[Trump Takes U.S. Out of Paris Accord on Climate]

WASHINGTON – U.S. coal miners and out of work factory workers: this is for you! President Donald Trump publicly announced that the U.S. will withdraw from the Paris Climate Accord that his Democratic predecessor, Barack Obama, promoted and warmly endorsed. Trump's argument against the Paris deal is that it will penalize the American coal mining industry, and the overall American economy in the short term, with only vague hopes of somewhat lower world temperatures, way down the line.

Bad deal for America

As Trump sees it, this is a bad deal for America; and so the right thing is to get out of it. Sticking to the obligations created by the Accord would amount to enacting the equivalent of a huge energy tax on the US economy, because compliance with new, strict emission controls (in order to limit the amounts of greenhouse gases released into the atmosphere) will be very expensive.

As a candidate, Trump promised that he would withdraw from this climate deal, and now that he is President he is doing it. We know that his close advisers are divided on this issue. His daughter Ivanka and son in law Jared Kushner, along with Secretary of State Rex Tillerson, recommended not withdrawing. Still, in the end Trump sides with the opponents.

What does this mean?

That said, from a practical standpoint, America's exit, at least in the short term, will not amount to any worsening of the global climate. Indeed, the Paris Accord, if all goes well, promises only modest progress on lowering the temperature of the world, and only after many years. And this will happen only if we assume that all the other participants will actually do what they promised to do in terms of enacting new policies aimed at lowering their consumption of fossil fuels, this way reducing greenhouse gases emissions. Do keep in mind that the Paris Accord has no enforcement mechanism. The commitments made by the signatories are purely voluntary. In the case of China, the world's biggest polluter, Beijing is theoretically bound to implement new policies several years from now.

Political consequences

Still, Trump's decision on this rather emotional issue has had immediate political consequences. From the stand point of other nations, particularly the leaders of the G 7 Trump just met in Taormina, Italy, this amounts to America choosing to go it alone, openly dissenting from a global consensus on the global threats to the earth created by the unrestrained consumption of fossil fuels.

U.S. no longer leading

In the short and medium term, this means that America is no longer leading the world on a critical policy issue, As most world leaders see it, America has now retreated in its narrow universe characterized by a bizarre anti-science fixation pursued by a strange president who is "anti everything".

Anti-everything Trump

Indeed, Trump is so anti-immigrant and xenophobic that he wants to build a wall along the entire border with Mexico.

Furthermore, according to the now widely accepted narrative, this is a president who is openly against free trade, against the EU, against NATO, and against Muslims, (sort of). Given all this, Trump being also against joint international efforts aimed at stopping and hopefully reversing climate change is disappointing; but not surprising. This new development fits the now accepted narrative.

America is no longer leading. Trump’s America has retreated behind a myopic worldview of narrow self-interest.

From the standpoint of old friends and allies, Trump’s announcement on exiting the Paris Accord is yet another (sad) sign that America is no longer the “Leader of the free World”.

In fact, even before this new development on the Paris Accord, German Chancellor Angela Merkel had already publicly argued that it is time for Europe to think of and plan for a future without close ties to the U.S., since Trump’s America is no longer a reliable friend.

Political symbolism

Again, keep in mind that all this is mostly about political symbolism. It will take four years for America to fully extricate itself from the obligations contracted under the Paris Accord. This is fairly long time. And again, keep in mind that under the terms of this Paris deal, major polluters like China and India have modest obligations when it comes to reducing their own emissions that will kick in much later. Which is to say that you should not expect world temperatures to start rising tomorrow, simply because today President Trump announced that America will pull out in four years.

No gain

However, as indicated above, this decision is not without political consequences. In the end, all this is will amount to an additional loss of international prestige for Trump’s America.

With all this in mind, whatever you may think about the intrinsic policy value of the Paris Accord, it would have been better for Washington to be part of it, as opposed to becoming now a big pariah in the eyes of the world.

Trump is talking to his base

Well, then why did he do it? Very simple.

Trump’s narrow concern here is to reassure his domestic political base –the millions of Americans who voted for him last November. This base includes out of work coal miners and people displaced by the closure of old manufacturing plants.

Trump’s message to them is that his job is to revive the American economy. If this means heavy reliance on dirty energy, so be it. Out of work factory workers want money to pay their bills. They do not care about the fate of polar bears or about extreme weather phenomena in Africa. And they do not care about rising sea levels.

Finally, dire scenarios of New York City and Miami under water in just a few years (because of the rapid melting of the Polar Caps) are definitely a hoax –at least according to Trump and his supporters.

The Dream Of New U.S. Manufacturing Jobs

WASHINGTON – We know that President Donald Trump pledged to renegotiate (supposedly unfair) trade agreements worldwide with the goal of re-balancing the U.S. trade accounts, while forcing companies to move lost U.S. jobs back to America.

Millions of jobs

His narrative –accepted as truthful by millions of U.S. voters– is that America lost millions of jobs in the last couple of decades, while buying from China and Japan (among others) goods worth hundreds of billions, with no reciprocity, because incompetent U.S. trade negotiators (Democrats and Republicans) were so ineffective (in fact so stupid) that they allowed this disaster to happen.

Brand new trade deals

According to the White House, the remedy is quite simple. You reopen old deals, get better terms through tough negotiations, and you force the offending countries (Mexico, Japan, China, South Korea, among others) to sell less to America, buy more from America, and spit back all the U.S. jobs that moved to their countries on account of badly conceived trade negotiations led by incompetent and unpatriotic Washington trade representatives.

Not that simple

If it were indeed so simple. The problem is that jobs are not akin to cash that can indeed be moved from one country to another in a matter of minutes. Regarding the loss of U.S. jobs, the fact is that in the last 20 to 30 years millions of U.S. manufacturing jobs moved to China because of China's extremely low labor costs. At the time, this was a most compelling reason.

Cheap labor

American and other Western companies, always seeking new ways to keep costs and therefore prices down, chose China as their base of manufacturing operations because China's labor costs at the time were very low. Therefore, making industrial products in China –especially goods that required labor intensive operations– was comparatively quite cheap.

In a fiercely competitive global economy, all companies seek and want to take advantage of low production costs which allow them to sell at lower prices, this way undercutting their competitors.

All this happened in large measure because (after China joined the World Trade Organization, WTO, in 2001) the rest of the world accepted China as a member in good standing of the international economic and trading system.

No one seriously wanted to penalize made in China products because of the harsh working conditions in Chinese factories and China's rock bottom wages. Was that a bad decision? Possibly. Still, be that as it may, the long term consequences of that decision, for all practical purposes, are irreversible.

Trade war and no new jobs

A trade war with China, while the notion seems appealing to many, would cause a huge global crisis (you can expect retaliations and counter retaliations). And it would not produce the effect that President Trump would like to obtain: millions of jobs, now held by Chinese workers, "returning" to America, while America enjoys enhanced prosperity, and a positive trade balance.

And why is this impossible? In large measure this is due to the cumulative impact of China's role as a global manufacturing hub. This enviable position led to the creation, over time, of complex supply chains that link Chinese factories, (and therefore Chinese workers), with a web of suppliers and vendors, within China and/or other countries in the region (Taiwan, Vietnam, Thailand, South Korea, and others). These sophisticated supply chains provide the components and semi-finished products that are finally assembled and completed in China. The finished goods are eventually shipped to the United States and other countries.

This being the case, it is simply impossible, even if we assumed the unanimous will to do so, to yank the jobs now with any Chinese factory which performs the final assembly of industrial products and move them to America.

You cannot recreate complex supply chains at will

And here is why. For this “operation” to be successful, one would have to move and/or recreate –from scratch– in America the entire supply chain that now supports that particular Chinese factory. And this would require the creation, here in America –again, from scratch– of fine tuned business relationships between the lead manufacturer and a brand new network of U.S. suppliers and vendors based on their proven ability to perform at the level required (quality, standards, specifications, delivery time) and at costs low enough to guarantee the competitiveness of the made in America finished product.

No U.S. companies operating in many sectors

If this were not enough, given the lack of meaningful industrial activity in many of the manufacturing sectors that moved to China or elsewhere decades ago, many of the needed suppliers that would be part of the brand new U.S. based supply chain simply do not exist anymore. They went out of business. How about that. No companies making the necessary components, no supply chain.

Impossible

From all of the above, you can see that the idea of transplanting complex networks of companies, working in harmony with one another, from China to the U.S. is an impossibility.

Again, let me stress that those supply chains were not improvised in China a couple of weeks ago. They were created over decades of tests, trials and error. The notion that the entire web of complex business relationships now at the core of Chinese manufacturing can simply be dismantled and transported to the U.S. is a childish fantasy.

An additional problem: automation

And if this were not enough, you have to consider automation, a relatively recent development which did not play a significant role at the time of the jobs migration incentivised by low Chinese labor costs.

Keep in mind that automation has nothing to do with unfair trade practices. But it has the practical effect of killing U.S. factory jobs that used to be performed by humans. This is an unstoppable trend. Yes, the robots do many and in the future most of the jobs that factory workers used to do.

In a relatively short time, tomorrow's modern factory will probably be completely automated, with only a few highly specialized IT experts and engineers in charge of supervising the robots, and the overall production schedule.

Which is to say that, even if we assume that some manufacturing activities would "return" to America and/or new ones are created on U.S. soil, not much will change in terms of net new employment in manufacturing. In a best case scenario, may be some factories will come back. But most of the workers who used to be employed in that sector will be replaced by automation.

We are in a new era

Keep in mind that now we are in a new era; an era in which humans will do less and less factory work. As robots now and in the future will do most of the work, labor costs will become less and less of an issue in determining the location of new industrial plants. Still, as tomorrow's factories will be even more automated, it is hard to see net gains in manufacturing jobs in America, or in the rest of the high cost western world, for that matter.

No jobs coming back

In conclusion, here is the thing. The creation of complex supply chains created by Chinese companies to support China-based production over many decades cannot be dismantled and quickly reassembled at will here in America.

Furthermore, from now on automation is and will be the new manufacturing jobs killer. While automation, at least in some areas, may result in creating new forms of employment in new sectors that we cannot even think about today, the old factory jobs we used to know at some point will become extinct.

Can we do anything to reduce the trade deficit with China?

That, said, what about the chronic trade imbalance with China? Very hard to do this. And this is in large measure due to the fact that millions of American consumers love to buy cheap consumer goods. And China, for the moment at least, is still the low-cost producer.

However, what can and should change in this enormously large bilateral trade relationship is the unfair treatment of foreign companies trying to establish themselves in China, or trying to sell their products and services to China.

Unfair treatment

There is plenty of evidence indicating that U.S. exporters are penalized in a variety of ways. For instance, the Chinese use their own competition laws as an effective non tariff barrier against foreign companies. Chinese authorities selectively target U.S. and foreign companies accusing them of anti-competitive behavior, forcing them to pay fines and to license their technologies to Chinese entities, this way undermining their ability to work in China and their overall competitiveness.

Demand better terms

This is an area where the Trump administration has legitimate ground to complain and demand better terms from China. Still, even if successful, this effort would lead at best to the narrowing of the trade imbalance gap, not to its disappearance.

As for the millions of new manufacturing jobs coming back to America on account of broad new trade agreements, well, dream on. This is just not going to happen.

The Obama Foreign Policy Record

WASHINGTON – The almost universally accepted narrative dished out daily by the serious, high brow U.S. media is that come January 20, 2017, with Donald Trump as President, we shall have 4 years of *"Amateur Hour"* in U.S. foreign policy. This dismal prospect is of course a far cry from the thoughtful, insightful and properly balanced foreign policy agenda expertly crafted and implemented by President Barack Obama and his top-notch foreign and national security policy team.

The incompetents are taking over

We are told by savvy analysts that, all of sudden, from reliable, steady competence that –as we all should know– raised American prestige worldwide, we shall plunge into an abyss of policy mayhem stirred by dangerous ignorance mixed with laughable (or dangerous) braggadocio, with a stupendously unqualified Commander in Chief at the helm.

Condescension

This narrative is another expression of the Olympian condescension of the perennially entitled leaders of the Washington foreign affairs establishment. They simply cannot get used to the reality of a complete outsider, with no real hands-on experience in this field until now reserved to few insiders, now in charge.

Trump is inexperienced

True, Trump is inexperienced. He may indeed fail in foreign policy, and we should not take this prospect lightly, as there are bound to be consequences. On the other hand, he may not fail, after all. Trump will have a team working for him. Most of the people he picked thus far have considerable international and national security experience.

Right mix?

That said, has he chosen the right mix of people? Even more important, when confronted with difficult decisions, in murky situations when there is no obvious right policy choice, will Trump have the right instincts? Will he manage to safeguard –better yet, advance– the American National Interest? Quite frankly, we do not know yet. Time will tell.

Obama's record

However, while we can only speculate about the future, we do know a great deal about the Obama Team foreign policy record. And, no, it is not stellar. Contrary to the official narrative, the supposedly expert hands that have been in charge until now are not shining stars. And Obama is no great leader when it comes to directing U.S. foreign affairs. Hesitation, mixed messages and retreat have defined American foreign policy under his stewardship.

Now, after George W. Bush's profoundly ill-advised pro-democracy enthusiasm which led America into two horrendously costly and mostly unsuccessful wars –Afghanistan and then Iraq– a new foreign policy guided by restraint was indeed a welcome change after the 2008 elections. But there is a huge distinction between careful, calculated withdrawal behind defensible lines, while spelling out U.S. continuing strategic priorities, and policy confusion leading to retreat.

Allowing chaos in Iraq

In Iraq, President Barack Obama used Baghdad’s intransigence regarding the legal status of U.S. troops which would stay on after December 2011 as a good excuse for ending the negotiation with then Prime Minister Nuri al-Maliki. With no deal with Baghdad in place, the U.S. pulled completely out of Iraq at the end of 2011.

At that time Iraq was a relatively stable but still fragile and politically split country (Sunni in the North, Shia in the South) in which America had invested an enormous amount of resources. Pulling out completely while the wounds had not healed was an ill-advised and in the end horribly wrong decision.

To this day, President Obama claims he had no choice, given the uncooperative stance of the Baghdad government. But this is nonsense. If the Obama administration really wanted a deal with Prime Minister al-Maliki that would have allowed a substantial U.S. military presence after 2011 it would have found a way to get one.

Get out

The fact is that Obama wanted out of Iraq, entirely for domestic political reasons. He wanted out of Iraq in order to show to the American people that he had made good on a major campaign promise: he had brought all the troops home. And, in fact, later on he repeatedly bragged about this “accomplishment” represented by the closing of the Iraq War chapter. Which is to say that concerns about Obama’s popularity at home caused America to essentially abandon a country in which it had invested years, hundreds of billions, and so many lives of killed U.S. soldiers.

Could sizable American troops stationed in Iraq have prevented the steady descent into chaos that followed their departure? We do not know for sure. But it is not far-fetched to believe that they could have helped keep things together.

Belated U-turn in 2014

That said, Obama was forced to make a complete U-Turn on Iraq when this deeply divided country was confronted with an invasion masterminded in 2014 by the Islamic State, or ISIL from its bases in Eastern Syria. A massive invasion, by the way, that the sophisticated Obama intelligence leaders never saw coming.

With no U.S. troops on the ground, (thanks to Obama's complete troops withdrawal decided back in December 2011), ISIL breezed, mostly unopposed, into Northern Iraq. In a matter of days it took over Mosul –the second largest city in the country– and the entire North West of Iraq. An eyewitness quoted by *The Guardian* said that:

"The city [Mosul] fell *like a plane without an engine. They* [ISIL] *were firing their weapons into the air, but no one was shooting at them."*

Beyond taking over Mosul, ISIL captured vast amounts of cash and a huge arsenal of U.S. supplied weapons and material, simply because the Iraqi troops had run away.

So, here is the upshot regarding Obama's record on Iraq: U.S. troops out; ISIL in. The Caliphate takes over 1/3 of the country within days. America forced to move back in. But slowly and with hesitation. Meanwhile, militias funded by Iran spread through the country. This is complete policy failure.

Surge in Afghanistan?

In Afghanistan, President Obama started with an almost comical public debate in the Fall of 2009 (first year of his mandate) about what U.S. policy should be regarding the continuing Taliban insurgency. Obama finally ended the deliberations in November 2009 with a commitment to a "Iraq-like" surge in Afghanistan. But it was a surge accompanied by a publicly announced withdrawal timetable.

Yes it was just like that. Washington would send additional troops aimed at stabilizing this perennially chaotic country; but only for a short while. How ill-advised. You go to war not to shoot around a little bit, and then go home. You go to war to win. Or you do not go at all. Result? 20016 is over and the war in Afghanistan is still going on. This is another failure due to Washington's indecisiveness and half measures.

Get rid of Ghaddafi

Then there was Libya, and the ill-conceived idea of toppling dictator Ghaddafi, without even a thought of a game plan about what to do afterwards. Result? Ghaddafi was toppled and he is certainly dead. But so is Libya, now a failed state torn apart by various warring militias. This is failure number three.

Hesitation about Syria

And what about Syria? in 2011, at the beginning of the Arab Spring, President Obama declared that President Assad heavy-handed repression of initially peaceful pro-democracy demonstrations was intolerable. Assad, Obama declared, *"had to go".*

Strong words. However, this clear statement of a U.S. policy objective –nothing but regime change would do for Syria– lacked even the semblance of a policy aimed at obtaining the outcome: make Assad go.

This incoherence between grandiose objectives and no policy to implement them was only the beginning of a half-hearted U.S. policy in support of some factions within the Syrian opposition.

Military planners should know that a little bit of support is not enough. In war, either you are in or you are out. Even if your method is to support the opposition, as opposed to sending your own troops, you have to be with them all the way. Support to your side in the conflict has to be decisive. The objective must be victory.

Media criticism

Well, even the serious usually pro-Obama media, after years of U.S. half measures, recognized that Syria is a huge policy failure for Obama. this is a BBC analysis dated October 2015:

"[Regarding Syria] *the philosophical discussion at the White House was heated and fierce, leading to stalemate, not resolution.*

For years Obama and his deputies refused to say categorically: we're not doing this. Instead a decision was postponed.

Four years later, the result is a splintered Syrian opposition, the growth of the Islamic State group and a humanitarian disaster stretching across Europe.

Last year, in a move that was more symbolic than serious, Obama asked Congress for money to fund a programme allowing US personnel to teach rebels marksmanship, navigation and other skills.

The goal was to train about 15,000 rebels in Jordan and other countries so they could return to Syria and fight. However, US defence officials admitted last month [September 2015] *that only four or five of the recruits in the programme had actually returned to the battle."*

It ended badly

And this was the BBC, a fairly sympathetic voice. A year later, things got only worse. The result of years of U.S. policy confusion and half measures is a semi-destroyed Syria, Russian massive intervention in support of Assad, the Iranians and Hezbollah firmly planted there, a defeated opposition just driven out of Aleppo, not to mention untold numbers of dead people and millions of refugees. And now, a new ceasefire was arranged by Russia in partnership with Turkey and Iran. The U.S. is not even at the table. Talk about American retreat. This is a colossal policy failure.

ISIL in Iraq

And then there is ISIL in Iraq, the worst consequence of the U.S. total military withdrawal from the country it had invaded back in March of 2003. In a speech to the Nation, on September 10, 2014, President Obama sounded really tough about ISIL and the threat that it represented for the region and indeed the world.

He declared that:*"Our objective is clear: we will degrade, and ultimately destroy, ISIL through a comprehensive and sustained counter-terrorism strategy".*

It sounded that America really meant business. To begin with, Obama told the world that Washington had assembled a powerful coalition of 66 countries. Impressive? Not so much. If you care to dig just a little bit, you discover that this unbeatable anti-ISIL Armada includes heavyweights like Luxembourg, Somalia, Iceland, Bosnia, Bahrain, Romania, Cyprus, Estonia, Panama, Montenegro, Latvia and Albania. Are you still impressed?

Painfully slow progress

And the American military effort has also been modest. Two years later, while there have been significant successes against ISIL, we are still not done. Coalition supported Iraqi forces, (by the way this would also include support from Iran) are getting closer to Mosul; but they are still far from retaking it and eventually driving ISIL out of Iraq, let alone "destroying" it, as Obama pledged.

This is almost inconceivable. ISIL is a bunch of nasty thugs who use barbaric methods. But ISIL is not the German Wehrmacht smashing France, or the Japanese Imperial Army conquering Manchuria or the Philippines. It is a rag-tag, third-rate military force. it is unbelievable that America, with the largest and most technologically advanced military force in the world, could not destroy the self-proclaimed Islamic Caliphate in a matter of weeks.

To the contrary, a recent *Washington Post* story indicated that this battle against ISIL is going to be long slug:

".[…].*But a full offensive to retake the city* [of Raqqa, de facto capital of ISIL] *could still be months or more away, despite hopes in Washington that an operation to take the Islamic State's most symbolically significant stronghold would be well underway before President Obama left office."*

This slow and uneven progress is the military outcome of policy confusion and partial military engagement. Despite Obama's clear commitment a couple of year ago, the mighty U.S. still has not managed to *"degrade and ultimately destroy ISIL".*

Pivot to Asia?

And there are many more examples of grand plans that yielded little. Consider the pivot to Asia. Nice idea; but little to show in terms of results. Suffice to say that China, just as America publicly committed to shift its policy focus on Asia, has managed to increase its sphere of influence throughout most of the South China Sea –essentially unchallenged.

True, the Obama administration made all the right noises when confronted with the evidence that China is busy building up and militarizing small islands scattered across the South China Sea that it occupied with the bogus justification that these rocks (some of which do not even qualify as "land" according to international law) have always been under Chinese sovereignty.

The Obama administration has not been able to challenge this creeping Chinese expansion, nor has it been capable or willing to persuade the Chinese to retreat and get out.

Iran

I am purposely leaving out of this analysis the Iran nuclear deal, because it is a lot more complicated than these other issues, and because in Iran's case the Obama administration acted with purpose towards a fairly clear policy objective: freeze the Iranian nuclear program. And this objective has been reached. While there are many vocal critics of the deal, none of them seem to have a better plan. Just getting out of a "bad deal" without having anything to replace it will not yield better outcomes.

Obama's retreat

Anyway, you get the picture. Clearly, it is always easy to point out foreign policy failures with the benefit of hindsight. Of course, it would be completely unfair to blame Obama for an Arab World in chaos, and other major troubles.

Still, the net result of Obama's 8 years in office is not stellar.

All in all, U.S. policies regarding Iraq, Afghanistan, Libya, Syria and ISIL reveal a pattern of hesitation, in fact genuine confusion, and the inability to define, articulate and pursue what in Obama's mind is the U.S. national interest.

What U.S. retreat signals to the world

It would be disingenuous to conclude that all these failures, mixed messages and retreats from the world stage do not matter, because America after all is still the most powerful country on earth.

It is obvious that other political leaders around the world look at both American military capabilities and American political will. If they conclude that America lost its will, its powerful military forces will not deter as much as they used to.

Will Trump be better?

In the end, it is perfectly alright to express doubts about President-elect Trump ability to articulate a mature U.S. foreign policy. Still, the idea that come January 20 2017 the rowdy, clueless children are taking over, while the thoughtful grown ups have been driven out of the room is nonsense.

Quite frankly, if the poor Obama foreign policy record is the best the mature and experienced adults are capable of, then we may as well give the untested Trump and his team a chance.

Who knows, they may surprise us.

Living In A False Data World

WASHINGTON – We are used to hear that we live in a "data driven" world. Thanks to ICT and the computing power explosion, it is possible to gather, streamline and organize millions, in fact billions of bits of information. All this intelligently organized and sifted data provides precious information that will influence, in fact will determine investments, marketing strategies, purchases, and even the pitch of political campaigns.

Reliable data

Fine, all well and good. But this "data revolution" assumes that we do have reliable data; and it also assumes that we have a good sense of *“what all this means”,* once we have carefully looked at all the available information.

And here I see serious problems. At one level, we may engage in self-deception by giving excessive weight (or not enough weight) to some data. And, on a different level, what if the data is false, or heavily manipulated? In both cases we are in trouble.

Data in context

Let’s talk about exaggerating the importance of some data. For example, take unemployment. The US Government is proud to tell us that at around 5% the unemployment rate is back to “normal’. True. Except that this unemployment statistic, while correct, is rarely placed in context.

Unemployment is definitely way down, and this is good news. However, the percentage of the US population that is actually working compared to the entire working age population is well below what it used to be 10 or 15 years ago. Indeed, labor participation reached 67.3% in 2000. And now in 2016 it is at down to 63%. Which really means fewer people employed. In other words, the often cited unemployment data omits the fact that millions of Americans simply dropped out of the work force, and therefore are no longer counted. Therefore, if we look at how many Americans are actually working compared to the overall working age population the picture is not so good.

Likewise, when employment statistics are presented, we usually get an aggregate number or percentage. The conventional wisdom is that if unemployment is down this must be good news. This means that the economy is growing, and therefore there is demand for more labor. What can be wrong with this? Well, nothing wrong really.

From a different angle

However, if we look just a bit under the surface, we see that among the millions of new jobs that have been added in the last few years very few are related to productive activities (manufacturing, mining, energy) that produce new wealth. We have millions who found work in the hospitality industry, or who are on the lower echelons of the health care industry, along with many janitors and landscaping workers. Most of these are low pay, often part-time, marginal jobs.

Therefore, if you focus only on the overall unemployment figures and conclude that all is well, because a healthy labor market is a powerful indicator of a healthy economy, you are engaging in self-deception.

Over valued stock market

On a different level, a buoyant stock market used to be considered a sign of a healthy economy. But these days it is no longer so. US share prices are dangerously inflated for reasons that have nothing to do with any misinterpretation of the real economy and market forces.

They are inflated because the US Federal Reserve continues to keep real interest rates at historically low levels. This unusual ZIRP policy created a bias against any form of saving. Since they get zero per cent keeping their money in the bank, people seeking some return on their money are induced to invest in the stock market. And since millions started buying stocks for lack of any alternatives, this has inflated stock values.

So, at this time the stock market data is not a helpful indicator of anything regarding the real economy because valuations are grossly inflated. High valuations are disconnected from economic performance. Of course, there have been bubbles before and we can expect more in the future. But this is a gigantic bubble created by the Federal Reserve and its monetary policies. The shares valuations data does not capture any of this.

False data

And now let's get to the bigger problem: false data. When the Greek debt crisis emerged back in 2009 it became obvious that the truth about the impending fiscal disaster had not emerged up to that point in part thanks to the complicity of the national statistics agency, (Hellenic Statistical Authority, ELSTAT). At the behest of the Greek government, the agency was happily producing false data, with the obvious intention of hiding the truth about the huge fiscal hole for as long as possible.

More recently, right after Mauricio Macri was elected President of Argentina, one of his first moves was to get new staff in the national statistics agency, (INDEC). His goal is to recreate credibility for economic data published by his new government. It is clear that the previous administration published false (or distorted) data in order to convey the message that the tottering economy was in fact doing well under their stewardship.

Just a few bad apples?

Well, these are some of the cases we know about. But are these just a few exceptions? Are all other governments around the world complying with high ethical and professional standards when it comes to reporting economic statistics? I would not be so sure. For example, a major country in Africa, beyond inflating GDP growth statistics, cuts the actual number of its very large population in order to show a higher per capita GDP, this way trying to show a sign of economic progress that is not really there.

And then we have impeachment procedures against Dilma Rousseff, the President of Brazil, accused of manipulating public accounts in order to show a healthier fiscal situation. And what about India's GDP numbers? Most experts argue that they are inflated, even though it is not clear by how much. In other words, India is also under suspicion of "cooking the books" in order to create a brighter economic picture.

China's GDP numbers

And, finally, the real monster: China's GDP growth figures. Nobody believes the official Chinese data anymore. No, China does not grow at almost 7% a year. The question is: how big a lie is this? Is the real GDP growth 6%, or is it 3%? We simply do not know. There are many theories but no hard facts, simply because nobody trusts the official Chinese data.

Now, think about all this for a moment. China is the second largest economy in the world. And yet most experts and analysts routinely argue that the official numbers are fake. But why would China do this? It is quite simple. In China positive economic statistics are necessary tools to strengthen the regime's political legitimacy. Inflated growth numbers tell everybody a good story: the Communist Party leadership is doing a splendid job.

What about everybody else?

Once again, are we talking about just a few cases of rogue governments that do not play by the rules? Or is this fraudulent manipulation of sensitive economic data far more extensive?

I would say that the likelihood of data manipulation increases with the degree of authoritarianism. A government not held accountable by any one is not interested in enforcing high standards of truth and transparency. You can bet that it will say whatever it can to make itself look good. As there are not so many accountable democratic governments around the world, we can safely conclude that much of what is published and is then used by analysts as "data" is at least inaccurate, in some instances totally false.

Bad consequences

And data manipulation has really bad consequences. Unless a company enjoys the benefits of political favors, it is hard to make major economic decisions when you literally *“do not know what’s going on”* in any country that is in the habit of manipulating important economic data. Likewise, it is hard to attract serious foreign investors when you cannot reassure them that the country is ruled according to proper transparency standards.

Data driven world, with many lies

So, here is the thing. We live in a very strange and paradoxical world. The IT experts tell you that they routinely capture millions of pieces of information on consumers, their preferences, their habits and buying patterns. And all this data drives decisions and investments by large corporations.

At the same time, we see how statistics, even when correct, are routinely manipulated in order to fit a preordained (and often dishonest) narrative. If you want to make the case that the US economy is doing fine, you can point to hard data: 5% unemployment, 2% GDP growth, historically high stock market valuations, low inflation.

But if you want to paint a darker picture, you will point to other hard data. 2% GDP growth is 1/3 below the historic 3% norm. On the basis of other real data, you will say that most of the new jobs are part-time gigs that at best provide survival wages, without creating any chance of upward mobility. You will argue that there are millions of part-time workers who would rather have full-time jobs but cannot get them. And you will also say that, based on hard data, (real corporate earnings for instance), the US stock market is over valued, thanks to Fed policies.

No reliable data without accountable governments

Once again, regarding the wider world, you can rest assured that every non democratic regime in which leaders are not held accountable –and there many of them– economic numbers are either false or heavily manipulated, so that they can be used by the leaders to support a self-serving political narrative.

Yes, this is a data driven world. And data analysts can indeed perform wonders, provided however that they have real data to work with. And this is not the case. At least not in large parts of the world.

In the end, there is no chance to have true data driven decision-making processes without true democracy, real accountability and transparency.

In the final analysis, good governance is the precondition for getting good data.

[Too Many Bad Loans In India]

WASHINGTON – India recently decided to change its methodology for calculating GDP and the rate of growth. And, presto, GDP now is a lot bigger, and growing much faster. Except that most analysts do not believe the numbers. No, the 7.5% rate of growth is more likely 5%.

Cooking the numbers

This is no mere detail. It is hard to take seriously a country that cooks up its numbers to make them look better. India's government better fix this, and fast. A major developing economy, a country of more than 1.3 billion, cannot risk becoming a laughing stock by producing data that most of the world believes is fake.

Fake statistics in Argentina

Indeed, Mauricio Macri, recently elected President of Argentina, immediately replaced all the top management at INDEC, the national statistics agency. The simple reason is that the agency had lost all credibility. Under the previous populist government, it published what the political leadership wanted. In order to re-establish credibility, accountability and transparency, as a minimum Argentina needs a truly professional, non-political statistics agency that will publish real data.

And so does India.

Bad loans

In India there are also other problems. There are just too many bad loans on the books of state controlled banks. More credit is extended to borrowers already in default. As a result, the percentage of Non Performing Loans, NPLs, jumped from 6% in 2011 to 14% in September 2015. According to the FT, this is *“the worst level in Asia”.*

As the NPLs issue is out in the open, the markets are punishing banks stocks. But the government is reacting too slowly. Various analysts openly argue that Finance Minister Arun Jaitley should act swiftly. This situation damages India’s financial sector, and more broadly it shows its corrupt politics.

Crony capitalism

It is obvious that all these NPLs are mostly about crony capitalism. Well connected Indian tycoons do not go bankrupt. No, first they get all the loans they want. And when their businesses go south, their bad debts are rolled over, and in fact augmented with the justification that a more robust capitalization of failed enterprises will finally heal them. But this never works.

NPLs in China

Look, this is happening everywhere in Asia. In China, virtually defunct State Owned Enterprises, SOEs, now explicitly called "Zombies", keep getting fresh capital from friendly state owned banks. How big is China's financial hole caused by NPLs? We do not know. But probably bigger than we think.

Rigged game

Thank God, in India there is a bit more transparency. Investors know more or less the extent of the NPLs problem. All the more reason to attend to it. State banks should not be in the business of funding well connected people who are lousy business leaders.

Difficult to get foreign investors to take the country seriously, if the Indian economy is perceived to be an insiders' game designed to fit the needs of corrupt elites.

Maersk Warning About Global Slow Down – Recession In the US?

WASHINGTON – Maersk, (based in Denmark) is the largest shipping conglomerate in the world. Their business is to transport every day tens of thousands of containers from exporters to importers around the world. The company just announced losses for 2015. Just a temporary setback? Well, apparently not. Maersk ascribes this setback to shrinking global trade volumes. Their profits are way down because a much weaker world economy generates much less shipping of goods.

The worst since 2008

Maersk's CEO is quoted by the WSJ saying that the conglomerate is facing a "massive deterioration", adding that this is the worst they have seen since the onset of the Great Recession of 2008. Got that? We are back to a 2008-like scenario. I suggest that this is really bad.

And Maersk believes that this weak trade flows trend will continue in 2016. We should pay close attention to what Maersk managers say. Global shipping volumes are a very good proxy for world economic health. 95% of all manufactured goods are transported via containers that get to destination thanks to global shipping companies like Maersk.

Less activity in ports world-wide

Maersk is not alone in predicting bad times. DP World, a very large Dubai based port facilities management company, with operations in 70 terminals in practically every continent, chimed in, indicating that their business (handling the containers moved by Maersk and other shipping companies) is down, significantly. And the IMF confirms this pessimism about a global economy that run out of steam. They have lowered their forecasts for both growth and international trade flows.

So, here we go. The big companies that handle global trade are hurting. Their business is down because the world economy is slowing down, at a rapid pace. They are worried.

Weak economies

And why is that? Because the day of reckoning is finally getting close. The jig is up. For several years we have lived in a fools' paradise created by easy money created by central banks that caused asset price inflation in developed countries, and too much easy credit in emerging markets. Underlying economic conditions all over were rather weak, but everything looked good because of the artificial froth created by monetary easing. `

Central banks to the rescue

Until recently, when stock market worldwide showed signs of weakness, investors simply waited for central banks in the US, the EU, UK, and Japan to come to the rescue. And they were never disappointed. Trying to boost sagging economies, central bankers would launch, or relaunch, monetary easing, and zero per cent interest.

They would ladle quantitative easing, or QE. If it wasn't enough, they would ladle some more. When that did not do the trick, they went further. Some of them (Japan's Central Bank just joined the group) stopped paying interest to commercial banks parking their funds with them.

More of everything

And when even that proved to be insufficient, some of them started charging interest on deposits as a way to force banks to lend more in order to induce more growth. (Even Janet Yellen, the Chairwoman of the US Fed, just declared during a congressional testimony that negative interest rates could be looked at here in the US as a policy option, in some scenarios).

All these gimmicks produced some results. But nothing stellar. With all this gigantic monetary stimulus, the US has been growing at a modest 2%. Europe, at roughly 1%, has done much worse. Still, notwithstanding meager results, the international financial community seemed to be comfortable.

As long as the central banks seemed to be in control, busy doing one thing or another to prop up markets and keep stock markets reasonably buoyant, (regardless of the weak underlying economic fundamentals), it all looked promising.

Artificial valuations

Except that everybody, unless totally insane, must have known that nothing was right. Here is the thing. The extravagantly long season of monetary easing did not do much to grow the economies. But zero interest rates pushed cash from savings into stocks, therefore artificially boosting stock prices.

This cannot go on for ever.

Therefore, investors paying high prices for inflated assets must know that these high valuations were and are artificial. What happens when the central banks cannot provide any more monetary easing?

Governments have done nothing

It is true that central banks intervened so heavily mostly because governments did practically nothing. Sadly, in most western countries there has been no serious attempt to launch new pro-market, pro-growth, pro-investments policies. And it is obvious that, without a business friendly policy environment, there will be fewer investments, less innovation, less enterprise, fewer new companies, and fewer new jobs. And this means no growth, or lackluster growth.

But policy-makers, paralyzed by their ideological blinders that privilege spending on social issues as opposed of investments in future growth, sat on their hands.

It is true that central bankers, at least in the US and in the EU, pleaded with governments. They wanted action, real reforms that would free up resources, favor enterprise and therefore new growth. They did say that they could not manage the economies all on their own. But nobody listened, and almost nothing happened.

No reforms in the US

In the US nothing has been done about reforming entitlement spending (Social Security, Medicare and Medicaid) and a horrendously complicated, burdensome federal tax system that discourages business creation. On the contrary, instead of reducing regulations, the US government keeps adding more, this way suffocating enterprises with unnecessary mandates.

In Europe, if anything, it is even worse. In Japan, Prime Minister Shinzo Abe back in December 2010 announced "Abenomics" a major reform plan consisting of "three arrows": fiscal stimulus, monetary easing and structural reforms. Well, thanks to a subservient Bank of Japan, he got the monetary easing. But the rest –especially the structural reforms– did not happen. Abe simply could not deliver. Japan continues to stagnate.

Central banks keep easing

So, confronted with systemically weak economies, and no help from policy-makers, the central banks tried to provide more oxygen via monetary stimulus. And it worked; but only a little. However, in so doing, the central banks created unprecedented asset price distortions and misdirected the allocation of capital. Trying to buy some time, they created a gigantic mess.

Nervous investors

And now investors are very uneasy. They are on the lookout for any signs that may indicate the imminent collapse of this house of cards. They know that China, the most astonishing example of fake growth almost entirely financed (since the 2008 Great Recession) by unprecedented levels of new debt, is doing poorly. How poorly? Well, we do not know, because we cannot trust Chinese economic statistics. But global investors know that something really bad is brewing there. There is massive industrial over capacity, and no new demand. There is capital flight. For how long can the Chinese Government keep so many virtually bankrupt companies open? Not for ever.

And the same investors know and fear the cascading effects of the China retreat, some of them already unfolding, (and captured by Maersk's warning on world trade flows deterioration). Indeed, South Korea, Thailand, Japan, Indonesia, Australia and others are closely tied to the Chinese economy. Many of their companies are part of China's supply chains. So, as China goes down, they follow. This means a broader contraction.

Commodities down

And then you have all the commodities producing countries, also hurt badly by China's slow down. This would be bad enough as it is. But it is made a lot worse by the fact that the rapid growth of many sectors (not just commodities) in emerging markets was debt-financed. Now that business is down, and profits have disappeared, where is the money to pay back the loans? These companies are going down, while their fall causes losses in the financial sector. This means more negative ripple effects.

So, here is the picture. Stock markets are over valued. Commodities producing countries are in bad shape because of lack of demand from China and over supply. There is too much bad debt.

Too much debt

Now, is this another September 2008 in the making? Who knows really. It is clear that no major economy is in high gear. On top of that, at least some highly indebted companies will be unable to make it. There are nasty rumors of troubled European banks with too many non performing loans on their books. Now they are abandoned by investors who fear the worst.

In China, at least for now, the losses are disguised through heavy-handed interventions by the state. But what about elsewhere? In the US, for instance, many of the companies that participated in the now defunct shale oil boom borrowed heavily to finance their operations. Because of the oil price collapse, now many of them will go under. This already hurt producers, contractors, suppliers and vendors, not to mention tens of thousands of high paying jobs lost. And you have to add the banks that financed the energy boom to the list. More broadly, the global financial system is exposed to a lot of non recoverable loans in emerging markets.

Bad news

So, there you have it. The global economic slow down is here to stay, according to Maersk and others. I would trust them. It is their core business to properly understand trends in trade flows.

Commodities prices are not going to rebound. Mining multinationals from Glencore to BHP Billiton to Vale are in bad shape. China got a massive indigestion and stopped buying. Brazil is in a recession. Russia is doing poorly because of low oil prices. Europe is fragile. And there is a lot of bad debt in distressed emerging countries.

US cannot insulate itself

It is true that in this rather gloomy context the US is not doing so badly. We have some growth, (a bit more than 2%), and unemployment is way down, (4.9%). The point is that the US is not strong enough to be able to insulate itself from these global currents. While the American economy is less dependent on foreign trade, many large US companies are tied to world markets. (Think about Caterpillar, or General Electric). If they suffer because of lost foreign sales, there will be ripple effects. At some point America as a whole will also feel the pain.

And if this happens while investors lose confidence in the

Fed's ability to keep propping up markets with some more tricks, then all bets are off. At that point expect a mad rush for the exit.

Right now a US recession seems a very distant possibility. But may be it is a lot closer than we think.

Emerging Markets Crisis Dragging Down The Global Economy

WASHINGTON – Will emerging markets in crisis drag down the global economy? Probably not. But they have added and will continue to add to the negatives.

Enormous debt

Consider this. According to the WSJ, *"foreign banks have lent $ 3.6 trillion to companies in emerging markets, and foreign investors hold, on average, 25% of local debt in developing economies".*

Now, a lot of these credits were used to finance added production capacity in key commodities producing industries. But we know what happened. China, after its fantastic, multi-year buying spree simply stopped buying. China cannot absorb more.

And therefore commodities collapsed, dragging down all the investors, and those banks that financed them.

Ripple effects

That said, it is important to note that this negative trend is not confined to the companies operating in the sectors directly hit. It also affected other unrelated sectors that were hoping to ride the wave of economic growth fueled by the extra revenue created by sky-high commodities prices.

For instance, the WSJ points out that *"Indonesian telecom PT Trikomsel Oke Tbk. nearly doubled its debt from 2012 to 2015, as it rushed to open hundreds of retail stores across the country. But the firm's revenue collapsed after growth in South-east Asia's largest economy fell to six-year lows" .* Now the company cannot pay back its bonds, "and already defaulted on $ 460 million of its debt", according to the same WSJ story.

Well, this means that there are huge ripple effects, not limited to Indonesia. Indeed, Japan's Softbank Group, an investor in PT Trikomsel, is now taking losses on account of this failed growth strategy.

Widespread damage

And this is not an isolated case. The outlook is equally grim for Brazil, South Africa and Australia. So, here we go: bad debt, financial losses, bankruptcies, lower revenue, growing unemployment. Is this mix deadly? Probably not. But it is bad both for the countries affected and for the world.

Emerging countries now account for a larger percentage of the global economy. Much was said about how a new, self-confident middle class capable and willing to spend on more cars, and more consumer goods would help boost the global economy. Well, this will have to wait. These countries are in serious trouble. Amid crises and depreciated currencies, the new middle class is a lot poorer, these days.

So, what does this mean for the global economy? It means another wet blanket on growth. The commodities producing countries and their lenders are in trouble because of lack of demand. This means that they will buy less from the West. Lack of demand in China and elsewhere means lower growth in Brazil. A poorer Brazil will buy less from Europe or America.

China drags down all its foreign suppliers

By itself this would be bad, but not catastrophic. But here is the thing. China financed its gigantic investment spree with astronomic levels of new debt. This debt will never be recovered, simply because the investment-driven bubble burst.

So, what does this mean? Well, China sits on enormous cash reserves, so it can weather the storm. Still, this capital will be used to plug holes rather than fund productive investments. As China slows down, its under performing economy drags down all the Asian countries that have become an integral part of China-centered supply chains. Think South Korea, Taiwan, Thailand, and also Japan. Their exports to China are down.

Is America insulated from all this?

Where does this leave America? Much has been said about the fact that the US economy is not so dependent on exports. Many US firms trade domestically, say between Connecticut and Colorado. Not many depend on exports. And US banks are not exposed to Chinese debt.

Still, as the whole world slows down, rather fast, can the US be the only island of growth and prosperity? I doubt it.

“The Economist” Mocking China

WASHINGTON – It is no surprise that The Economist‘s cover this week is about China. The Shanghai Stock Market is almost in free fall, notwithstanding highly publicized state interventions (unthinkable in real market economies) to stabilize share prices. And we know about the zigzagging yuan, China’s currency, in the midst of what appears to be policy confusion at the Central Bank.

“Everything’s under control”

But what is interesting is that The Economist chose mockery, as opposed to a serious, even dramatic title, to depict the situation. The cover shows a drawing of a dragon with a totally terrified expression racing downhill (to nowhere), while a disheveled President Xi is struggling to stay in the saddle. The title says: *“Everything’s under control”.*

This is important. The Economist‘s editors could have chosen a different cover to introduce a story of serious economic troubles in the world’s second largest economy. For instance: a picture of a stern looking President Xi, with a title saying something like: *“China in peril?”.*

Satire, not reverence

But no, they chose mockery instead to portray a deteriorating economic situation. Well, this may not be the most irreverent satire. But it is satire nonetheless.

And I think that this needs to be noted, because of the sharp contrast with the almost reverential tone of most China coverage that used to be the norm until recently.

In awe of China’s leaders

Indeed, until not too long ago, most western media were almost in awe of China. After all, this was the country that had done the impossible: 30 years of uninterrupted growth. Imagine that: 10% a year added to GDP, year after year. No other country had done that.

The Chinese technocrats in charge of economic policies were depicted as all-knowing, super smart technocrats, armed with refined long-range strategies that we mere mortals could not even begin to comprehend, and the super human gift of infallibility.

Show the cracks

Well, now there seem to be huge cracks in the splendid Chinese economic edifice. The meteoric rise is over. In fact, more and more western business media openly say that most likely the real rate of growth in China is much lower than the still more than respectable 7% (if it were true) officially declared by Beijing.

Publish the bad news

There seems to be less reluctance to publish "the bad stuff" that at least indirectly contradicts official rosy numbers. For example: in 2015 there have been 2,774 unauthorized strikes in China. This is up from 1,379 in 2014, according to The Economist. These strikes (all of them illegal) are a sign of growing restlessness, possibly of major troubles brewing. And, by the way, the authoritative Caixin survey of the manufacturing sector just recorded the 26th consecutive month of decline.

Clueless leaders

Let's be clear. Nobody is suggesting that China is about to fall apart. But it is suggested, in fact declared, that China's heroic days are over. It is also argued more or less openly that the Chinese leaders are sometimes clueless, especially when it comes to managing financial and monetary affairs. As The Economist put it in the same issue:*"The past* *six months have been hard on the reputation of China's economic managers. Their attempts to bring troublesome stock markets to heel border on slapstick".* **"Slapstick?"** Yes, this is comedy, not tragedy. Hilarious levels of gross incompetence.

And, finally it is taken for granted that the Chinese publish inflated growth statistics that nobody believes anymore.

Now it is alright to mock

Well, I think that when it becomes alright to make fun of completely humorless leaders who want to be taken very seriously all the time, then we enter a different dimension.

The cartoon message is that these stern looking people who want to appear in serene control of everything in truth do not know what they are doing, while they deliberately lie about the extent of their problems. Sure *"Everything's under control"* –they tell us– while the scared dragon races downhill, towards nothing.

Meaning: *"Sorry guys, we do not buy the old super-performing China story anymore".*

This hurts

I believe that this scared dragon cartoon on the cover of one of the most influential news magazines in the world hurts more than any title that would criticize the merit of specific economic choices.

This cover story does not say that China is pursuing wrong-headed policies. This funny cartoon says that this a bunch of clueless amateurs, clearly out of their depth.

I am sure that to be dismissed with a laugh hurts a lot more than to be criticized.

The China Myth is officially dead; and Thank God for that!

How Much Overcapacity In China? Monstrous

WASHINGTON – It has been said many times that the recent commodity prices collapse is due to sudden lack of demand from China. The Chinese construction and infrastructure boom is over.

China stopped buying

China's voracious appetite for copper, iron ore, glass, cement and other basic materials that just a few years ago led world commodities prices into the stratosphere is now over.

Commodities exporters ranging from Brazil to Australia, from Chile to Zambia are suffering because their once valuable products, due to lack of strong demand, are now worth a lot less.

We know of a global retrenchment of all major mining companies, from Glencore to BHP Billiton. Vale, the Brazilian iron ore giant, will borrow $ 3 billion in emergency financing.

Is this global mining industry carnage due to only to the collapse of demand from China? May be not all, but most of it. That said, how big was China's boom? And, more relevant, how big a bust do we have now?

We know that China's once insatiable appetite for all commodities was part of a gigantic investment and construction drive aimed at countering the ill effects of the 2008 recession that originated in the US. We know that this drive led to the creation of massive over capacity in many sectors. But how much overcapacity are we talking about?

Well, here is an example, reported in a WSJ editorial;

"Canadian scientist Vaclav Smil captures the scale of this **[construction]** ***folly with a statistic. From 2011 to 2014, China produced 6.6 billion tons of cement, compared to the 4.5 billion tons the US used over the entire 20th century".***

More cement than what the US used in a century

Got that? In 3 years China used more cement than what America, the largest world economy, used in a century!

Even allowing for a much larger population (1.3 billion Chinese, versus 300 million Americans) that may have needed (in a real hurry, I might add), more housing, more commercial properties, and more new highways, these figures are staggering. No wonder that the Chinese rate of demand for more and more raw materials could not be sustained.

No more buying

If we look into the future, after this gigantic raw materials indigestion, it is clear that China is not just taking a pause. It will take years before China will be able to cut down over production to levels more in line with actual domestic needs. Therefore, it is clear that China will not go back to the absurd buying spree that created the now defunct commodities boom.

And this means that all commodities producing countries better revise their business development models. Their future well-being will no longer be driven by Chinese demand.

Ripple effects

And beware of the ripple effects. Large and small commodities exporters represent now a much bigger percentage of the global economy. With their economies down, expect these countries to buy much less from America, Europe or Japan. This will not lead to a major global crisis. But it will slow everybody

down. Therefore, 2016 will not be a good year for the world economy.

US will be hurt

And there is no way that the US, thus far the best performer among many developed world mediocrities, will be able to insulate itself from these negative currents. Does this mean recession? May be not. At the moment, though, it is safe to predict even slower growth.

[China Worries Fostered By Unreliable Government Data]

WASHINGTON – What's going on in the Chinese economy? Nobody knows, really. We get bits and pieces; but not the complete picture. There is a real estate glut in the secondary cities. There has been slow growth. We know that imports and exports are down. We know of massive over capacity in some basic industrial sectors, especially those that support construction and infrastructure (cement, steel and copper).

Ponzi Scheme?

But we do not know the whole story. There is no open debate on the economy, or policy choices, let alone a clear depiction of the actual state of troubles sectors. In fact, independent reporting on the economy and financial markets is expressly prohibited.

And precisely because nobody knows, when something strange happens, like the recent Shanghai stock market mini crashes, (that now amount to a significant correction), at the very start of the new year, many analysts fear the worst.

The truly scary (still hypothetical) scenario is that China has now become a gigantic "Potemkin Village", a Ponzi scheme, a make-believe place of fake growth based mostly on unsustainable levels of debt. Just like in other Ponzi schemes, for a while everything looks great, but then it all comes crashing down.

Pessimistic picture

Here is how The Wall Street Journal sees it:

"[It is] more likely that Beijing will continue to prop up growth, steering more capital to money-losing companies, unneeded infrastructure and debt servicing, depriving the economy of productive investment and leading to the sort of protracted malaise seen in Japan in recent decades. But China is less prosperous than Japan."

"Some state firms remain in business despite massive debt, several years of loss-making operations and a weak business model—Chinese officials have dubbed them "zombie" companies. Earlier this month, during a visit to the northern industrial city of Taiyuan, Mr. Li railed at the drag of "zombie" companies, according to a government account. He said they should be denied loans to reduce excess supply in the steel and coal industries".

Not a flattering picture. This WSJ piece talks about money-losing state owned companies, costly but unneeded infrastructure, zombie companies, increasing levels of debt, and a lot more. This is nasty stuff. But is this just a crazy exaggeration? Maybe.

Unreliable data

However, the fact is that the dark scenarios and the extra worry about China are due in large part to an opaque system that produces dubious, and mostly self-serving information. We simply do not have all the facts. Therefore, it is much harder to understand what's really going on.

And here is at least one key root problem about China. In large part we do not know what's really going on because we cannot trust official Chinese economic statistics.

It is an almost universally acknowledged fact that Beijing releases only optimistic, doctored economic data. In other words, "they cook the books". Their data on GDP growth, productivity, unemployment is fake.

Big lies?

What we do not know is how deep these lies go. Are they doing just a little "air brushing", some minor embellishments? Or are we talking about massive data fraud? We simply do now know.

And precisely because we do not have a vetted, reliable baseline regarding GDP growth, inflation, unemployment, productivity, manufacturing growth and more, when something really strange and unusual occurs, like the sudden and deep Shanghai Stock Market losses, some are inclined to think the worst.

No transparency

Well, is China's government going to become transparent any time soon? Don't count on it. Don't count on a privileged Communist Party oligarchy that owes its unchallenged supremacy to its reputation of infallibility to show poor data revealing that the leadership is delivering below plan these days. They will never do this.

Given all this, we are left with a lot of questions. We know that China is slowing down, but we do not know how much. We know that there is a lot of bad debt, but we do not know at what point this becomes truly toxic. We know that most State Owned Enterprises, SOEs, do not perform well. However, we do not know whether this is a manageable problem or a crisis. We know about huge environmental problems caused by past unchecked growth, but we do not know at what point grass-roots protests about severe pollution may morph into organized political opposition.

Not a market economy

One thing we do know. Despite all the incredible changes, and despite its ability to lift hundreds of millions out of poverty, China has not completed its transition to market economy status.

In a real market economy it is assumed that the government publishes accurate economic data in a timely fashion. It is also assumed that the private sector leads development, while all publicly traded companies publish balance sheets audited by third parties with reputable credentials. Finally, it is assumed that independent media freely report on economic issues.

None of this exists in China. *I repeat: "none of this".*