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Imagine if you were going to live to the age of 150!

Its real for children born since 1995

by Richard Cluver

As a young boy I spent much of my time travelling with my doctor father doing his rounds through the empty wilderness that was Zululand in the late 1940s and so you can imagine my shock when, 12 years later, I returned on secondment from my newspaper to the then Natal Parks Board to live with the game rangers and send back stories of the rhino capture programme that was then under way there.

It was a drastically changed countryside. Where the wild costal bush had extended as far as the eye could see there were now African villages cheek by jowl on the left of the newly-built freeway to the north and to the right a sea of sugar cane extending down to the ocean. How was such change possible in such a short time?

Of course I did not then fully understand the power of compounding numbers. Nor did I appreciate the gross depopulation of Zululand that had happened as a result of the catastrophe of the Malaria epidemic that had wiped out whole tribes during the early1930s, nor the impact of the tsetse fly upon the once great herds of cattle that had been the wealth of the Zulus.

In their place the game had multiplied mightily and Colonel Potter's Hluhluwe game reserve, where we overnighted so often when I was a child, was back then simply a demarked area within a vast wilderness. But when I returned as a journalist, a population explosion had brought tribesmen into conflict with roaming rhino and they, understandably held the parks board accountable for the destruction of their mealie fields. And so the fences had gone up and the rhino capture campaign was initiated to rescue the few white rhino excluded from sanctuary by the fence.

I write of these things now because history has a way of repeating itself, and it is about to happen again in the years that lie ahead, which is why the children of the new millennium need to take acute notice lest they become engulfed in a worse crisis of expanding population numbers. So it is time for you to forget what you thought you knew about compounding numbers and get to really UNDERSTAND what they mean.

Albert Einstein, the father of nuclear energy, proclaimed that there was one power on earth that far exceeded that of the H bomb. It was compound numbers. You should know about it. It is taught in most school curricula. But I wonder how many really understand its power?

Let me start by telling you the legend of the man who invented the game of Chess. When he showed it to the emperor of India, the latter was so impressed that he invited the man to name his reward. The man responded, "*Oh emperor, my wishes are simple. Give me one grain of rice for the first square of the chessboard, two grains for the next square, four for the next, eight for the next and so on for all 64 squares.”*

So the king ordered a bag of rice to be brought to the chess board and started placing rice grains according to the arrangement and quickly realized that he was unable to fulfil his promise because on the twentieth square the king would have had to put 1,000,000 grains of rice. On the fortieth square the king would have had to put 1,000,000,000 grains of rice. And, finally on the sixty fourth square the king would have had to put more than 18,000,000,000,000,000,000 grains of rice which is equal to about 210 billion tons; sufficient to cover the whole of India to a depth of one metre. At three grains of rice per square centimetre it would require rice fields covering twice the surface area of the Earth, oceans included, to grow this quantity.

So compounding is pretty important! Moreover the most startling thing about this doubling is that you barely see it for most of the exercise which explains why swimming pools seem to go green overnight. Again, resorting to our chess board and assuming that an algae cell reproduces itself once every hour in good sunny weather, the chess board exercise will show you that, notwithstanding this growth, it is not until you get to the 58th square that the concentration of algae cells makes up more than one percent of the total water volume.

In the table below I have depicted only what happens from the point when half the squares on the chess board have been covered and there are 2.147-billion algae cells in the pool because they would represent significantly less than one percent by volume and you would not see it at this concentration. You would probably not even detect a slight greenish tinge until it reaches the 59th square when the concentration level reaches 3.13 percent, and maybe not even until it reaches 6.25 percent at square 60. But by square 61 the concentration is 12.5 percent and you will definitely see it.

32	2 147 483 648	0.00
33	4 294 967 296	0.00
34	8 589 934 592	0.00
35	17 179 869 184	0.00
36	34 359 738 368	0.00
37	68 719 476 736	0.00
38	137 438 953 472	0.00
39	274 877 906 944	0.00
40	549 755 813 888	0.00
41	1 099 511 627 776	0.00
42	2 199 023 255 552	0.00
43	4 398 046 511 104	0.00
44	8 796 093 022 208	0.00
45	17 592 186 044 416	0.00
46	35 184 372 088 832	0.00
47	70 368 744 177 664	0.00
48	140 737 488 355 328	0.00
49	281 474 976 710 656	0.00
50	562 949 953 421 312	0.01
51	1 125 899 906 842 620	0.01
52	2 251 799 813 685 250	0.02
53	4 503 599 627 370 500	0.05
54	9 007 199 254 740 990	0.10
55	18 014 398 509 482 000	0.20
56	36 028 797 018 964 000	0.39
57	72 057 594 037 927 900	0.78
58	144 115 188 075 856 000	1.56
59	288 230 376 151 712 000	3.13
60	576 460 752 303 424 000	6.25
61	1 152 921 504 606 850 000	12.50
62	2 305 843 009 213 690 000	25.00
63	4 611 686 018 427 390 000	50.00
64	9 223 372 036 854 780 000	100.00

By square 62 it is at 25 percent and at square 63 it is at 50 percent when you would be swimming in a thick soup. Finally and quite dramatically, in the next 24 hours it goes to 100 percent at which stage you could probably walk on water!

The malaria crisis in Zululand reached its peak in 1932 and thereafter the population began expanding again. When I was travelling those dusty roads in the late 1940s it had probably reached around square 59 and the increase was barely noticeable but by the time I returned in the 1960s it had moved on to something like square 60 and that was when man and animal began to collide necessitating the fencing of the Umfolozi and Hluhluwe game reserves.

The rural countryside could no longer support these numbers of people and the cities began to lure them. Thus grew the townships and then the squatter settlements and with them an increasing demand for land which has now become the strident call of South African political parties seeking power in the 2019 elections.

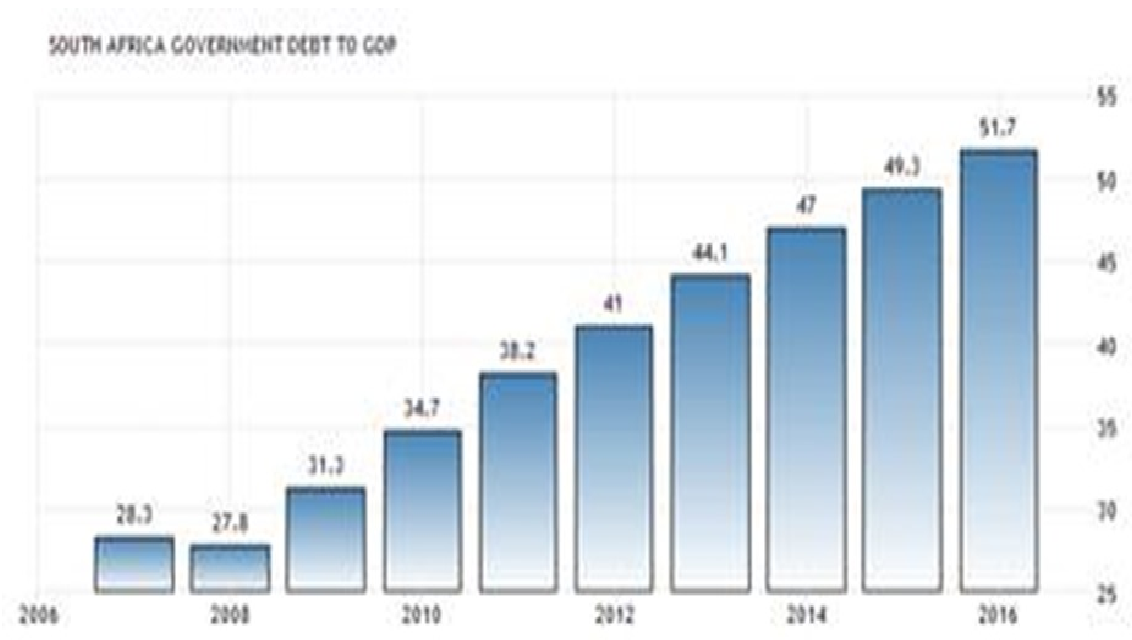
Now for the first startling fact: 100 years ago an official census had disclosed that the entire population of South Africa was 6.645-million and today it is 61.25-million and we are still only on square 58. Next consider another startling fact that the children of this era, the Post- Millennials - sometimes referred to as Generation Z about whom the actuaries warn that 50 percent are currently expected to live to at least 150 years of age - and that when they reach that great age they will look and feel rather like our current 70-year-olds. Furthermore, the one thing we know for certain about longevity is that the higher your IQ the greater the probability that you will outlive others of your generation.

If you care to project South Africa’s population increase of the past century into the future then you will discover the third startling fact that members of Generation Z are now coming of age and that by the time they start shuffling off in around 130 years from now, the population of South Africa will closely resemble that of modern day India!

Imagine what pressures they will have to cope with in their lifetimes! The “blessing” of longevity is going to bring a massive population strain to an already overcrowded earth.

Already the major nations of the world are swimming in debt. They are in fact mortgaging the future earnings of our children to meet present costs. Taking South Africa as an example, the Government currently spends 60 percent of its tax income on the “Social Wage”; that is on social grants, health services and the like and 40 percent on the public service wage bill.

For everything else it does, the South African Government has to resort to borrowing.....and every year the social wage rises at a faster rate than tax revenue which guarantees that our indebtedness will continue growing and already our Government debt amounts to 51 percent of Gross Domestic Product. At the current rate it will reach 60 percent sometime in the year 2019. Above that level it becomes increasingly impossible because the interest alone on the debt is likely to be greater than government’s tax revenue.



And South Africa is one of the world’s least indebted governments.There are 16 governments with debt of over 100 percent of their Gross National Product. To understand what this means, a nation’s gross National product is the sum of all the earnings of all of the people and all of the companies at work in that country. Thus, for example, if every citizen of Barbados and every business operating there sacrificed their entire income for a year they would nearly be able to pay off that debt.

Country	Public debt as % of GDP (CIA)[1]	Date	Total (Gross) government debt as % of GDP (IMF)
Japan	234.7	2016	237.918
Greece	181.6	2016	158.546
Jamaica	130.1	2016	146.591
Lebanon	132.5	2016	139.527
Italy	132.5	2016	126.978
Eritrea	119.8	2016	125.785
Portugal	126.2	2016	122.985
Ireland	77.9	2016	117.122
Grenada	110.0	2012	112.567
Cape Verde	116.8	2016	112.199
Singapore	110.5	2016	111.017
Bhutan	30.0	2016	107.511
Cyprus	104.6	2016	107.106
United States	73.8	2016	106.71
Belgium	106.7	2016	105.600
Barbados	108.9	2016	100.351

Similarly Japan, whose indebtedness is 237.918 percent of GDP, would need all of its citizens and all of its businesses to sacrifice their entire income for two and a third years just to settle their Government's debts.

Well that is just not going to happen is it.

Part of the problem is that there are a lot of people out there with their hands out and very few with enough to share. In South Africa 3.3 million people pay 99 percent of all the income taxes.

Meanwhile, out of a total population of 55-million, 30 million are recipients of grants. And it is not particularly different elsewhere in the world. The graphic below lists the 20 nations of the world which arguably can afford social grants:

Rank	Country	US$
1	Luxembourg	103,199
2	Switzerland	79,242
3	Norway	70,392
—	*Macau*	67,079
4	Ireland	62,562
5	Qatar	60,787
6	Iceland	59,629
7	United States	57,436
8	Denmark	53,744
9	Singapore	52,961
10	Australia	51,850
11	Sweden	51,165
12	San Marino	46,447
13	Netherlands	45,283
14	Austria	44,498
—	*Hong Kong*	43,528
15	Finland	43,169
16	Canada	42,210
17	Germany	41,902
18	Belgium	41,283
19	United Kingdom	40,096

And already most are buckling under the pressure. Almost all of their governments are operating in deficit, providing social services by borrowing in the sovereign debt market. That is why in the United States President Trump is trying to repeal “Obama Care” because he has recognised that US taxpayers cannot afford the burden. Meanwhile in Britain the Government has just announced that people now in their twenties must expect to work until the age of 70 as the state pension rises to cope with an ageing population and longer life spans.

Democracy, as a concept which believes the state should guarantee that every citizen is equal and entitled to certain basic rights such as a roof over his head and an adequate supply of food, simply will not be able to sustain such numbers. As a concept it will, long before then, have collapsed. But what will replace it; dictatorships, and totalitarian states? Your guess is as good as mine but it is likely that the gated estates we now live in will have become walled-off skyscraper cities with private armies to protect those wealthy enough to afford to live within them.

I am glad I will not be alive to have to face those challenges. But for members of Generatiion Z who are just beginning to enter the workplace, the message is very clear. You will need to spend the rest of your life making sure that you are able to afford to live in one of those walled cities or to emigrate to a less populous region of the world because I am sure you do not want to end up as one of the impoverished billions!

Name	10YrDiv
EOH HOLDINGS LIMIT...	29.00
COMPAGNIE FIN RICH...	26.69
JSE LTD	25.62
WOOLWORTHS HOLD...	17.96
SANLAM LTD	14.87
THE FOSCHINI GROU...	11.77
STANDARD BANK GR...	10.52
MMI HOLDINGS LIMIT...	3.68
Mid-Cap Companies	
Group Avg.	13.24
ADAPTIT HOLDINGS L...	21.80
SPUR CORPORATION...	14.95
ADCORP HLDGS LTD ...	2.96
Tightly Held Mid-Cap Compani	
Group Avg.	25.52
CASHBUILD LTD	25.52
Blue Chips	
Group Avg.	19.59
AVI LTD	42.54
CAPITEC BANK HLDG...	36.00
FAMOUS BRANDS LTD	33.79
SHOPRITE HLDGS LT...	23.10
CLICKS GROUP LIMIT...	22.44
WILSON BAYLY HLM-...	22.27
HUDACO INDUSTRIE...	22.01
MR PRICE GROUP LTD	21.61
NASPERS LTD.	20.99
DISCOVERY LTD	20.99
THE SPAR GROUP LTD	20.15
OCEANA GROUP LIMI...	19.40
TRANSPACO LTD	19.27
TRUWORTHS INTER...	18.86
ADVTECH LTD.	16.37
OCTODEC INVEST LTD	16.04
EMIRA PROPERTY FU...	15.31
NETWORK HEALTHC...	13.10
DISTELL GROUP LTD	11.18
PHUMELELA GAME L...	10.66
GROWTHPOINT PRO...	8.77
VUKILE PROPERTY F...	8.31
TIGER BRANDS LTD ...	7.43

I know of only one way to guarantee you can avoid future poverty. Let me introduce a category of Johannesburg Stock Exchange shares which in order to meet my definition of Blue Chips have paid consistently-rising dividends for not less than ten years up to the present. I have listed them below and if you count them up you will see that there are just 35. Next you set aside those in which the ten-year dividend growth rate is depicted in red for those growth rates are below average. Thus we are left with just 18 shares. Had you bought all of these and held them for the past ten years your portfolio would have grown in value annually at compound 38.8 percent and would have delivered an annual dividend of 3.5 percent. Thus, had you reinvested the dividends paid by these companies you would have received a Total Return of 43.2 percent. My graph below illustrates how such a portfolio would have performed.

Had you invested exactly R1 000 at the start it would today be worth R74 356. And, lets assume that you do indeed live to the age of 150, by then that number would by then have grown to..... wait for it:

R 550 074 344 946 507 000 000 000

You would be the richest person on the planet! I'm not saying it will make you any more comfortable than you are today. It probably won't. But at least you will not be one of the starving masses!

Three Black Swans

By John Mauldin

Ten years ago we were months way from a world-shaking financial crisis. By late 2006 we had an inverted yield curve steep persistent enough to be a high-probability indicator of recession 12 months later. So in late 2006 I was writing about the probability that we would have a recession in 2007. I was also writing about the heavy leverage in the banking system, the ridiculous level of high-yield offerings, the terms and potential turmoil in the bond and banking markets, and the crisis brewing in the subprime market.

I wish I had had the money then that a few friends did to massively leverage a short position on the subprime market. I estimated at that time that the losses would be $400 billion at a minimum, whereupon a whole lot of readers and fellow analysts told me I was just way too bearish.

Turned out the losses topped well over $2 trillion and triggered the financial crisis and Great Recession. Conditions in the financial markets needed only a spark from the subprime crisis to start a firestorm all over the world. Plenty of things were waiting to go wrong, and it seemed like they all did at the same time. Governments and central bankers scrambled hard to quench the inferno. Looking back, I wish they had done some things differently, but in the heat of battle – a battle these particular people had never faced before, with more going wrong every day – it was hard to be philosophically pure.

(Sidebar: I think the Fed's true mistakes were QE2, QE3, and missing their chance to start raising rates in 2013. By then, they had time to more carefully consider those decisions.)

We don’t have an inverted yield curve now, so the only truly reliable predictor of recessions in the US is not sounding that warning. But when the central bank artificially holds down short-term rates, it is difficult if not almost impossible for the yield curve to invert.

We have effectively suppressed that warning signal, but I am laser focused on factors that could readily trigger a global recession, resulting in another global financial crisis. All is not well in the markets. Yes, we see stock benchmarks pushing to new highs and bond yields at record lows. Inflation benchmarks are stable. Unemployment is low and going lower. GDP growth is slow, but it’s still growth. All that says we shouldn’t worry. Perversely, the signs that we shouldn’t worry are also reasons why we should.

This is a classic Minsky teaching moment: Stability breeds instability.

I know the bullish arguments for why we can’t have another crisis. Banks are better capitalized now. Regulators are watching more intently. Bondholders are on notice not to expect more bailouts. All that’s true.

On the other hand, today’s global megabanks are much larger than their 2008 versions were, and they are more interconnected. Most Americans – the 80% I’ve called the Unprotected – are still licking their wounds from the last battle. Many are in worse shape now than in 2008. Our crisis-fighting reserves are low.

European banks are still highly leveraged. The shadow banking system in China has grown to scary proportions.

Globalization has proceeded apace since 2008, and the world is even more interconnected now. Problems in faraway markets can quickly become problems close to home. And that's without a global trade war.

I am concerned that another major crisis will ensue by the end of 2018 – though it is possible that a salutary combination of events, aided by complacency, could let us muddle through for another few years. But there is another recession in our future (there is always another recession), and it's going to be at least as bad as the last one was, in terms of the global pain it causes. The recovery is going to take much longer than the current one has, because our massive debt build-up is a huge drag on growth. I hope I'm wrong. But I would rather write these words now and risk eating them in my 2020 year-end letter than leave you un-warned and unprepared.

Could the three scenarios we discuss below turn out be fateful black swans? Yes. But remember this: A harmless white swan can ***look*** black in the right lighting conditions. Sometimes that's all it takes to start a panic.

Black Swan #1: Yellen Overshoots

It is increasingly evident, at least to me, that the US economy is not taking off like the rocket some predicted after the election. President Trump and the Republicans haven't been able to pass any of the fiscal stimulus measures we hoped to see. Banks and energy companies are getting some regulatory relief, and that helps; but it's a far cry from the sweeping healthcare reform, tax cuts, and infrastructure spending we were promised. Though serious, major tax reform could postpone a US recession to well beyond 2020, what we are going to get instead is tinkering around the edges.

On the bright side, unemployment has fallen further, and discouraged workers are re-entering the labour force. But consumer spending is still weak, so people may be less confident than the sentiment surveys suggest. Inflation has perked up in certain segments like healthcare and housing, but otherwise it's still low to non-existent.

Is this, by any stretch of the imagination, the kind of economy in which the Federal Reserve should be tightening monetary policy? No – yet the Fed is doing so, partly because they waited too long to end QE and to begin reducing their balance sheet. FOMC members know they are behind the curve, and they want to pay lip service to doing something before their terms end. Moreover, Janet Yellen, Stanley Fischer, and the other FOMC members are religiously devoted to the Phillips curve. That theory says unemployment this low will create wage-inflation pressure. That no one can see this pressure mounting seems not to matter: It exists in theory and therefore must be countered.

The attitude among central bankers, who are basically all Keynesians, is that messy reality should not impinge on elegant theory. You just have to glance at the math to recognize the brilliance of the Phillips curve!

It was Winston Churchill who said, "However beautiful the strategy, you should occasionally look at the results." Fact is, the lack of wage growth among the bottom 70–80% of workers (the Unprotected class) constitutes a real weaknesses in the US economy (and the South African economy). If you are a service worker, competition for your job has kept wages down.

The black-swan risk here is that the Fed will tighten too much, too soon. We know from recent FOMC minutes that some members have turned hawkish in part because they wanted to offset expected fiscal stimulus from the incoming administration. That stimulus has not been forthcoming, but the FOMC is still acting as if it will be.

What happens when the Fed raises interest rates in the early, uncertain stages of a recession instead of lowering them? I'm not sure we have any historical examples to review. Logic suggests the Fed will extinguish any inflation pressure that exists and push the economy in the opposite direction instead, into outright deflation.

Deflation in an economy as debt-burdened as ours is could be catastrophic. We would have to repay debt with cash that is gaining purchasing power instead of losing it to inflation. Americans have not seen this happen since the 1930s. It wasn't fun then, and it would be even less fun now.

Worse, I doubt Trump's FOMC appointees will make a difference. Trump appears to be far more interested in reducing the Fed's regulatory role than he is in tweaking its monetary policies. I have no confidence that Yellen's successor, whoever that turns out to be, will know what needs to be done or be able to do it fast enough.

Let me make an uncomfortable prediction: I think the Trump Fed – and since Trump will appoint at least six members of the FOMC in the coming year, it will be his Fed – will take us back down the path of massive quantitative easing and perhaps even to negative rates if we enter a recession. The urge to "do something," or at least be seen as trying to do something, is just going to be too strong.

Black Swan #2: ECB Runs Out of Bullets

Last week, news reports said that the Greek government is preparing to issue new bonds for the first time in three years. "Issue bonds" is a polite way of saying "borrow more money," something many bond investors think Greece is not yet ready to do.

Their opinions matter less than ECB chief Mario Draghi's. Draghi is working hard to buy every kind of European paper except that of Greece. Adding Greece to the ECB bond purchases program would certainly help.

Relative to the size of the Eurozone economy, Draghi's stimulus has been far more aggressive then the Fed's QE. It has pushed both deeper, with negative interest rates, and wider, by including corporate bonds. If you are a major corporation in the Eurozone and the ECB hasn't loaned you any money or bought your bonds yet, just wait. Small businesses, on the other hand, are being starved.

Such interventions rarely end well, but admittedly this one is faring better than most. Europe's economy is recovering, at least on the surface, as the various populist movements and bank crises fade from view. But are these threats gone or just glossed over? The Brexit negotiations could also throw a wrench in the works.

Despite recent predictions by ECB watchers and the euro's huge move up against the dollar on Friday, Anatole Kaletsky at Gavekal thinks Draghi is still far from reversing course. He expects that the first tightening steps won't happen until 2018 and anticipates continued bond buying (at a slower pace) and near-zero rates for a long time after. But he also sees risk. Anatole explained in a recent report:

Firstly, Fed tapering occurred at a time when Europe and Japan were gearing up to expand monetary stimulus. But when the ECB tapers there won't be another major central bank preparing a massive balance sheet expansion. It could still turn out, therefore, that the post-crisis recovery in economic activity and the appreciation of asset values was dependent on ever-larger doses of global monetary stimulus. If so, the prophets of doom were only wrong in that they overstated the importance of the Fed's balance sheet, compared with the balance sheets of the ECB and Bank of Japan.

This is a genuine risk, and an analytical prediction about the future on which reasonable people can differ, unlike the factual observations above regarding the revealed behaviour of the ECB, the Franco-German rapprochement and the historical experience of Fed tapering.

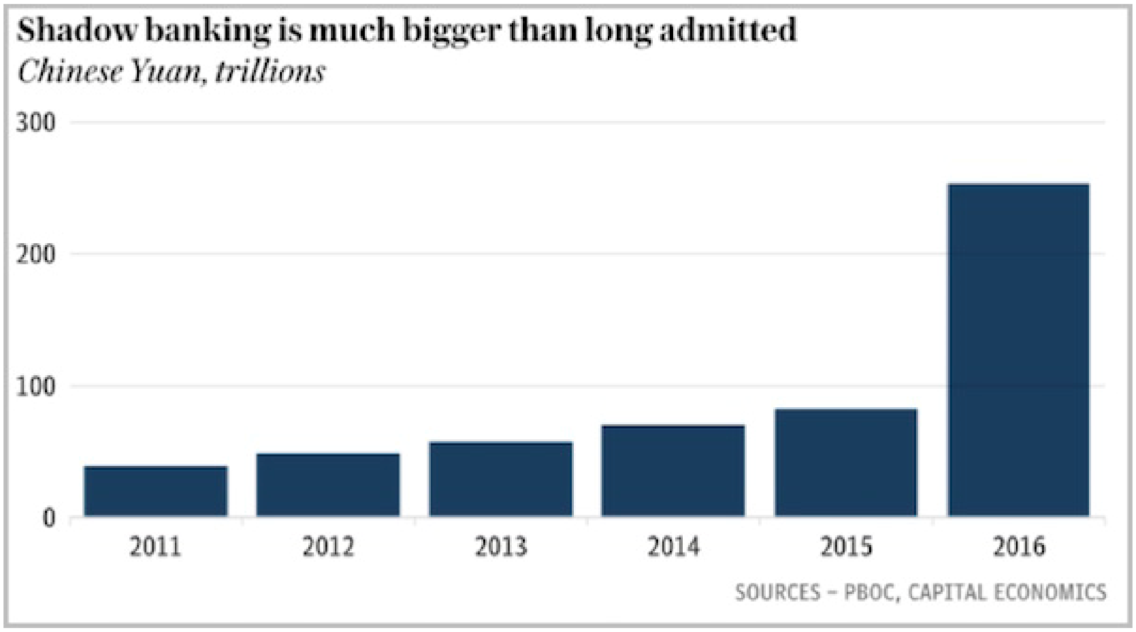
Secondly, it is likely that the euro will rise further against the US dollar if the ECB begins to taper and exits negative interest rates. A stronger euro will at some point become an obstacle to further gains in European equity indexes, which are dominated by export stocks.

Anatole makes an important point. The US's tapering and now tightening coincided with the ECB's and BOJ's both opening their spigots. That meant worldwide liquidity was still ample. I don't see the Fed returning that favour. Draghi and later Kuroda will have to normalize without a Fed backstop – and that may not work so well.

Black Swan #3: Chinese Debt Meltdown

China is by all appearances unstoppable. GDP growth has ***slowed down*** to 6.9%, according to official numbers. The numbers are likely inflated, but the boom is still underway. Reasonable estimates from knowledgeable observers still have China growing at 4–5%, which, given China's size, is rather remarkable. The problem lies in the debt fuelling the growth.

Ambrose Evans-Pritchard reported some shocking numbers in his July 17 ***Telegraph*** column. A report from the People's Bank of China showed off-balance-sheet lending far higher than previously thought and accelerating quickly. (Interestingly, the Chinese have made all of this quite public. And President Xi has taken control of publicizing it.)



The huge increase last year probably reflects efforts to jump-start growth following the 2015 downturn. Banks poured fuel on the fire, because letting it go out would have been even worse. But they can't stoke that blaze indefinitely.

President Xi Jinping has been trying to dial back credit growth in the state-owned banks for some time; but in the shadow banks that Xi doesn't control, credit is growing at an astoundingly high rate, far offsetting any minor cutbacks that Xi has made.

Here are a few more juicy quotes from Ambrose:

President Xi Jinping called for a hard-headed campaign to curb systemic risk and to flush out "zombie companies", warning over the weekend that financial stability was a matter of urgent national security.

It is the first time that a Chinese leader has chaired the National Finance Work Conference – held every five years to thrash out long-term plans – and is a sign of rising concern as debt reaches 280pc of GDP.

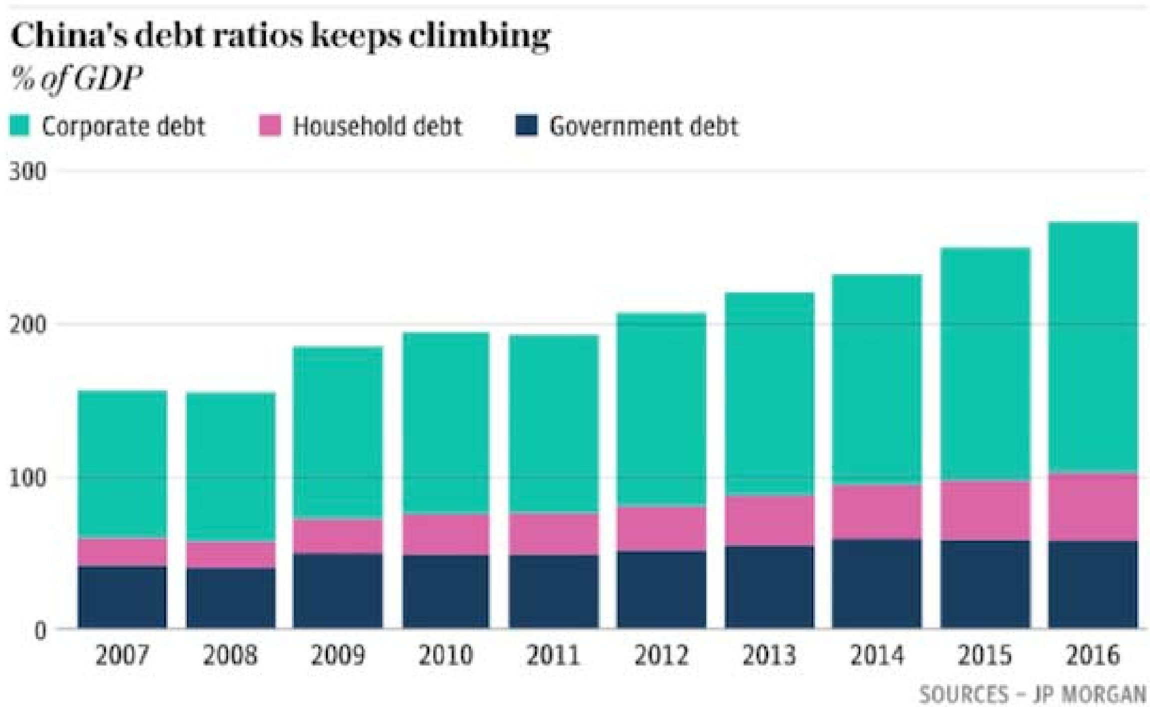
In a move that will send shivers up the spines of local party officials, he said they will be held accountable for the rest of their lives for debts that go wrong. Any failure to identify and tackle risks will be deemed "malfeasance".

Ambrose then quotes Patrick Chovanec of Silvercrest Asset Management:

"The banks have been selling products saying it isn't our risk. Investors have been buying them saying it's not our risk either. They all think the government will save everything. So what the markets are pricing is what they think is political risk, not economic risk," he said.

A market in which "they all think the government will save everything" is generally not one you want to own – but China has been an exception. It won't remain one forever. The collapse, when it comes, could be earth-shaking.

Chinese growth has been fuelled by a near doubling of both GDP and debt over the last nine years:



One reason why so many people are complacent about China is that they truly believe that "this time is different" applies to Chinese debt. Maybe in 10 years I will look back and say that it really was different, but I don't think so. As is often the case with China, China's current circumstances are without a true equal in the history of the world.

And if Xi is really serious about slowing the pace of growth (another form of tightening by a major world economy), that move would just add to overall global risk.

It is very possible that any of these black swans could trigger a recession in the US. And let's be clear: The next US recession will be part of a major global recession and will result in massive new government debt build-up. It will not end well.

Trapped in ‘Stagnation Valley’

by Cees Bruggemans

I came across something striking, at least to me. Finance minister Gigaba was being interviewed at the world economic forum in Durban, and he was asked a serious question.

Either the question was poorly formulated (it wasn't) or Gigaba didn't quite get the crux of it (possibly). More likely, he choose to answer in a way that suited him and his government. It highlighted for me the lack of insight why we are not the dynamically performing economy Gigaba claims we are.

The question was about political risk, how foreign investors saw this country, and why they weren't prepared to invest on a greater scale. What kept them at bay?

Gigaba took the view that politically foreign investors had little to worry about. We may be a young democracy, and generate some unrest around elections, but the fact of the matter is that we have strong institutions, hold regular elections, that Zuma won't rule forever. Indeed, we are politically a strong country.

That certainly may all be true. But it doesn't lie at the centre of our political risk. That concerns the policies we prefer to follow, and the behaviour we are willing to condone (before the courts interfere). If we were to be following the “wrong” kind of policies, the kind that discourages growth, we eventually invite unrest and uproar. And in going down that road too many people seem to think we can only go from bad to worse.

But to say so would imply criticizing the government, its political wisdom in choosing the policies it is pursuing. And no finance minister at public forums is going to indulge in such luxuries.

Manuel didn't, Gordhan didn't and now Gigaba doesn't.

Which brings us back full circle to those watching foreign investors, and local ones, too. Do they get satisfactory answers to serious questions, or are they in great seriousness told not to worry so much. Trust us, we a a good bunch.

What I got out of this little exchange, and previous ones with other ministers, is that the real political risk isn't up for discussion. The government believes, for better or worse, that it is pursuing the right policies. The rest of us need to see the sense of that and go with the flow.

This is, of course, hardly the way of the world, at least in countries with free institutions like ours. Instead, we ask pernickety questions, the ones that expose fundamental differences in our world view.

Any sort of policy formulation that takes your fancy will not necessarily work. To get buy-in, one needs to go down to a level where crucial parts of society recognise themselves. We may already far beyond this point. In other words, a common view may not be achievable, for many reasons.

But to think one can bang on about certain policy preferences, which are clearly distrusted by key elements in society, is not going to get us anywhere either. We are trapped in a long stagnation valley.

US-China Trade Talks Collapse and It's North Korea's Fault

by George Friedman

The United States and China met to discuss trade issues. The meeting ended without agreement on anything. The obligatory joint press conference after the talks, where everyone pretends that everything was fine, was cancelled. The only comment came from a U.S. official who said there were frank discussions, which means that the talks were tough and full of threats.

At the beginning of Donald Trump's presidency, GPF expected that these kinds of confrontations would take place. But both countries put aside their disagreements to deal with another overriding issue: North Korea's nuclear program. The issue emerged shortly after Trump's inauguration, when it became apparent that North Korea was moving aggressively to develop a nuclear delivery capability. After analysing the military reality, the United States was reluctant to launch a strike against North Korea and instead pursued negotiations.

During Chinese President Xi Jinping's visit to the United States in April, discussions between Xi and Trump turned from trade and related policies to the question of North Korea. Over the years, the United States had relied on the Chinese to act as an intermediary and restrain North Korea. Trump asked Xi to play that role again, offering to reward China for its cooperation by softening the U.S. negotiating position on trade. We know that this happened because of various leaks, because of the lack of further confrontation over trade and because Trump tweeted that China's help on North Korea would lead to a better deal for China.

But China has clearly failed to persuade North Korea to halt its nuclear program. There are two possible explanations for this. The first is that North Korea doesn't trust China but does trust that having a nuclear weapon would block any American attempts to destabilize the North Korean regime. The second possible explanation is that China did not want to persuade North Korea this time. The reason is simple: Although China cares a great deal about trade, it cares much more right now about its geopolitical balance with the United States. North Korea has the United States on a hook. If the U.S. chooses not to attack North Korea, it would appear weak, and China would in turn look stronger. And if the U.S. chooses to attack, it could be portrayed as a lawless aggressor. In a full-scale attack, the U.S. would likely take out North Korea's nuclear program, and China would be spared that problem. China would then claim that it had been busy mediating, and had nearly reached a deal, when the American cowboys struck.

This posturing matters a great deal to Beijing. China depends on maritime trade, and it requires easy passage through the South and East China seas to access the ocean. But the seas are riddled with small islands, and the U.S. Navy can easily block China’s access. With a navy that is in no position to challenge the U.S. at sea, China is left vulnerable to a potential blockade. Its best strategy is to convince one of the countries in the region, like the Philippines or Indonesia, to align with it to allow free passage. This strategy may be a long shot, but it matters greatly to China. The perception of U.S. weakness or recklessness on North Korea might cause some movement in these countries. And even if it doesn’t, either an attack or a failure to attack would create political problems for the U.S. in the region.

I believe that some variant of the second explanation was behind China’s failure to move North Korea. But the lack of results on this issue meant that trade, having been put on the back burner since the Trump-Xi summit, was now back at the forefront. The U.S. no longer had any reason to go easy on China, and China was not prepared to cave. This is both because the Chinese are good negotiators who play a weak position extremely well, and because the Chinese are trying to understand how Trump’s weak political position will intersect with trade talks.

The trade issue is a perfect example of how economic, military and political positions are inseparable in real life. Nations do not bargain on economic matters in a vacuum. In this case, the trade issue was bound up with possible war in North Korea as well as domestic U.S. politics. To fully understand the trade issue, you can’t examine trade on its own. And this is a great example of how these things intersect, but it’s far from a unique one. In international relations, all dimensions intersect and become part of a single fabric.

A much better way is open to South Africans

by Brian Kantor

My book *Get SA Growing* **(Jonathan Ball 2017) hopes to persuade South Africans that there is a clear and highly realistic way out of our poverty trap. And that is to let all our people exercise much more freedom to help themselves improve their economic circumstances. Or in other words for the economy to rely much more on highly competitive market forces, to determine output, incomes, jobs and wages. There is overwhelming support from economic history, especially from the recent immense poverty reduction achievements of many Asian economies, of how it is possible, using the power of the market place, to lift billions of people out of absolute poverty.**

South Africa could be playing much more helpfully to its objective strengths – and that is the competence and competiveness of established businesses and new entrants to business to effectively deliver goods and services and employment and incomes. And are highly capable of doing much more for their stakeholders. Not only for their owners, but for their numerically much more important customers and employees. And their owners, often pension and retirement funds who manage most of our savings, are rapidly becoming as racially representative of the work-force. Something ignored so opportunistically by the politics of empowerment.

The book tries to build trust in and respect for market forces by examining and explaining what goes on in our economy and how and why it could be better organized for the benefit of nearly all of us- and especially the many desperate poor. It is written by an economist for my fellow South Africans who share my frustration with our economic failure.

We should have more respect for the rights of individuals to make their own decisions and bear the consequences of them. And we should not allow adults who have the power to elect their government to be treated as if they were children in need of close supervision- an assumption often convenient for politicians and the officials who direct government spending on their behalf. Private providers of goods and services, now supplied by government agencies, would treat people much more as valued customers rather than as supplicants.

Privatization of the delivery of benefits – currently funded by the taxpayer – would produce much better results- especially in education – where the spending and tax burden is a heavy one and the outcomes so disappointing. The extra skills that would command employment and higher incomes are simply not emerging nearly well enough. Radical reforms are required that would make public schools and hospitals private ones. And convert public enterprises into more efficient private ones that would not convert losses and poor operating procedures into ever increasing public debts. Privatization could be used to pay off the expensive public debt.

A much greater reliance on and encouragement for the free play of market forces is called for in South Africa Much less should be expected from well-meaning national development plans or from even honestly governed state owned corporations to deliver the essential jobs and goods and services. Perhaps even more dangerous to the well- being of all South Africans would be to provide even greater opportunity for doing government business, funded by taxpayers, on highly favourable (non-competitive) terms with the politically well-connected few. The newly promulgated Mining Charter is an exercise in extreme crony-capitalism that will undermine the future of mining in SA and its ability to create incomes, jobs and tax revenues.

Faster economic growth would be truly transformational. Building on the strengths we have- on our skilled human capital that is globally competitive – and so very vulnerable to emigration – and on the proven ability to raise financial capital from global markets when the prospects are favourable – faster growth would greatly stimulate the upward mobility of an increasingly skilled black South Africans. The upper reaches of the economy could soon become as racially transformed as have the ranks of the middle income classes. And the very poor and less skilled (now mostly not working) would benefit greatly from increased competition for their increasingly valuable and scarce services. Forcing transformation of the leaders of the SA economy would have the opposite effect. It would mean further economic stagnation and increased resentment of higher income South Africans.

The hope is that the book will make it more likely that the economic future of South Africa will be decided in a less racially charged way- with more reliance on meritocratic market forces. South Africa in fact undertakes an extraordinary degree of redistributing earned incomes, unequal because the valuable skills that command high incomes are so unequally distributed. That is unusual amounts of income is currently taken from the very well off to fund government expenditure – judged by the practices of other economies with comparable incomes per head. But economic stagnation has now severely limited the capacity to help the poor. More of the higher incomes that come with growth can then be redistributed to the least advantaged - hopefully with much more help from private suppliers of the benefits provided. Growth and redistribution is very possible for South Africa- should we change our ways and grow faster – as the book hopes to persuade South Africans to do.