

WHILE CHINA PREPARES TO RULE THE WAVES BRITAIN PRETENDS TO STILL RULE THE WAVES

The Centre for Economics and Business Research has just brought out its global economic projections covering 193 countries up to 2035. It is one of the first major research organisations to estimate the effect of the pandemic on the fortunes of the US and Chinese economies. The estimates also cover the UK for the same period and will be dealt with in Section 2.

The data contained in this article can be downloaded as a PDF by going to [Our Services | Centre for Economics and Business Research \(cebr.com\)](#) then downloading WELT 2021.

A number of articles have appeared on this website estimating the effect of the pandemic on the economic performances of the US and Chinese economy. The verdict, the pandemic will have concertained the gap between the two economies by up to 50% by 2021. The verdict by CEBR quoted above is somewhat lower at 40%. Whereas the CEBR, in terms of nominal \$ GDP, expected the Chinese economy to overtake the US economy in 2033, it now expects this to happen in 2028. I put it closer to 2025, because I use an adjusted formula which accounts for factors which inflate US GDP relatively such as owner-occupied rents.

Of course, these are not per capita GDP data. US GDP per capita remains elevated compared to China. However, there are a number of confounding factors. As GDP measured by PPP incorporates an element of cost of living, this metric gives a closer approximation to differences in standards of living. The following link which I have used before, gives an insight into differing costs of living between countries. https://www.numbeo.com/cost-of-living/rankings_by_country.jsp Additionally, the gap in standards of living in China between the major metropolitan areas and the hinterland is much greater than in the USA, thus were we to compare US metropolitan areas with Chinese ones, adjusted GDP per capita is much closer. <https://www.brookings.edu/research/global-metro-monitor-2018/>

The important point to make is that it is this transition, which inter alia, is going to make this decade so monumental. For the first time in over a century the US will cede its position as the dominant economy on this planet. Something it will not take lying down.

Turning to the tables. The CEBR now posits a 4.4% fall in world GDP up from 4.0% earlier (Figure 1.) Equivalent to \$6 trillion, this is equal to the loss of output of either Japan or Britain and France combined. This 4.4% figure is likely to be an underestimate given the events that has transpired since November with the higher incidence in infections and lockdowns worldwide which should yield a fall in excess of 5%.

However, this 5% figure needs to be put in perspective. Without government pandemic financial support, the fall would have been much greater. The extent of this support can be gauged by its reflex, the rise in government debt. This is detailed in Figure 2 of the report. Taken together, the loss in 2021 is of the order of 13%.

In terms of projections, the CEBR expects China to grow by 5.7% up to 2025 and then by 4.5% thereafter. In terms of the USA, it expects the country to grow by 1.9% between 2022 and 2024 falling to 1.6% thereafter. In other words, it expects the growth rate in the US to approximate that prior to 2021.

Additionally, it expects a sharp rebound in 2021, both of which are overestimates because they underestimate the severity and scarring the pandemic will cause. The most intense moment for the pandemic in the USA is January following the revelry of Xmas and New year. This means in effect that China could overtake the US prior to 2028. It seems that a new incantation has taken hold along the lines that because there was a rebound after the 1918 Spanish Flue pandemic there is bound to be one now because of pent up demand.

To emphasise the point, every change in economic hegemony has been convulsive, and it is now clear that the arms race and positioning between China and the US is accelerating.

Not a Trade Deal but a Business Deal.

The rest of the article will deal with the expected and now concluded Business Deal between the EU and the UK. The article concentrates mainly on the agreement on goods. The fact that services have not been included in the Agreement provides a pressure point on the UK ensuring compliance with what has already been agreed. Nor does the article examine all those aspects which are important to the top 20% of society, the freedom to travel, to study, to work and to live in the EU. Finally, it was always likely that fisher folk would become the sacrificial lambs of the deal because this small but visible industry could not be allowed to derail the economy, and short of microchipping every fish in the North Sea, there was never going to be an equitable deal.

The fact that the Agreement is centred on goods production is not accidental. It vindicates Marx's observation that value emanates from production. The fact that the System of National Accounts shows goods production to be the smaller part of the economy, has more to do with how it is recorded rather than the actual state of affairs. Much of the value taken in the service sector originates from the goods production sector, which inflates services and deflates goods production because value can only be recorded once. If the reader examines Gross Output rather than Gross Value Added, this becomes clear. Gross Output not only records the sales within a sector but between sectors as well.

It is important to make the distinction between a Business Deal and a Trade Deal. The former refers to diverging countries while the latter refers to converging countries. Business deals are far rarer than Trade deals because separation between nations is rarer. The main difference between them, and the one which is likely to dictate the future, is that a Business Deal seeks to maintain current commonality so as to reduce trade frictions, while a Trade Deal seeks to introduce future commonality. Despite their differences both are fiendishly difficult because of the antagonisms and complications thrown up by private property.

Why is this distinction so important. It has to do with maintaining the evolving and historical status quo between the nations, or in more prosaic language, to maintain the level playing field to preserve frictionless trade into the future. In other words, what comes to the fore, is the question of policing, enforcing and punishing unilateral divergences. Thus, the legal complications are much greater in a Business Deal than in a Trade deal especially one with such broad coverage.

Accordingly, the key area of focus is the question of arbitration. All quotes, until otherwise mentioned, are taken from the Institute for Public Policy Research, a left of centre think tank. (All quotes are taken from its initial report linked below.) What we find, is that the arrangements agreed amount to a "pop up" arbitration process rather than the detailed and structured arbitration processes normally attached to Trade Agreements. This is no doubt due to the UK's insistence on regaining its sovereignty and thus having

a light touch agreement. This is more important than the Labour Party's assertion that this business agreement is a "thin agreement" which it is not.

To begin. The Agreement is explicit, there is *"a commitment not to lower current levels of protection to the extent that any reductions may affect trade or investment."* This includes labour, environmental and hygiene standards. But it is limited to goods destined for the EU. The EU cannot police UK domestic standards, thus a factory may produce a similar product for the local market as well as foreign markets on the one hand and for the EU market on the other, which may not be to the same standards and produced under the same conditions. How this can be policed under the regression agreement is difficult to see, or more precisely how leakage between the two markets can be policed or how one can be prevented from subsidising the other allowing that company to undercut EU competitors.

Worse, the means for addressing issues arising from regression are not covered by the over-arching arbitrations mechanism as they are designed to be forward looking. *"Where there are disputes over a potential breach of the non-regression clause, the UK and the EU do not have recourse to the standard dispute resolution mechanism for the agreement. Instead, the UK and the EU are expected to first attempt to resolve the dispute through consultations and then, if this is unsuccessful, through convening a 'panel of experts' which can only issue nonbinding recommendations to both parties. Alongside this, however, there is the additional option for the UK and the EU to refer the matter to an arbitration tribunal and for either side to take remedial action (e.g. through temporary tariffs) if so authorised. This means that there is an option for either side to impose sanctions where there has been a breach of the non-regression clause.* Hence the designation, pop-up arbitration.

The main problem facing future relationships, especially one based on "good faith" is not about future synchronicity but about adhering to present standards. Consultations will not cut it. Competition does not favour consultations, and countries which seek to assert their sovereignty tend towards bad faith rather than good faith. There is also the added complication of different legal systems providing a bolt hole. *"The agreement opens with some common provisions which underpin the future UK-EU relationship. This includes a 'good faith' clause, which commits both the UK and the EU to taking the appropriate measures to fulfil the obligations of the agreement, and by the same token refraining from taking measures that could jeopardise the objectives of the agreement. However, this part also makes clear that there is no obligation for the UK to interpret the text in accordance with EU law (and vice versa)."* The issue of jurisdiction has always loomed large and it could take months of haggling before it is resolved.

In other words, this legal lite agreement is likely to create more problems than it solves. That is why it is a pyrrhic victory for the UK which no doubt resulted from negotiations going to the wire on Xmas eve. Additionally, what little advantages it confers to the UK in the near term, will have already been undone by the damage done to investment because of the uncertainties generated by the delays.

As the report acknowledges it is extremely difficult to enforce infringements as they are difficult to detect let alone measure. There is an added complication not picked up by the report. Many standards are not uniform across the EU. There are different standards when it comes to wage rates, sick pay, maternity and paternity pay, employment law, benefit law and so on. Hygiene and environmental standards can more easily be regulated, but when it comes to labour law there is much more flexibility which is not unexpected, because it is labour that generates profit, while hygiene and environmental standards merely cost profits.

The fact that the EU is not a federation will undermine the EU in its negotiations with the UK over infringements. The absence of federal law within the EU will allow the UK to play EU countries off against each other. Germany, the dominant economy may find itself in the invidious position of challenging deteriorating UK standards only for the UK to point out that Germany already benefits from the reduced labour standards found in Eastern Europe.

It should be recognised that this is a four-year agreement. It is not a permanent agreement. True there are protocols to perpetuate and expand the agreement. *“It creates a framework for managing the implementation and development of the agreement, based on a Partnership Council made up of UK and EU representatives and co-chaired by a UK government minister and a member of the European Commission. Alongside the Partnership Council, the agreement also establishes a number of specialised committees, focusing on various elements of the future relationship. The Partnership Council and the specialised committees have the power to make decisions in certain areas which are binding on both the UK and the EU.”*

A particularly contested issue in the negotiations was how to resolve future divergences in legislation – for instance, what to do if workers’ rights in the UK do not keep pace with EU protections over time. To address this, the text includes a ‘rebalancing clause’ which allows either party to take action to rebalance the agreement where serious divergences in the areas of labour or environmental standards (or state aid) create material impacts on trade or investment. This means that, where the UK fails to keep pace on EU levels of labour or environmental protection and this affects trade or investment, the EU could take necessary and proportionate measures (e.g. introducing tariffs) in response. The criteria for being able to use these rebalancing measures is strict: any assessment of the impacts of divergence must be based on “reliable evidence”

However, if this “Partnership Council” cannot resolve differences, even under the threat of tariffs, then the Agreement will be void. After 4 years a review must be undertaken of the treaty and it can be terminated unilaterally. [agreement-on-future-relationship-ippr-assessment-f.pdf](#)

The Iron(y) Man.

Thatcher was called the Iron Lady. History should call Johnson the Iron(y) Gentleman, a prime minister who always said, emphatically, the opposite to what he thought. Johnson was mayor of the world’s financial centre, London. He knows full well that Britain will not benefit from leaving the EU.

This is where the irony comes in. He does not believe a word he utters. He is worse than a nincompoop. A nincompoop, which incidentally many of his MPs are, cannot tell fact from fiction. Johnson can, which makes him despicable. When he repeats ad nauseum, that Britain will prosper mightily, he means Britain will languish frightfully.

This was not an economic move which will benefit the economy. What was lost may not be regained. The Office for Budget Responsibility, which appears to be an organisation that speaks truth to power has projected a 4% loss in long term GDP which is worse than the economic havoc wrought by the pandemic. On top of this there is the pandemic itself. The Resolution Foundation released its macro-outlook for the UK economy on the 28th December. As the graph below shows they have now projected a further fall in GDP of 6.2% by March relative to their estimate in November. In aggregate March to March should see an unadjusted fall in GDP of 15% with national debt standing at 125%.

Monthly index of Gross Value Added, chained volume measure (January 2020 = 100) and fall in the level of GDP if it remained at November 2020 value: UK



Notes: The OBR forecast was made prior to the release of monthly GDP data for October; OBR monthly profiles beyond March 2021 are consistent with quarterly GDP growth.
 Source: RF analysis of ONS; OBR.
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[Macroeconomic Policy Outlook Q4 2020 • Resolution Foundation](#)

And yet the celebrations continue. We are free, thank Brexit we are free at last. So goes the anthem of a country whose blood is clotted by its imperial past. Now we can set our own destiny, our own agenda. Now we can rebuild Britain, level it up, turn it around, rebuild it Green or even Happier. Nothing can stop us. We are masters of our own destiny.

Certainly this view is shared by the CEBR cited above. Their outlook for Britain could have been written by Brexiteers. They envisage a 9% bounce in GDP in 2021 followed by 4% annual growth to 2025. In other words, because of Brexit, its growth rate will double in the near future. Notwithstanding the pandemic, they therefore expect that by 2025 the economy will be 10% bigger than in 2019 before the pandemic.

The centrifugal forces driving Brexit will not stop at the white cliffs of Dover because this kind of economic salvation will not happen. Scotland will fight and will in the end succeed in forcing another referendum, or it may do what England could not do, unilaterally break away from England. If it does, it will bring forward the day Ireland is reunited. This leaves only England and Wales, or does it, because the Welsh may have other ideas as may the Cornish. Good old England now encircled on three sides by the EU.

That is why communists had to oppose Brexit. Not because we felt the EU state was worse than the British state. We do not care to be judges at a beauty pageant choosing the prettiest or least ugly capitalist state. Nor do we concede on the issue that the enemy without is worse than the enemy within. No, we opposed it for one reason and one reason only; we oppose the centrifugal forces which erupt from economic crises and the disintegration that arises from it. In turn disintegration always unleashes reactionary forces that drive wedges between the workers of the world. The historical mission of the working class is the opposite, it is to become the centripetal force which coheres the world without which there can be no successful working-class revolution, for such a revolution can only succeed internationally or not at all.

The irony of Brexit, and it is an irony, is that Brexit was not caused by Brussels but by Westminster and the City of London. It was not Brussels that instigated the austerity pogrom. It was the Palace of

Westminster. Its' purpose, to reimburse the losses experienced by the rich in 2008 without tackling the monumental tax dodging by the rich amounting to 120 billion a year. Had these rich patriots paid their taxes, (but then the rich are not patriotic to anything but their wallets) there would have been enough money to fully fund the NHS, pay for a million new social homes, smaller classrooms and adequate social care. Hundreds of thousands of additional proper jobs would have been created, reducing the number of people who felt they were being left behind, and with it the conditions which drove Leave. Brexit would have been avoided.

Not only did these tax dodgers create the conditions driving LEAVE, they then had the cheek to jump into the driver seat and commandeer the steering wheel. To do this they invented the big **FIB** to deflect anger away from them. Foreigners, Immigrants and Brussels were to blame. It shows the power of bourgeois propaganda that they got away with it helped by the likes of Johnson who manipulated all of this to become prime minister. Poor him. The problem always is, if you diagnose the wrong symptoms you end up offering the wrong medicine, and the patient deteriorates. Such a patient soon loses confidence in their doctor or politician, and once this happens things turn into their opposite.

This will happen in England. When workers who voted Leave believing it would solve their problems, only to find that it has added to them, that they have been lied to and been manipulated, then anger will boil over. This is the lot of all populists. The same applies to Trump who dismissed the pandemic now ravishing the USA. The latest opinion poll shows that his approval rating has sagged from 45% right before the election, to 42% two weeks ago, to 39% now. In contrast, Biden's approval rating has soared from 48% before the election to 68% now. If this is correct, then it is likely the Democrats will win the two Senate seats in the Georgia run-off on January 5th despite the devious voter suppression by the Republican Party. If that is the case, then the Republican Party could very well turn on him. [Gallup Poll: Trump's job approval ratings slide lower, same for Congress \(thedenverchannel.com\)](https://www.thedenverchannel.com/news/gallup-poll-trump-job-approval-ratings-slide-lower-same-for-congress)

Over the last three days, Johnson and Gove have hopped from one superlative to another. The EU ball and chain has been cast aside and Britain can now stride mightily. No doubt as economic conditions deteriorate the superlatives will flow even faster. Johnson is like the captain of ship taking on water who declares to the anxious passengers and crew, rejoice, because now that we are in the business of transporting increasing amounts of water, we will profit mightily.

Conclusion.

When we look at the prospects for capitalism, we need to take a balanced view. It would be one sided to concentrate on the difficulties being experienced by the USA and EU without concentrating equally on the dynamism of China. Just as the US became the home of reaction during the 20th century acting to crush working class revolutions, so in this century that role will pass to China. Here then is the final irony, a so-called Communist Party whose leading cadre are billionaires, setting its face against revolution.

Britain has not only turned its back on the EU it has also antagonised China. It is therefore difficult to see how this fracturing island will prosper having set itself against two of the three major economic blocks on this planet. Despite the rhetoric, the future for this island is problematic, and for this reason, we may not have heard the end of the European saga despite Johnson's and Gove's asserting we have.

Brian Green, 28th December 2020.