just a wacky thought from an American born of his country's bureaucracy and an illogical desire to rule over man as well as nature.

Munich was a lot more than balloongate. Last year, there was a sense of confident anticipation about the collective west's ability to contain Russia. This year, there is a sense of foreboding that Russia is far from being contained but is in fact on the verge of rendering the entire NATO a powerless paper tiger with "No Action, Talk Only" military capabilities. This is in particular the theme of Chancellor Olaf Scholz's keynote speech, which sought to castigate all those European countries who were shouting the loudest about Germany needing to send battle tanks to Ukraine. He pointed out that after all that shouting, all the other countries had yet to meet their responsibilities, reneged on their promises and he was saying: "Everyone who can deliver such battle tanks should really do this NOW."

What was all that about? Well, it's the usual self-serving talk typical of western politicians that caused Scholz's ire. For two weeks in January, every European country was pushing hard on Scholz to get him to send Leopard 2 tanks to Ukraine, with loud promises of sending some of their own. And after Germany agreed to do what has been asked, none of the others, except Canada, got around to doing it. They figured that 1) their precious tanks will be destroyed on the battlefields of Ukraine, so why bother? and 2) they are running out of tanks themselves, and they are too valuable for their countries' own defence, in the face of a Russia that is proving itself to be extremely combat capable. And so now, Scholz is scolding people.

Then the French president, Emmanuel Macron, made the next provocative speech. He started by listing the clear defeats he claims Russia has suffered. The war Putin started, he said, has been long, not rapid; and not prestige-enhancing but mistrust engendering; not legitimising but neocolonial, and not strategically prescient but which has pulled Sweden and Finland into NATO's orbit. He did not talk about imminent negotiations and spoke about Europe being ready for a long war.

Most importantly, he regretted that the west has been losing the global south and not done enough to answer the charge of double standards, including by not including helping poorer countries quickly enough with Covid vaccines. And he went against western orthodoxy by saying 'I do not believe for one second in regime change. When I hear a lot of people advocating for regime change, I would just ask them for which change, who is next and how do you implement it? We have experienced in the past decades regime change many times and it has been a total failure. '

Wow! The collective west is breaking ranks. Will Macron soon argue for a lifting of the Russian sanctions? Macron, the maverick of the west?

Unfortunately, neither Scholz nor Macron is an Angela Merkel. Nobody listens to them. Their speeches will not be remembered in a few days...

There was another sense of foreboding in Munich over the weekend. Here is an article published in Politico about the sense of worry in the collective west.

"It's the end of the world as we know it = and Munich feels nervous

If even the Germans are worried about the world's perils, this could well be the moment to start worrying.

By Matthew Karnitschnig

MUNICH — Cut through the haze of hoary proclamations emanating from the main stage of the Munich Security Conference about Western solidarity and common purpose this weekend, and one can't help but notice more than a hint of foreboding just beneath the surface.

Even as Western leaders congratulate themselves for their generosity toward Ukraine, the country's armed forces are running low on ammunition, equipment and even men. Ukrainian President Volodymyr Zelenskyy, who opened the conference from Kyiv on Friday, urged the free world to send more help — and fast. "We need speed," he said.

U.S. Vice President Kamala Harris turned the heat up on Russia on another front, accusing the country of "crimes against humanity." "Let us all agree. On behalf of all the victims, both known and unknown: justice must be served," she said.

In other words, Russian leaders could be looking at Nuremberg 2.0. That's bound to make a few people in Moscow nervous, especially those old enough to remember what happened to Yugoslav strongman Slobodan Milošević and his entourage.

The outlook in Asia is no less fraught. Taiwan remains on edge, as the country tries to guess China's next move. Here too, the news from Munich wasn't reassuring.

"What is happening in Europe today could happen in Asia tomorrow," NATO Secretary-General Jens Stoltenberg said.

Chinese Foreign Minister Wang Yi did nothing to contradict that narrative. "Let me assure the audience that Taiwan is part of Chinese territory," Wang told the conference when asked about Beijing's designs on the self-governed island. Taiwan "has never been a country and it will never be a country in the future."

For some attendees, the vibe in the crowded Bayerischer Hof hotel where the gathering takes place carried echoes of 1938. That year, the Bavarian capital hosted a conference that resulted in the infamous Munich Agreement, in which European powers ceded the Sudetenland to Germany in a misguided effort they believed could preserve peace.

"We all know that there is a storm brewing outside, but here inside the Bayerischer Hof all seems normal," wrote Andrew Michta, dean of the College of International and Security Studies at the Germany-based Marshall Center. "It all seems so routine, and yet it all changes suddenly when a Ukrainian parliamentarian pointedly tells the audience we are failing to act fast enough."

The only people smiling at this year's security conference are the defense contractors. Arms sales are booming by all accounts.

Even Germany, which in recent years perfected the art of explaining away its failure to meet its NATO defense spending commitment, promised to reverse course. Indeed, German officials appeared to be trying to outdo one another to prove just how hawkish they've become.

Chancellor Olaf Scholz vowed to "permanently" meet NATO's defense spending goal for individual members of two percent of GDP.

Germany's new defense minister, Boris Pistorius, a Social Democrat like Scholz, called for even more, saying that "it will not be possible to fulfill the tasks that lie ahead of us with barely two percent."

Keep in mind that at the beginning of last year, leading Social Democrats were still calling on the U.S. to remove all of its nuclear warheads from German soil.

In other words, if even the Germans have woken up to the perils of the world's current geopolitical state, this could well be the moment to really start worrying.

Well, I was not there in Munich, but I take it that the above is an accurate impression of the mood among the delegates. It does not surprise me, and it is nothing more than a recognition of the failed policies of the collective west towards Russia as well as the understanding that the propaganda in its media that there is good and evil in the Ukraine conflict and that they are on the good side. It is shocking to them that 85% of the world did not buy in to this narrative, and have increasingly stood on the side of Russia, as the facts about the Ukraine conflict crept into the consciousness of most people of the Global South in

the one year that people have begun to pay attention to the history of what has really happened.

The collective west, as Macron admitted in his speech, could not bring the Global South to agree with its policies that castigated Russia, as imperialist, empire builder and evil incarnate. As a matter of fact, the prevailing view, as promulgated by western illuminaries like John Mearsheimer and Jeffrey Sachs, plus a whole host of independent media stars not in the employment of the usual mainstream media groups, is that the west is pushing a false narrative to weaken Russia as well as China and most importantly that Ukraine is winning the war when it is in fact losing it. The prevailing view in the Global South is now coagulating into the following main points:

- 1) The war in Ukraine did not start in Feb 2022, but eight years earlier in 2014. The war will actually begin its ninth year soon. It has emerged that conflict started with the Maidan colour revolution when the US orchestrated the overthrow of a freely elected government in Kyiv under President Poroshenko who wanted to solve the problem of a civil war which was waged by Catholic Ukrainians against Orthodox (Russian) Ukrainians.
- 2) Russia, Ukraine, Germany and France signed two agreements to end this civil war in 2014 and then 2015, called the Minsk Agreements, which Kyiv did not adhere to from Day 1. Angela Merkel and Francois Hollande said in revealing interviews last year that nobody intended to keep to the peacekeeping objectives of the Minsk Agreements. The west and Ukraine were simply engaging in subterfuge to strengthen the Ukrainian military to defeat Russian forces. In any case, over the course of the 8 years up to Feb 2022, the UN has documented that 14,000 Russian-Ukrainians in the Donbass region have been killed by Kyiv's troops. The Minsk Agreement ended up restricting Moscow to save ethnic Russians in Eastern Ukraine while the Kyiv regime continued to kill their own citizens.
- 3) Russia's invasion a year ago which was intended to stop this senseless slaughter has been labelled as imperialism and Putin's attempt to resurrect the Soviet empire. Really? Most of the Global South now know that it is the west that had been expanding NATO continuously and that the ignoring of the Minsk Agreement by the west and Ukraine was intentional. That is why the west cannot convince the Global South that Russia is all evil, because they have had too many experiences with the duplicitous west over centuries of colonialism and even in the post-Soviet Union period of history. If there is a bad guy out there, it is widely considered to be war-mongering America, and its NATO vassals, not Russia.
- 4) The sanctions war has not been supported by most of the Global South. In particular, the attempt to prevent Russia from selling oil and gas has been completely rejected by countries which continue to buy energy from Russia. In particular, India took issue with

the western's holier-than-thou attitude about energy sanctions when their Foreign Secretary, Jaishankar, told the western countries off for engaging in double talk – buying energy in larger quantities than India was (at that time) and telling India not to do it.

- 5) The financial sanctions have also caused the Global South as well as every rich country outside the G7 to recoil at the implications of Russia's financial reserves frozen by the Americans and the Europeans. This is widely considered theft.
- 6) And the random exclusion of various countries from using the SWIFT system, as has been enacted against Russia, have led to the biggest countries in the Global South moving towards de-dollarization, the abandonment of the US Dollar in trade transactions and in reserve management. While these are early days yet, the trend is unmistakable.
- 7) Even after the invasion of Ukraine by Russia last February, the first few weeks were marked by attempts at a diplomatic solution. In June 2022, Turkey mediated a set of agreements between Russia and Ukraine that would have ended the bloodshed. But Boris Johnson, probably acting on instructions from Washington, told the Ukrainians, don't agree to any peace deals, and promised aid that the west could not, in the end, provide. This is causing huge casualties inflicted on the Ukrainian army. Who, in fact, has blood on their hands?
- 8) The western mainstream media has been found wanting in reporting the truth. In the latest one year of the Ukraine conflict, the western media parrots the propaganda of the Kyiv regime. So we have stories of debunked heroes such as the ghost of Kyiv, the million man army that would be raised to march to the gates of Moscow, horrific Russian men and equipment losses, significant Ukrainian victories etc while Russian achievements have been downplayed. All turned out to be just a lot of bullshit. This is very typical of western, especially American media and governmental efforts, to whitewash setbacks that happen in any war. Think Vietnam, Iraq and Afghanistan, which everybody knows have been characterized by endless lies until the truth is too obvious to hide. The most recent example of the hypocrisy of the western mainstream media is when one of their own, Seymour Hersh, a Pulitzer Prize winner wrote a damning article on how the American president, supported by three of his foreign policy officials (Blinken, Price and Nuland), sabotaged the infrastructure of an ally, the NordStream pipeline, and they completely ignored it, as it may be egg on the face of the western alliance preaching holier than thou "values". Values? There are none to be found.
- 9) As a matter of fact, the sombre atmosphere said to be prevailing in Munich is no doubt caused by widespread fear that the Ukrainians are failing to stop the Russian advances. This is diametrically opposite to what they have come to convince themselves before February – that Russia was succumbing to economic sanctions, a collapsing economy, massive losses on the battlefield and no more missiles, tanks or bullets. And they

suddenly found out from their own generals that everything they thought was happening to Russia was actually happening to NATO! This is scary, as indicated by the fact that Poland is now calling on NATO to provide security guarantees to postwar Ukraine. Why would those be necessary if Ukraine is winning the war? And which country or countries would fight Russia after the last year?

The other discomfort that the delegates are feeling in Munich is that a non-European power is proposing a peace deal for an entirely European conflict. This is China, whose top diplomat, Wang Yi, said will provide a paper to propose a peaceful solution to the Ukraine conflict. Even before this paper has been presented, some European leaders are already suspecting China will propose something that will benefit Russia but which will gain the support of all the Global South countries. Baerbock, Germany's Defence Minister, already expressed reservations for the not-yet-presented proposal by saying that NATO will never agree to any proposal in which Russia does not withdraw from all the territories it now occupies in Ukraine. The realpolitik response is: who can remove Russia from Ukraine?

That Baerbock position does not face up to the realities of western capabilities. The Russians wanted NATO not to expand eastwards and put bases on their borders and they were willing to fight for it. When it comes to the west's turn, now realising that beyond their broadcasted bullshit, and is now facing an enraged Russian bear, they do not want to put boots on the ground and are content to just supply weapons to the Ukrainians so that somebody's else 16-year old boy dies fighting. That is all Europe and America want to do to weaken Russia, by deploying not their own soldiers but every Ukrainian family's sons down to the last one. That is truly despicable.

But let's see what the Chinese have to say. It is obvious that for the war to end, there must be a piece of demilitarized border between the current combatants, and it is inevitable that this will have to come from Ukraine unless European and American boys go to the battlefield to replace the 16 year old Ukrainian boys now fighting the Russian army. There are not enough options given that nobody wants to lose and that all the NATO weaponry has not prevented an Ukrainian defeat.

The other trend that is evident in the Munich talks is the face off between Wang Yi and Blinken. The Chinese diplomat did not allow Blinken to give a one-sided story but took him on point by point, and it is clear that China no longer allows the Americans to control the talking points. If Blinken was critical of wandering balloons, Wang was just as vocal about the hysterical response to uncamouflaged, unintrusive weather balloons. The Chinese can be seen to be absolutely tired of the Americans' shameless domination of talking points and the endless promotion of the "rules-based system" as if everybody else is stupid and don't recognize it to be just the outreach of its self-centered hegemonism.

So the Munich meeting sees a worsening of Sino-American relationships. The Americans kept saying we only want to compete and we don't want to engage in a cold war with China.

But at the same time, they duplicitously invite the Taiwanese to Washington to goad them into an existential battle with China which they obviously hope will weaken China economically, diplomatically and militarily. China apparently won't take it anymore and are retaliating by pointing out that the deeds don't match the words. So what's the point of talking when the Americans don't mean a thing they say. As of now, there is no scheduled Blinken visit to Beijing or of a Xi-Biden conversation.

On the other side, the Americans are playing for time. The US military is gearing up to fight China before it gets too late when it will be obvious that they will not be able to defeat China. They still think they have a window of a couple of years, perhaps up to 2025. But this build-up is quite futile. The US economy has been weakened profoundly by the pandemic and the Biden Administration's mistakes in managing it. They did not have the social systems to handle lockdowns and with the lockdowns, the economy crashed in 2020. Then they tried to reverse that to bring it out of depression-like conditions by printing money like there is no tomorrow. The economy then swung into the worst inflation in 40 years, requiring the Fed to raise interest rates even before knowing if the easing had solved the economic retrenchment problems a year earlier. So now they are into a shortened economic cycle as interest rates rise and bring back fears of yet another recession, all within just two years. Worse still, the current cycle of high interest rates has a possibility of turning a \$30 trillion national debt into a \$40 trillion one in another few years, by the end of this decade. Beyond that ballooning debt, it is also failing in its trade war with China – after five years of imposing trade tariffs on Chinese imports into the US, the trade deficit shows no signs of slowing down.

Of course, the American government will not admit that it is messing up its own economy. Instead, they keep shortening the cycle lengths so that peak inflation and slowdowns are now less than a year apart. This is very disruptive.

In the American economy, it is also very short of savings. The huge amount of debt outstanding cannot be reduced unless there are enough savings. This is a tall order for the US. Rising interest rates would pose a great challenge for the US government which has to service this enormous US\$31 trillion debt on an annual budget of \$4 trillion with a quarter of that going to maintain its far flung military. It does not take a genius to figure out that the US government has no money to do projects which will boost economic growth, such as infrastructure or help its chip sector. There is no way it can restore an inflation rate of 2%, the stated target, without crushing the economy. It has no scope to lower the dollar to boost its exports and hence industrialization, because a decline in the value of the dollar would be harmful to its ability to service its humongous debt. There are therefore a lot of constraints on the American economy. And clearly, there is no money to build up a military capability to fight a war with China in the western Pacific.

This has put fear into the hearts of those Americans who understand what their country faces. Forget about the idiots who have no knowledge of economics and financial matters, which is

most of their politicians who are generally lawyers whose life experience is to charge fees by the hour and not run businesses. They don't seem to understand that America in the second decade of the 21st century is an economy that is integrated into the world, and while it is still a very powerful and rich economy, it is no longer what it used to be – an industrial power that can be completely independent of all other countries. It is an integrated economy that depends on its trade partners.

And it is integrated into all the economies that are on the opposite shores of the two oceans that actually isolate it from them. Especially China. This has become the largest economy in the world by purchasing power parity, and its leading industries are challenging American domination in the global markets, including in infrastructure, electric cars, shipbuilding, space, AI and 5/6G telecommunications. Most importantly, it will have the largest consumer market in the world. In practically all things.

After the zero lockdown, policies that were used to control covid have been lifted at breakneck speed. They did it during Omicron which is known to everybody that it is the variant which has evolved away from being a high fatality disease. So the Chinese got the management of Covid right. There is now a huge expectation that China will rebound quickly and will lead global economic growth from this year onwards.

The following is an article that paints a rosy picture of the prospects for the Chinese economy:

Economist project China's GDP growth to be around 6.5% in 2023: Report

05 Feb 2023,

By ***Karishma Pranav Bhavsar*** Reuters

The Chinese economy grew 3.0 percent in 2022, one of its worst economic performances in nearly half a century, hit by strict COVID curbs and a property market slump.

Several economist and investment banks have raised their projections for China's GDP growth between 6 percent to 6.5 percent for 2023 following a recovery of the country's consumption market during the Spring Festival holidays, as reported by Global Times.

Chen Fengying who is an economist and former director of the Institute of World Economic Studies told Global Times that the country's economy might see a growth of 6 percent year-on-year at most in 2023.

As per Chen this is due to country's economic recovery to strong policy support and fewer Covid disruptions as well as impressive growth in emerging sectors. Not just him, another economist Cao Heping from Peking University also predicted [China's](#) GDP growth rate between 6-6.5 percent.

Cao told Global Times that new investment opportunities in the repair of networks and infrastructure in rural areas, as well as digital upgrading of large-scale infrastructure projects like roads, railways, ports, and other projects, would give rise to new industries and significantly alter China's economy.

On 24 January, seeing the country's strong fourth quarter performance, Investment management company Vanguard upgraded its forecast for economic growth in China to 5.3 percent from the earlier 4.5 percent.

These statements comes as the IMF forecast said that the world's second largest economy will expand 5.2 percent this year. The Chinese economy is "still operating below potential" in 2023, Sonali Jain-Chandra, the IMF's mission chief for China, said during a press briefing on Friday.

"China's economy is set to rebound this year as mobility and activity pick up after the lifting of pandemic restrictions, providing a boost to the global economy," the IMF said in an annual assessment of the Chinese economy.

"That's good news for China and the world as the Chinese economy is now expected to contribute a quarter of global growth this year," it said.

On 19 January, IMF Deputy Managing Director Gita Gopinath had said China could see a sharp recovery in economic growth from the second quarter onwards based on current infection trends after the dismantling of most COVID-19 restrictions. Gopinath said that a growth rate "in the 4 percent-plus ballpark" would likely mean that any global inflationary pressures would be counter-balanced by the slowdown in demand elsewhere.

Meanwhile, the Chinese economy grew 3.0 percent in 2022, one of its worst economic performances in nearly half a century, hit by strict COVID curbs and a property market slump. Some economists as polled by Reuters see Chinese growth in 2023 at around 4.9 percent, with some of them recently upgrading forecasts to around 5.5 percent.

Authorities in China have said the soaring virus case numbers that accompanied the reopening have now passed their peak, with a travel surge prompted by the biggest Lunar New Year holiday in years offering a much-needed boost to business.

However, Friday's assessment also warned of "significant economic challenges" ahead.

"The contraction in real estate remains a major headwind, and there is still some uncertainty around the evolution of the virus," IMF said.

The property sector, which along with construction accounts for more than a quarter of China's GDP, has been hit hard since Beijing started cracking down on excessive borrowing and rampant speculation in 2020.

"Longer-term, headwinds to growth include a shrinking population and slowing productivity growth," the IMF said.

Morgan Stanley too raised Chinese economic growth forecast 0.3 percentage points to 5.7 percent from the earlier 5.4 percent, Reuters has reported citing the company's analysts in a note published on 10 January.

The median estimate in a Bloomberg survey of economists is for growth to accelerate to 4.8 percent this year, some major banks like Bank of America and Citigroup Inc. expect growth to be closer to 5.5 percent or higher.

Meanwhile, China's population shrank last year for the first time in more than six decades, official data released last month showed, and the nation of 1.4 billion has seen birth rates plunge to record lows as its workforce ages.

The slowdown in global demand, the uncertainties of the war in Ukraine and geopolitical tensions are the "main risks" to Chinese growth this year, the IMF said.

In other words, there is very little doubt that China will grow at least at 5.5%, while the most bullish economists think it will do better at 6.5%. I am with the camp that thinks growth will surprise on the upside.

In the meantime, the best economists in America are divided as to whether there will be a recession in the land as a result of the interest rate hikes to tackle inflation. Highest growth estimate is 1 to 2%.

Compared that with Chinese 5.5-6.5%. That's a five percent gap. And the national debt situation does not provide the money to boost its military aggressively to fight China over Taiwan by 2025 and yet still support Ukraine as long as it takes. This shows, as when Biden appeared in Kyiv today, all the aid he can offer is US\$500million. That is chump change that will be expended in less than a week. As long as it takes? That will be a bill of a few hundred billion if this lasts another year. Or a few trillion if this lasts longer. There is no money for that.

This is becoming obvious to the Europeans, and if they are not stupid, to the Kyiv regime as well.

That may be why there was a forlorn mood over the weekend at the Munich conference.

By:

Yeong, Wai-Cheong, CFA

Fintech Entrepreneur, Money Manager and Blogger

Un-Influencer in a World full of Hubris