

## **IS DEBT BEGINNING TO DEFLATE THE CHINESE ECONOMY? The implications for the world economy.**

*New phenomena always test the limits of existing methodologies. Nowhere is this truer than for the Chinese economy. "Marxist" categorisations of China range from it being a deformed (degenerated) workers state, through to more nuanced positions proposed by Michael Roberts (1) and on to those like David Harvey who see it as a neo-liberal capitalist state. As interesting as these characterisations are, they miss the fundamental point: what are the current pivotal contradictions facing this specific capitalist economy? China's economy is not "socialism with unique Chinese characteristics", but capitalism with unique Chinese characteristics derived from its distinct phase of primitive accumulation. It could be the case that the unfolding economic difficulties facing China today are both the result of this peculiar phase of accumulation, and the need to overcome it.*

I have written elsewhere on this website (2) about the origins of capitalism in China. The phase of primitive accumulation is unique to those countries that have evolved from a centralised command economy into a capitalist economy courtesy of globalisation. Included are countries like China and Vietnam, but not Russia. In China, distinct from the USSR, there was no big bang. The lower social density of workers in China allowed the Stalinists to embark on a much more incremental phase of capitalist primitive accumulation, one characterised by a decentralised (regional based) privatisation programme involving and enriching many more layers and sectors of the bureaucracy.

The result was not only the gradual privatisation of state assets, but the emergence of regional state capitalism. This weakness by the centre, which is ongoing, results from the fragility of CCP rule and its need to retain legitimacy through job creation and by raising standards of living. Xi's belated attempt to reign in the power of the regions, conducted under the guise of corruption, is really driven by the need to centralise the economy.

The result of this regionalism is a fragmented economy. In order to maintain their own fiefdom, regions duplicate even triplicate production leading to over production and wasted production. This is peculiar to China. It is the opposite tendency to that which occurs in an economy regulated by the rate of profit which is inclined towards the centralisation of capital. For the rate of profit to dominate, two conditions are necessary, firstly the presence of developed credit markets which China possesses, and, secondly the fluidity of capital between areas of differing profitability. It is this sticky movement of capital which is causing most of the economic weakness found in China today, and, it is the rationale behind the tightening of credit, particularly in the informal, shadow or non-banking financial sector.

Either the economic law set by the rate of profit, or, the political rule of the CCP, will prevail. Both cannot co-exist indefinitely. It is not the middle-income trap cited by so many, but this aforementioned conflict which is the central contradiction. Until recently, this contradiction has been deferred by the exceptionally high rates of exploitation that prevailed in the economy, producing as it did, sufficient profit to allow China to reproduce on the basis of simply amassing profits. The question now posed: can this be sustained? The legitimacy of the misnamed Communist Party depends on its ability to provide jobs and increase standards of living, whereas the role of profits undermines this.

The ability to generate an increased mass of profits depends primarily on two physical factors. A growing workforce and rising productivity. Both the demographic, and, more importantly productivity trends, are decelerating. As new entrants into the labour market slow down and wages rise, the ability of Chinese bosses to extract additional profits is being challenged. It is at this point that the rate of profit can no longer be ignored

## **The mass of profits versus the rate of profit.**

Why did Marx draw such a sharp distinction between the mass and rate of profit? Any investment will increase the mass of profits in a capitalist economy because it employs workers who always produce unpaid labour under normal circumstances. If the investment makes the existing workers more productive each worker can produce additional unpaid labour. If the investment leads to the employment of additional workers, they collectively will produce more unpaid labour. A capitalist economy which exists purely for the purposes of producing additional profits would therefore appear to be free of crisis, except that the opposite is the case.

Marx made the point that capitalists invest not to make additional profits but to make sufficient additional profits so as to raise the rate of profit. Why is this important? A rising rate of profit always means that more profits are produced compared to the additional capital invested in their production. So, when the capitalists repay this capital out of profits over time, only a part of the profits are used up. Some profits remain over which can be used for the personal consumption of the capitalist or for additional investment or for paying down debt thereby strengthening balancing sheets.

On the other hand, a falling rate of profit may mean that the profit stream may be insufficient to repay the capital advanced if it has been sourced from without, say from a bank. Further, only the rate of profit can determine whether that investment has been applied to the most profitable sector of the economy. Besides the direction of travel, the level of the rate of profit is important. It has to be sufficiently high, so as to not only pay the annual interest on the debt and to repay the debt on due date, but to leave the borrower with a residual profit. The rate of return on the debt needs to exceed the cost of that debt. This is called colloquially: the investment hurdle.

This cost of debt or capital has many definitions. We will use the more comprehensive definition: it is the cost of the total interest paid over the life time of the loan plus the repayment cost. The cost of debt is not the same when applied to commercial borrowers and to industrial borrowers. In the case of a merchant (commercial), the money borrowed is used to purchase commodities for resale. The merchant thus spends money only to recoup money and provided more money is recouped than paid out in interest, the merchant profits from this metamorphosing of money into commodities and back into money. Unlike the industrialist there is no acquisition of additional assets.

Matters stand differently with the industrialists. Now commodities are not bought to be sold but to be applied to production. These commodities divide into the circulating and the fixed. The fixed refers to the means of production whose useful life may span 10 years. These means of production are depreciated over a number of years, set by convention, and this element of depreciation is included in the selling price. Over the course of the period of depreciation a sinking fund is set up to refinance the means of production when they are worn out, so they do not need to be refinanced. Thus, the industrialist acquires additional assets during the course of the life of the investment. On the other hand, the circulating element is not dissimilar to the capital used in commerce which is why both are called working capital.

Hence in the case of industrial capital, the terms of loans need to be longer. Here the cost of capital tends to be calculated over the life of the means of production to ensure the loan can be repaid at term. If we assume a ten-year loan coinciding with the useful life of the equipment or structure, the rate of profit over this period must once again cover the interest paid annually and provide a lump sum capable of liquidating the loan on due date..

Hence one of the functions of the rate of profit is to prevent the build-up of excessive debt. The acquisition of debt is limited by the expected rate of return. Of course, the amount of capital that will

be borrowed is not only dependent on the rate of profit but on the rate of interest at the time. Lower rates of interest justify borrowing on lower rates of profit, and that is one of the key elements allowing capitalism to recover from a recession.

Additional profits on their own are meaningless. Did it take more or less capital to produce them? Only the rate of profit can determine this. If it is rising, then more profits are produced relative to the newly invested capital and if the rate of profit is falling it means less profits are produced relative to the capital invested. Actually, a falling rate of profit can have two determinants. It can be caused either by a falling mass of profits or a rising mass of capital. The former case is a special type belonging to the phases of recession and does not apply to our examination of China. The latter case is pertinent to China. In all cases however the rate of profit cannot be ignored when deciding on whether to invest, and, where to invest.

A falling rate of profit means the mass of profits while rising, are falling relative to the mass of capital invested. For each additional dollar of investment, fewer cents of profit is being produced compared to previous investments. While such an investment superficially produces extra profits, these profits could in their mass fall below the capital laid out over the life of the asset. The capitalist may appear richer when in fact they are becoming poorer. A simple example will demonstrate this. Assume a capitalist borrows \$1 billion. The post-tax and post-interest annual rate of return on this \$1 billion over its useful life is 13%. This means that over the course of 10 years this investment will return a total of \$1.3 billion gross profit or \$0.3 billion net after repayment of the original \$1.bn loan. If on the other hand the return falls to only 8% then the lifetime return is only \$800 million implying a deficit of \$200 million on the original loan of \$1 billion. Even if the rate of return remains at 13%, but the rate of interest rises by 3% meaning an additional \$300 million in interest payment is needed, then the rate of return will only cover the cost of the capital making that investment unprofitable. (This is one of the reasons why most long-term loans are taken out with a fixed rate of interest agreed in advance.)

A rate of profit which falls below the comprehensive cost of capital implies a financial deficit, more is laid out than will be received back. When that happens, which it does episodically in most capitalist economies, production contracts, and when it is generalised, a recession follows. Capitalists do not invest to become poorer. This is the curse of capitalism. It is the curse that the CCP has sought to evade at all costs.

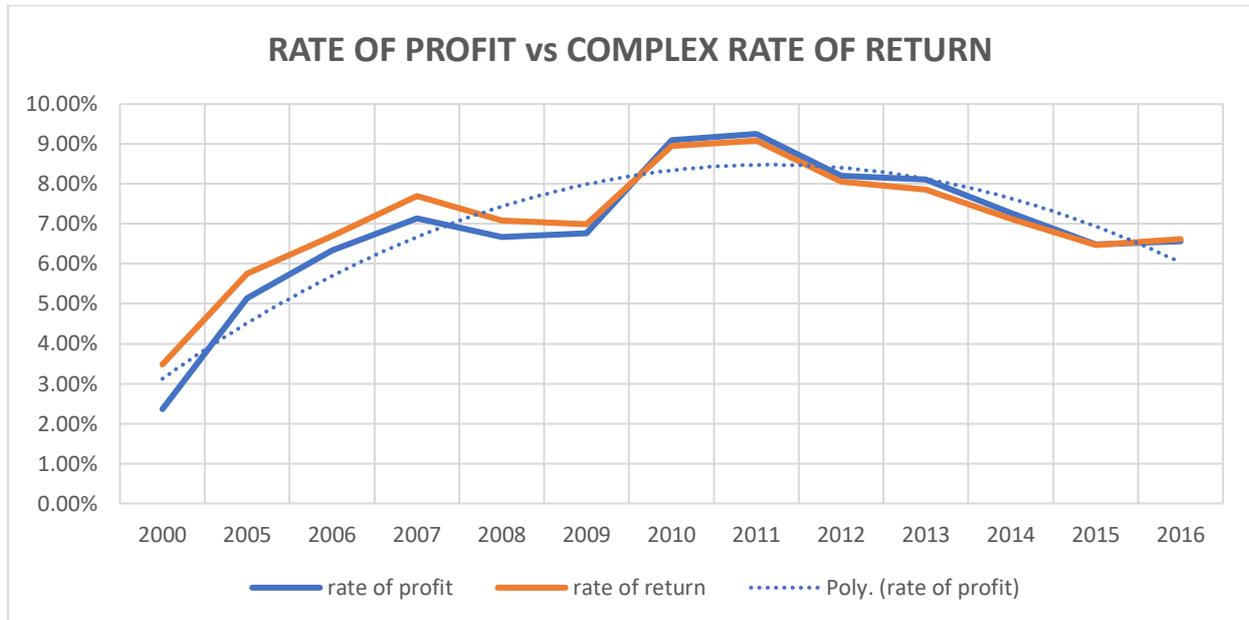
### **Examining the rate of profit in China.**

Obtaining the rate of profit is difficult in China. The Statistical Bureau of China does not provide a series on fixed assets. Rather it uses an “industry total assets” series. This is an amalgam of fixed physical assets, financial assets, residential assets and current assets. (3) In the United States for example, fixed assets can be described three ways, (a) total assets including government amounting to \$56.7 trillion, (b) excluding government amounting to \$37.5 trillion, and, (c) excluding residential assets amounting to \$22.6 trillion (Source: Fixed Asset tables 1.1 and 1.1.5 for 2016). A very large discrepancy. Using total assets thus leads to a rate of return which is understated, which is why I categorise it as the “complex rate of return” thereby distinguishing it from the usual the rate of return.

Graph 1 below contains two graphs. The first, the complex rate of return, is obtained simply by dividing total profits by total assets provided by the Chinese Bureau of Statistics. Total assets according to their methodology includes current assets. The second graph is based on total capital less current assets plus circulating capital. Step 1 subtracts current assets from total assets to obtained total fixed assets. Step 2 obtains the rate of turnover. (4) (All this methodology is found in an earlier posting *Cracking the Rate of Profit in China*) Step 3 deducts Gross Profit from Gross Output to obtain annual working

capital. Step 4 divides this annual working capital by the rate of turnover to obtain actual working capital. This working or circulating capital is then added to fixed total assets to provide the numerator for calculating the rate of profit.

**Graph 1.**



In order for the reader to examine how this graph is obtained and the formulae used, I have provided a second link under the heading to this posting on the website. It provides the sources, original data and equations used. What is remarkable is that both methodologies provide similar rates of return/profit especially since the financial crash. The Statistical Bureau in China, given its legacy in planning, is more aware of the need to provide data on turnover. The turnover formula is not only confirmed by the graph above but also by the turnover days provided by the Bureau itself, which details both the production and circulation period for each industry.

Graph 1 shows a rise in both rates up to 2010/11 followed by a decline. This decline occurs three years earlier than the decline in the USA and bears testimony, first, to the impulse of the emergency funding pumped into the economy following the 2008 financial crash, followed by the consequence of this overinvestment. Once again it is the fall in both rates prior to 2015 which explains the weakness of the Chinese economy at the end of that year which extended into the first quarter of 2016. Because of its impact on the global economy, this period comprises a pseudo global recession.

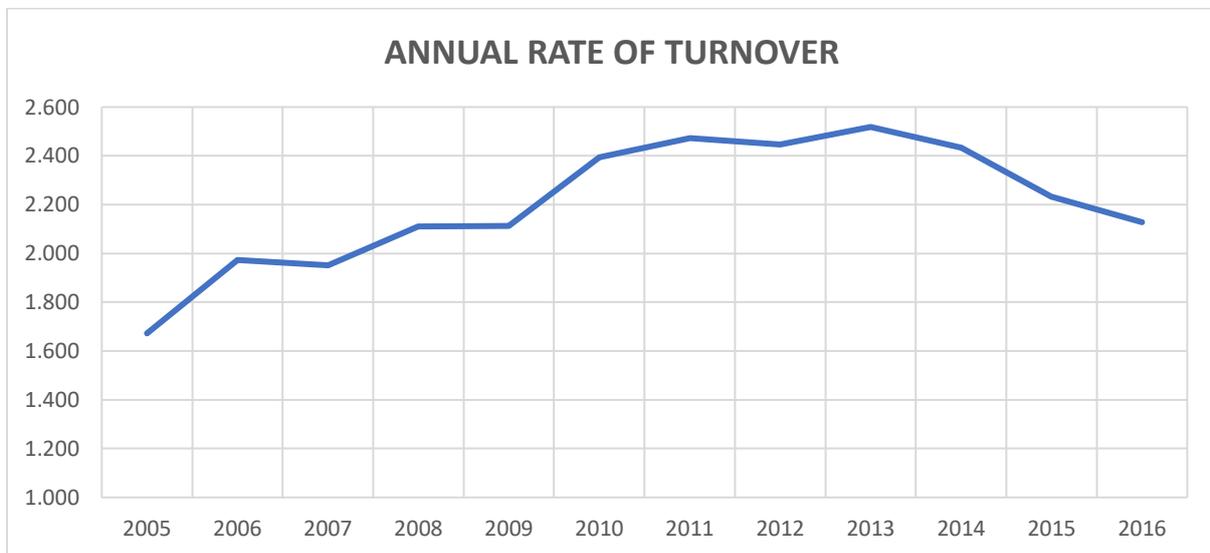
The 2016 rates of 6.5% are unimpressive despite being understated by between 1 and 2% because of the peculiar calculation of total assets. It is even more unimpressive when manufacturing is stripped out. China's manufacturing base is the sector of the economy most integrated into the world economy, and it is also its most dynamic sector. It contributed nearly 90% of the industrial profits used in the calculation of both the rate of return and profit. (5)

Using the same methodology used to obtain the rate of profit set out in an earlier article, manufacturing enjoyed a rate of profit of 17.3% in 2015 rising to 18.6% in 2016. (4) This rise probably accounts for the gentle improvement in the industry wide rise in Graph 1 between 2015 and 2016. More to the point, once manufacturing is removed, it is likely that the average rate of profit is halved to around 3%. This seems to be confirmed by the most up to date monthly data on profits which shows

a complex rate of return of only 2.5% (total industrial profit of 2.73 billion Yuan set against total assets of \$108.8 trillion) (6)

One of the main reasons that the rate of profit has fallen is that the turnover of capital has decelerated. This is shown in Graph 2 below. This all economy rate of turnover suffers from the same shortcomings found in the USA: duplication or omissions in the National Data. For purposes of comparison it is a third higher than found in the USA.

**Graph 2.**



(Sources: See separate link on this site found in the posting.)

Turnovers plateaued in 2011 before inching up in 2013 only to decline by 20% thereafter, reverting to rates last found in 2009. This fall in the rate of turnover, which impacts on the rate of surplus value is always associated with a fall in the mass and hence rate of profit. China shares this deceleration with the USA.

### **The growth of debt explained.**

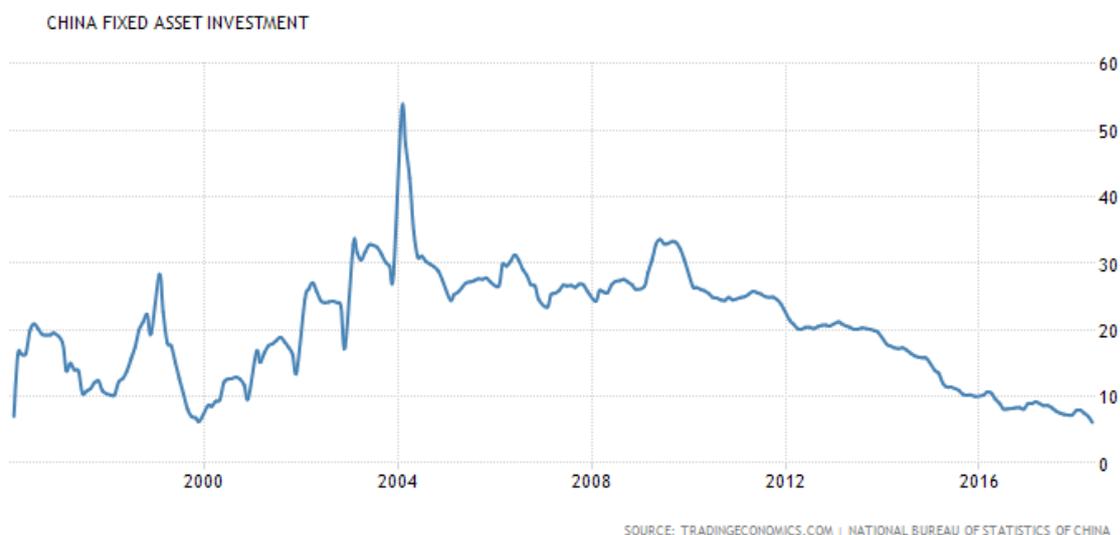
An average rate of profit of between 3 to 4% outside manufacturing barely covers the rate of inflation. It certainly does not cover the cost of capital or the prevailing rates of interest Chinese enterprises have to borrow at. The (rich) People's Bank of China interest rate is currently 4.35% having been reduced from 6% in 2015 as the economy slowed. The trend in interest rates are found in Graph 3 below.

**Graph 3.**



Nor does a rate of profit of between 3 and 4% support investment growing at an average rate of between 10 and 20% for the period covered.

**Graph 4.**



Gross fixed investment in China though declining as a share of GDP still stood at 44% in 2016. This compares to 19.4% in the USA including residential and government investment. Looking at the matter more closely, in 2016 Chinese industry raised a total of Yuan 404766.8 (100 million) against Yuan 71,921 (100 million) in gross profit. (Source: 2016 yearbook, table 10-12 for source of funds and table 13-1 for gross profit.) This is nearly six years' worth of profit and this does not include outside loans nor state assistance. And this has been happening year after year.

Investments which result in a rising mass of profits, but a rise which falls behind the rise in the mass of capital invested, when extended over the life of the asset, must involve the build-up of debt to make up the difference. Put in different terms, the rate of return does not cover the cost of capital when repayment is included. This is what has happened in China. It has resulted in a growing debt to equity ratio. The PCC is seeking to redress this by instructing state banks to convert debt into equity. This is mere window dressing. The banks are simply changing their role from lenders to owners. All it

will do, is further depress the price to earnings ratios, because it while it increases equity it does not increase profits.

This build-up of debt could have been prevented if investments were guided solely by the rate of return. Only the rate of profit can determine whether the profit on the investment can guarantee its repayment. Only an adequate rate of profit prevents the uncontrolled build-up of debt to unsustainable levels. The rate of profit cannot be ignored if an economy is not to sink in a sea of debt. Debt is always a function of the rate of profit, a rise allows for the application of additional debt while a fall in the rate of profit supports less debt, requiring the purging of what is now excessive debt from the system, freeing up the metabolism of capitalism.

The Chinese Stalinists welcomed and encouraged the return of capitalism. But capitalism comes with strings attached. Capitalism with Chinese characteristics will in the end give way to capitalism with general characteristics, which means freeing up the rate of profit. This is the logic of the law of value.

### **The growth of the Chinese banking system.**

In an economy where investment vastly exceeds the profits available for new investment, debt funds the difference. Much of the additional investment has been paid for by bank credit. This is not credit born out of the centralisation and recycling of savings, but bank credit arising from a pen or keyboard stroke. Savings are a peculiar category in the National Accounts. Savings are not an actual number, but a balancing figure. Large scale investments paid out of credit, even when this credit exists only as a paper or electronic entry, will always increase the saving number on the opposite side of the ledger to balance both sides. The Chinese may be great savers, but their banks are even more adept at creating credit out of polluted air.

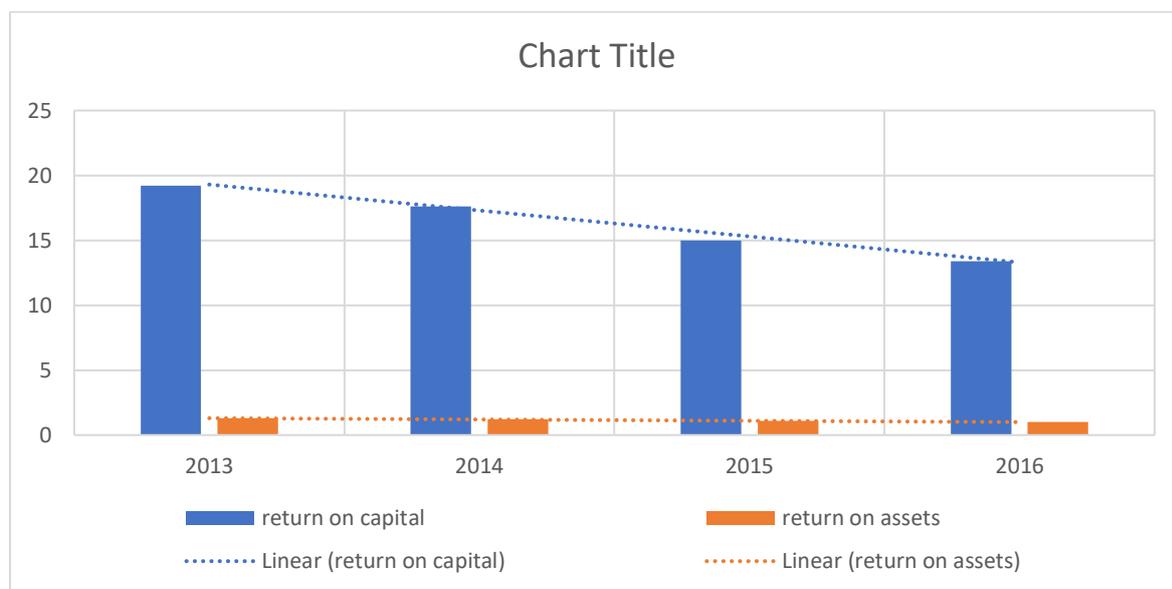
Obviously, the ability to generate bank credit of differing tenures in large amounts is not open to every country. It is based on the credibility of its currency. China's perennial and large trade surplus together with its accumulated foreign holdings of assets and currencies makes the Yuan substantive and convertible, allowing it to act as the means of payment on which this credit rests, and, on which it depends for its liquidation on due date.

The mirror image to the growth of industrial debt has been the rise in bank credit and with it, the size of Chinese banks, especially state banks. (7) Today, the world's biggest banks are Chinese banks owned by the state, and they together with the major private Chinese banks, control assets that are nearly double that lodged in the major US banks, the pre-eminent financial economy. (Top 100 global banks report by S&P) (8) And until recently that trend was accelerating. According to a 2017 survey by KPMG, in the three years between 2013 and 2016 Chinese banks added the equivalent of \$10 trillion in assets, equal to 63% of the \$16 trillion in bank assets (FED data) lodged the entire US banking sector. (9) According to the latest Bank of International Settlements much quoted "credit-to-GDP gap, this gap has averaged 17% since 2009 though it is moderating from its high point in 2016 when it stood at over 25%. (10) It is of course the largest gap found in any major economy.

This growth in debt is unsustainable in the long run. Firstly, because over time, each unit of credit gives rise to a falling fraction of value. In the words of bourgeois economists: successive bursts of credit yield incrementally smaller yields in GDP. Conversely, annualised cumulative credit grows relative to GDP. (The favoured gap metric for the Bank of International Settlements) This is seen as the increasingly inefficient application of credit, even wasted credit. Such an inverse relationship is always inevitable, because the mass of debt, even in "more efficient" periods, necessarily grows faster than the mass of GDP when it is not covered by the growth in the rate of profit. Secondly, the rate of return tends to fall in the banking sector itself. As the 2017 KPMG report shows this fall amounted to 30%

between 2013 and 2016, whether measured as a return on capital, or, on assets. This deterioration in bank performance can be seen in Graph 5 below.

**Graph 5.**



(Source: KPMG Mainland China Banking Survey, published August 2017, Chart 1.)

This is the direct outcome of state banks being used to provide loan credit on uneconomic grounds. If banking margins are lower in an economy growing at over 6% then it would appear that loans are being provided on terms that are favourable to highly leveraged customers. These loans are likely being used to roll over prior loans, are being used to pay interest only, or are being used to keep zombie companies alive so that they do not appear as bad debts. Their fall could be testimony to loans being written off surreptitiously as well.

What ever the case, a return of only 1.1% on assets is a wafer-thin margin. Charts 1.5 and Charts 1.6 in the KPMG report reveal why. Despite interest paid to savers falling from a rate of 2.0% in 2014 to around 1.5% in 2016 (Chart 1.5) the banks margins fell from 2.6% to 2.1%. Clearly then, there was a fall of around 1% in the rate of interest paid by borrowers. This is an unusual event. This kind of margin squeeze is normally found in a phase of crisis and falling demand for loan capital, not in an economy where bank lending increased on average by 15% annually between 2014 and 2016.

Interest rates are always set by the demand and supply of funds. The demand for funds varies with the phase of the industrial cycle. When an economy is expanding and with it the mass of profits, interest rates tend to soften as the demand for funds wanes as industrialists meet more of their financing needs from internal funds. At the end of the period of expansion, when production is over extended, and credit is fracturing, the feverish phase, interest rates are driven up by the need for refinancing. None of this applies to China. Here the normal relation between demand and supply is inverted. The growing distress of borrowers does not seem to have precipitated the normal rise in interest rates expected to cover risk. Rather the opposite has happened, interest rates have fallen for borrowers.

Moreover, in order to regulate growth until now, the Chinese authorities have allowed credit to expand, only to tighten it at the first sign of a bubble. The regularity of this cycle is about ten months of loosening followed by tightening. This wall of credit rolls from one asset class to another, property, share prices then commodities and back again, but so soon as this speculation starts raising risk,

tightening commences. In this sense, the Chinese Financial Authorities are more alert and responsive to risk than other central banks.

The loosening prior to the Congress last year supported the economy allowing it to achieve growth above 6.5%, the lower limit dictated by the Congress. Once this tempo of growth was achieved, the People's Bank of China set about tightening monetary conditions in order to bear down on leverage once more. Over the last two months, as this tightening has slowed economic growth, the PBoC has once again relaxed conditions, primarily by reducing the reserve requirements for banks. In addition, the state has enacted a new personal tax regime, which it hopes will pump some air into waning consumer expenditures.

Of course, this loosening of conditions and reduction in taxes is also a consequence of Trump's increasingly bellicose trade threats. The CCP seeks to inflate an economy which is likely to be deflated by a trade war. However, there is a bigger element at work. Three years ago, the Chinese authorities recognised they could no longer expand credit in the old way. The leverage in the economy had become unmanageable. They pledged to deleverage but the events following the pseudo recession in 2016 showed how little control they have over their economy. A typical recession is one where excessive debt is purged from the system through its actual destruction or devaluation. It is also a time when capitalists conserve their capital rather than expand it. In other words, capital is withdrawn from the market. In the case of China, the opposite took place. The Chinese State threw more capital into the market. Instead of deflation there was reflation helping restore profit margins.

At first glance, this Keynesian response seems to have broken the boom bust cycle in China. It has may have done so temporarily, but, at the expense of longer term debt. Kicking the can down the road always depends on the length of the road. In the case of every capitalist economy, without exception, the length of that road is not infinite, its limits are set by the level of debt.

### **Debunking the myth that the Chinese economy is not capitalist.**

This article has treated the Chinese economy as a capitalist economy without a substantive rudder: the rate of profit, or, at least a rudder with only limited movement. Given a rudder which is too small or immovable, the economy is largely being steered by oars in the hands of the Communist Party.

Before proceeding it is necessary to debunk a number of myths about the economy. The first is that the state sector dominates the economy and that it is driven by non-profit considerations, which means the law of value does not operate. This is a one-sided, therefore wrong interpretation. The relation between the state sector and the private sector, since 1992, has always adhered to the arrangement, that the state sector nurtures the private sector. The state sector is confined to upstream industries, which are those industries responsible for creating the cities, the industrial zones and the infrastructure needed to foster downstream private industry, such as manufacturing and services. And this applies both to within China, and without, where state investments nurture private Chinese capital in various countries.

In this sense it is no different to the developmental strategies favoured by emerging national capitalist classes around the world over the last two centuries. The state was always used to centralise capital and to undertake those financial investments beyond the reach of national capital or ones not providing the prospect of an immediate or adequate profit. What is special about the Chinese model is that the scope and depth of state investment has been on a different scale because of the nature of primitive accumulation in China and the ongoing need to ensure the political legitimacy of the CCP. What is peculiar about the nature of primitive accumulation in China, is that its purpose is not confined to enriching a national bourgeoisie, but additionally, to preserving the CCP.

Hence it is not so much a case of weighing up the relative size of each sector, as Michael Roberts does, to determine which sector is the motor of the economy or where assets reside or accumulate. Rather it is essential to examine the relationship between the state and the private sector. The state sector only expands when the private sector stalls. The state sector serves to compensate for the private sector and to smooth economic growth. This explains why it attracts such a large share of credit. However, even if we were to apportion size, it is clear that the private sector is the beneficiary of the lion's share of surplus value. In the first half of this year the state sector produced only 30% of the current 2.73 trillion yuan of industrial and much of that profit ended back in private hands. profits (National Bureau of Statistics of China release 18<sup>th</sup> June 2018)

Secondly, China is a capitalist economy because production in both sectors is for exchange and for profit. Once investment takes the form of money making money, it is capitalist. The bulk of investment in China is not for use but for profit. However, it could be argued that profit was also present in the USSR. That is true, but it was a transient affair, one which deepened the economic crisis in the USSR and was abandoned (11). On the other hand, the introduction of a functioning market, whereby the labour of the individual now only becomes social through being exchanged, makes profits real.

The problem in China is not whether or not it is capitalist, but whether the rate of profit will come to dominate and replace the quantitative production of profit. Let "Marxist theoreticians" argue whether or not it is capitalist, especially at a time when the Chinese economy is caught up in a live capitalist contradiction, that between the base and superstructure, between the need to unfetter the rate of profit at the expense of the leading role of the "Communist" Party. This contradiction was always going to explode. It is a tribute to the pragmatism of the Chinese Communist Party and its ability to exploit its workers, that it has taken so long to mature.

Together with the USSR between 1928 and 1945, no other economy has produced such gigantic economic development in so short a time. But the Chinese economy is decelerating rapidly despite the appearance of stability. It is decelerating because credit fuelled rather than profit-based investment is not sustainable in the long run. As Graph 4 showed, investment which increased by two to three times the rate of growth in GDP, is now increasing only in line with GDP growth at 6.5%.

This is the drag on the economy. The shift into services - the shift away from an investment to a consuming economy - will not help. This shift follows that well-worn path hewn by the USA and Europe which has resulted in slower growth and falling standards of living for whole sections of their population. It certainly will not support rising standards of living throughout China.

As the rate of profit asserts itself, investment will move away from expanding upstream industries towards modernising and mechanising downstream industries. There will be fewer new cities, roads and railway lines but more robots in production. Already Foxconn, officially known as Hon Hai Precision Industries, is ruthlessly paving the way. As China's biggest private employer, and assembler by appointment to Apple Corp, Foxconn has already reduced its headcount by 400,000 or 40% through the use of robots and automation. If Xi has anointed himself Napoleon, this is needed to authoritarily deal with the political consequences resulting from the huge wave of unemployment facing Chinese workers as Industry is mechanised and automated.

Finally, China now faces an escalating trade war with the USA which has exposed its primary vulnerability: its ongoing technological dependency on foreign multi-nationals and patent holders. Mega Trump intends to kick down the front door of China's house. He is ill advised. China does not occupy a separate house, it occupies an apartment in the same building as the USA. By kicking in the

front door of China's apartment, Trump is likely to bring the roof down on his own and everyone else's head.

It should never be forgotten that it was China who pulled the world economy out of the rut formed by the financial crisis. China is not Iraq or Libya or even Russia. Anything that hurts the Chinese economy hurts the world economy. It is often said that central banks have exhausted their means to pull the world economy out of another financial crash. This misses the point. China no longer has the capacity to come to the aid of the world economy should there be another crash, which most commentators are expecting by 2019 (hence the inversion caused by falling interest rates on long term bonds).

A year ago, the spokesmen and women of the capitalist class were boasting of a synchronised acceleration for the world economy. Now they lament that a synchronised rupturing of the world economy looks more likely. The same challenge to the brittle rule of the CCP will be replicated by the same challenge to all the ruling classes around the world. Another crash equal to or exceeding 2008 could potentially convert a China versus USA conflict into an us versus them, billions of workers versus millions of capitalists. Trump may be facing off against Xi, but in the event of a crash, what is going on behind their backs could turn out to be more important.

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