

IN THE NEWS

VOLUME 6 ISSUE 7

APRIL 7, 2013

World News

China has agreed to purchase 24 Su-35 fighters and four Lada-class submarines from Russia [1]. What's more, China is building numbers of drones that are expected to be deployed in the South China Sea [2]. And there should be no misunderstanding of how China will use its strengthened military. Case in point, Vietnam accused China of opening fire on one of its fishing boats; burning its cabin down in the altercation [3]. Interestingly, China claims its actions were legitimate without admitting to damaging the other vessel [4]. According to a Japanese study conducted by the National Institute for Defense Studies; China's military rise is resulting in the communist giant being more aggressive to its neighbors [5].

China has a perfect proxy nation (North Korea) to conduct hostile actions against the West with little risk of accountability. For instance, if North Korea did launch nuclear weapons against American targets, the US would not hold China accountable. In effect, China is able to launch an attack through proxy countries without fear of retribution. Consider, North Korea placed its missile forces on high alert, targeting US assets [6]. In response, Secretary of Defense Hagel said the North Korean threats must be taken seriously [7]. In further escalation, the North is threatening to restart a shuttered (back in 2007) nuclear reactor previously used to make plutonium [8]. What's more, it looks like China will get involved in any western military action taken against North Korea. For example, China has placed its military forces on heightened alert and has stepped up military mobilization along the Korean border [9]. So the ultimate cost for all those one-sided trade agreements with China may be confrontation with a modernized Chinese army.

Readers may recall World War I stated when Archduke Franz Ferdinand of Austria was assassinated by a Serbian nationalist in Sarajevo, Bosnia. Prior to the assignation, most of the European powers had established treaties to aid others should there be an attack. Now we have North Korea, a rogue country with a military alliance with China making ever more threats to start a nuclear war. For example, reports indicate the North Korean military is cleared to launch nuclear attacks against the US [10]. Like World War I, there is a small chance that local events on the Korean peninsula could draw the US and China into a nuclear conflict. Ironically, many US politicians believe the Rich should pay more in order to redistribute wealth [11]. Isn't this the same argument

(Continued on page 2)

Security

For US companies, the cost of doing business in China is expensive. For instance, one and four companies reported data theft [1]. A question here is, does this mean the other companies have yet to detect the ongoing data theft attacks? By one estimate, the loss to US business last year due to stolen IP in China is \$300 Billion [2]. A question here is how many US jobs does

\$300 billion address? So we allow our industry to be plundered, tolerate one-sided trade agreement, allow China to build its military, and watch the world suffer from pollution. It is unclear why are we continuing our current China trade policy? This lack of attention will not turn out well for the US. Meanwhile, US banks continue to be subjected to

cyber-attacks. For instance, during the past six weeks, the largest banks were taken offline for a total of 249 hours [3].

1. Riley, Charles, CNN Money, *One in four U.S. firms in China report data theft*, March 29, 2013.
2. Martina, Michael, Reuters, *Quarter of U.S.*

(Continued on page 2)

Inside this issue:

European Crisis	3
China's Pollution	3
Economy	4

Special points of interest:

- China steals \$300 Billion in intellectual property from US business operating in that country
- China is mobilizing forces along Korea border
- Could a Korea accident result in war?
- 88,000 jobs created
- 7.6% unemployment rate
- 496,000 freer in workforce
- 5th Bank shuttered

Security

(Continued from page 1)

firms in China face data theft: business lobby, March 29, 2013.

3. Costello, Tom, NBC Nightly News, *Bank cyber attack a 'major assault' on financial industry*, April 4, 2013.

*No matter how hard we might wish, we will not be able to transform China's behavior overnight.—
Madeleine Albright*

(Continued from page 1)

North Korea is using? After all, they view the US as rich and therefore should pread the wealt around.

1. BBC News, *China 'buys fighter jets and submarines from Russia'*, March 25, 2013.
2. Gertz, Bill, Washington Free Beacon, *Game of Drones*, March 26, 2013.
3. Petty, Martin, and Blanchard, Ben, Reuters, *Vietnam accuses China of attack on fishermen in South China Sea*, March 26, 2013.

World News

4. BBC News, *China and Vietnam row over South China Sea clash*, March 26, 2013.
5. VOA, *Japanese Study Warns of China's Rising Military Assertiveness*, March 29, 2013.
6. Sang-Hun, Choe, New York Times, *North Korea Orders Missile Readiness, State Media Reports*, March 29, 2013.
7. CBS News, *North Korea actions have "ratcheted up the danger," says Chuck Hagel*, March 29, 2013.
8. Harlan, Chico, Washington Post, *North Korea vows to restart shuttered nuclear reactor that can make bomb-grade plutonium*, April 2, 2013.
9. Gertz, Bill, Washington Free Beacon, *China mobilizing troops, jets near Korea*, April 1, 2013.
10. Fox News, *North Korea warns military cleared to wage nuclear attack against US*, April 4, 2013.
11. Gewargis, Natalie, ABC News, *'Spread the Wealth?'*, October 14, 2008.

European Crisis

The big news from Europe was the banking crisis in Cyprus. In the final bail out deal, depositors with over 100,000 Euros deposited could lose 40% of their savings [1]. By some revised estimates, the losses will be closer to 60% [2]. In response, the head of Cyprus's largest bank resigned [3].

The big fear in Europe is that the same losses inflicted on Cyprus bank depositors could be the new normal for other countries [4]. What's more, the same losses seen in Cyprus could happen in any Western nation (including the US) [5].

What is interesting is that that has already happened in the US. For example, 6,400 IndyMac depositors lost \$233 million when regulators took over financial institution [6]. While losses may have been reduced later, the precedent was set.

1. Washington Post/AP, *Cyprus extends bank closures for 2 more days until Thursday*, March 24, 2013.
2. Tagaris, Karolina, Reuters, *Cyprus details heavy losses for major bank customers*, March 30, 2013.
3. Alderman, Liz, and Jolly, David, New York Times,

Head of Cyprus's Biggest Bank Resigns, March 26, 2013.

4. Smith, Helena, et. al., *The Guardian, Markets take fright at idea that Cyprus savings raid could become bailout model*, March 25, 2013.
5. Barrington, Richard, *Forbes, Five Reasons You Should Care About Cyprus*, April 1, 2013.
6. Los Angeles Times, *Proposed law gives hope to uninsured IndyMac depositors*, May 30, 2010.

China's Pollution

listed on maps [5].

There is a cost to China's pollution. By one estimate, there were 1.2 million premature deaths in China based on air pollution [6].

1. Taylor, Adam, Business Insider, *Chinese Crackdown On Pork Black Market Led To Dumping Of Thousands Of Dead Pigs*, March 26, 2013.
2. Subramanian, Courtney, Time, *One Thousand Dead Ducks Pulled from Chinese River*, March 25, 2013.
3. Luo, Chris, South China Morning Post, *Henan landfill threatens to pollute Beijing's drinking water*, March 23, 2013.
4. Jing, Li, South China Morning Post, *Millions of tonnes of rural refuse are dumped in waterways a*

year, bill says, March 21, 2013.

5. Ford, Emily, The Australian/The Times, *28,000 rivers wiped off the map of China*, March 30, 2013.
6. Wong, Edward, New York Times, *Air Pollution Linked to 1.2 Million Premature Deaths in China*, April 1, 2013.

I wish to note that intellectual property theft by a government represents the very essence of organized crime.—Howard Berman

In the last newsletter a main topic was dead pigs in a river providing drinking water. By March 26, the number of dead pigs recovered numbered 16,000 [1]. This time, over 1,000 dead ducks were removed from the Nanhe river in China's Pengshan County [2].

Then there are disasters waiting to happen. For example, trash in the 23,000 square meter Qingsongling rubbish dump is threatening to contaminate Beijing's drinking water supply [3]. By one estimate, 190 million tons of household waste is annually dumped into China's lakes and rivers [4].

Water pollution is causing rivers in China to disappear. For example, since the 1990's over half of china's rivers, some 28,000, are no longer

Economy

For the week ending March 23, the number of first time unemployment claims, reported by the Labor department, was 357,000 [1]. Then for the week ending March 30, the number of claims increased to 385,000 [2].

Meanwhile, as the US appetite for Japanese cars increases, China is continuing to decrease its dependence. Case in point, for March, Toyota sales in China were down 11.7% from a year earlier [3]. Likewise, Mazda sales were down 21.5% [4]. In contrast, GM's car sales in China rose 12.6% during March [4].

Now it appears that China is going after Apple so that a local Chinese company, China Mobile, can benefit [6]. As expected, Apple prepared an apology for the alleged issues coming from the Chinese government [7].

Meanwhile, job creation remains weak. For March, only 88,000 jobs were created, with the majority consisting of low paying jobs [8]. What's more, the labor participation rate is the lowest it has been since

1979 resulting in an unemployment rate of 7.6% [9]. So the mid-level jobs lost at the start of the recession are slowly being replaced by low paying jobs. What's more, the labor participation fell by 496,000 [10]. So once again, hundreds of thousands more left the workforce than were employed, yet the unemployment rate fell.

Finally, the rate of bank closure has fallen from the past several years. However, there is still some regulator activity. For instance, regulator shuttered the Gold Canyon Bank in Arizona, making this the 5th closure this year [11].

1. Woellert, Lorraine, Bloomberg, *Jobless Claims in U.S. Increase More Than Forecast*, March 28, 2013.
2. Reuters, *Weekly Jobless Claims Get Weaker as Outlook Dims*, April 4, 2013.
3. Economic Times, *Toyota says March China auto sales down 11.7 pc*, April 1, 2013.
4. Reuters, *Japan automakers'*

China sales struggle drags into 2013, April 3, 2013.

5. Detroit Free Press, *GM China posts 12.6% sales boost, marking record first quarter*, April 3, 2013
6. Stephen, Craig, Market Watch, *Why China wants to eat Apple*, March 31, 2013.
7. Bodeen, Christopher, AP, *Apple apologizes in China after service criticism*, April 1, 2013.
8. Rampell, Catherine, New York Times, *U.S. Adds Only 88,000 Jobs; Jobless Rate Falls to 7.6%*, April 5, 2013.
9. Kim, Susanna, ABC News, *Jobs Report: March Unemployment Falls, But Job Additions Disappoint*, April 5, 2013.
10. Schaefer, Steve, Forbes, *U.S. Adds Paltry 88,000 Jobs In March, Stocks Slammed*, April 5, 2013.
11. AP, *FDIC closes Arizona bank, makes 5th failure of '13*, April 5, 2013.

*The best social program is
a good job—Bill Clinton*

