

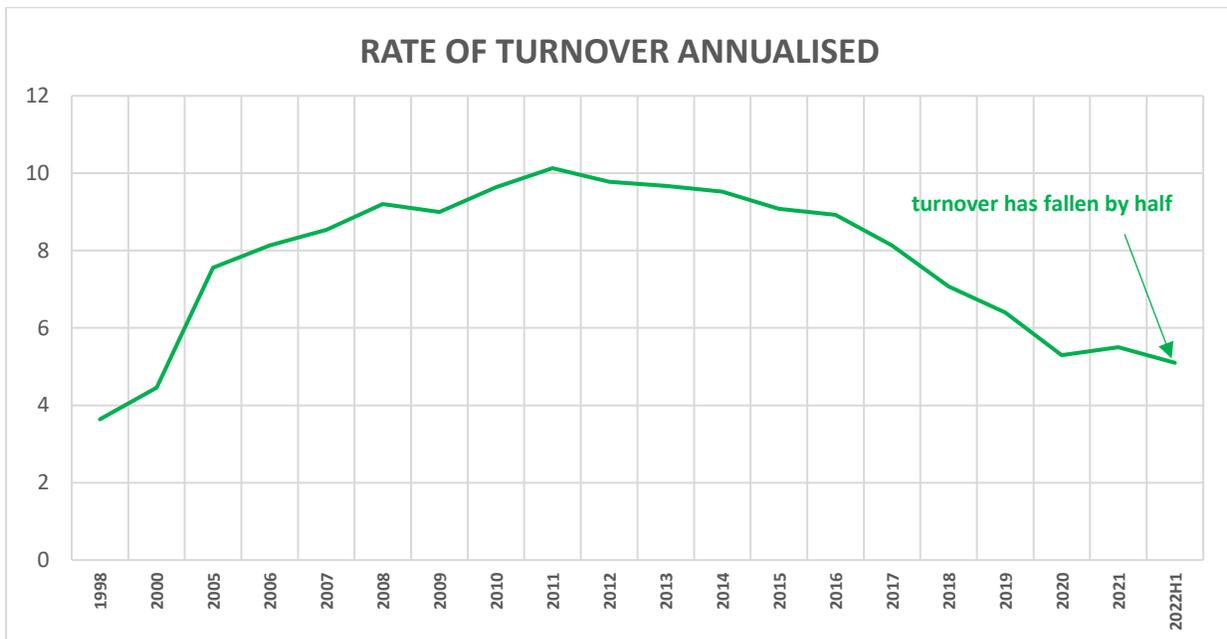
PELOSI'S BUSINESS TRIP TO TAIWAN ANTAGONISES CHINA.

Pelosi is the 6th richest member of Congress and with her husband's assets added in, which includes investments in the military machine, they are worth over \$200 million. Pelosi, the arch neo-con's visit to Taiwan was good for arms trade especially with the US strategy in the Ukraine beginning to fall apart. This article begins by analyzing the latest economic date out of China.

Over the last week the economic data covering the first half of 2020 has been released by the National Bureau of Statistics of China. The reader needs to view this data with a degree of caution as it has been affected by past multiple lock downs in major cities. The data will only normalize in the current quarter.

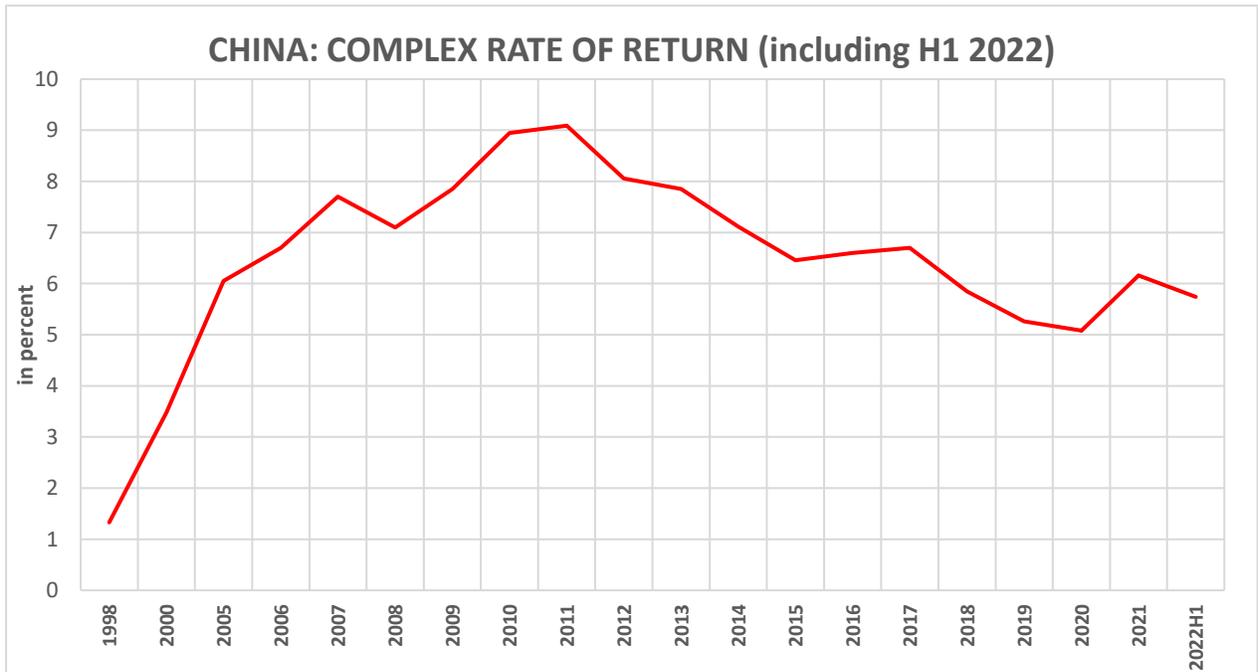
As expected, the lockdowns and the property crisis have led to a fall in consumption and with it the rate of turnover. All data is annual except 2022 which covers the first half of the year (H1). Data is taken from the attached profit report issued by the National Bureau. Turnover has fallen by half to its lowest point since the turn of the century. From 36 days, the turnover period has risen to 72 days, thus it now requires twice as much working capital everything else being equal, and it takes twice as long to realize profits.

Graph 1.



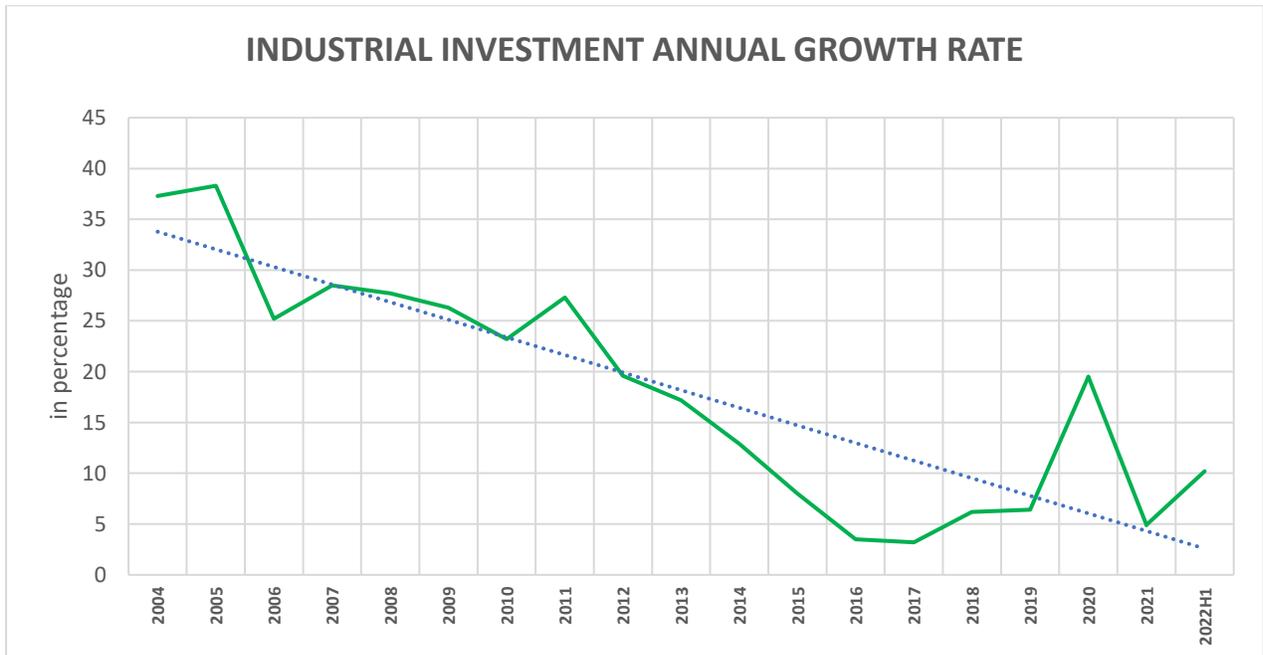
Predictably, the slowdown in turnover has been one of the contributory factors behind the fall in the Complex Rate of Profit in China (Industrial). Both fell in a synchronized manner as can be seen by comparing Graph 1 with Graph 2, per the rise in the Complex Rate of Return in 2021 being matched by an improvement in turnover courtesy of the rise of Covid related exports that year. (It is worth remembering that the Complex Rate of Return is so named because it is dissimilar to the rate of return found in the West. In China, the Bureau does not separate financial assets from produced assets meaning the 'Total Assets' used are bigger than produced assets, resulting in a rate of return lower than that found in the West. Secondly, because state enterprises have larger cross-holdings and therefore larger financial assets, their rate of return tends to be lower than private companies which have fewer financial assets.)

Graph 2.



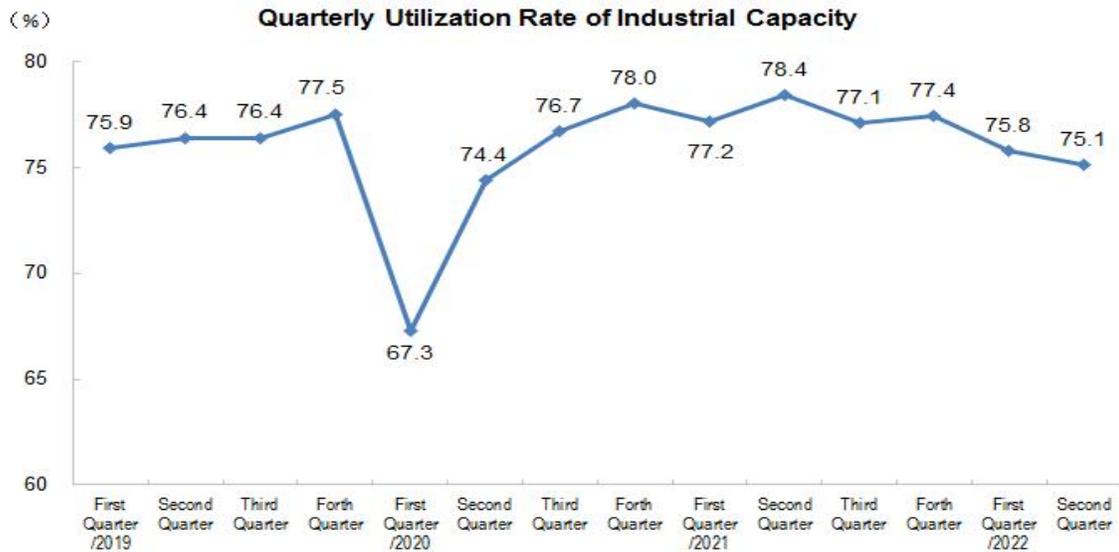
The rate of return which rose in 2021 due to higher export prices for PPE and Goods has now given up almost half its gains. As of June it is down 37% from its 2011 peak. Predictably, the fall in the rate of return has acted as a headwind against investment which has decelerated since 2011 before briefly picking up during the pandemic.

Graph 3.



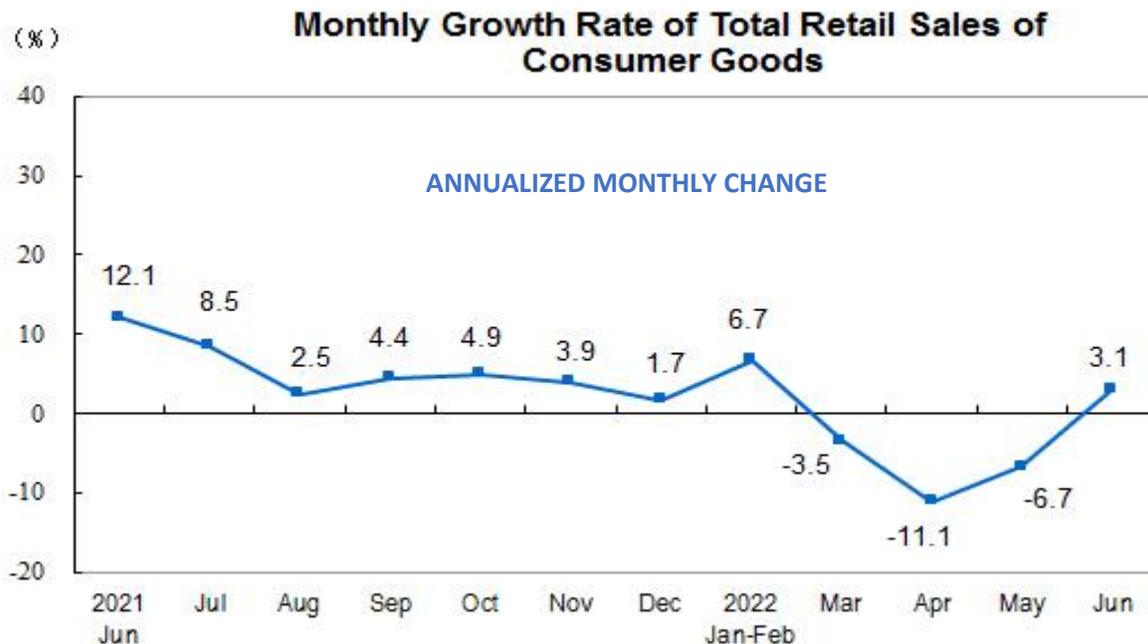
Will this uptick in investment endure? Given lackluster retail sales, a weakening property market and a decelerating export market, this uptick seems aberrant. This is confirmed by quarterly capacity utilization rates which have declined beyond levels last encountered in 2019 when investment growth stalled.

Graph 4.



Finally, with lockdowns over, more or less, retail sales have revived but not by much.” *In the first half of the year, the total retail sales of social consumer goods was 21,043.2 billion yuan, a year-on-year decrease of 0.7 percent. Among them, the retail sales of consumer goods other than automobiles were 18,925.1 billion yuan, down 0.1 percent.*” (Please note the title is misleading as this is not month on month growth.)

Graph 5.



The liquidity issues and insolvencies in the property industry are deep seated. It is clearly a significant speculative bubble which has burst and given the share of assets in the form of property held by households one which is consequential, and one which will be long lived. Too much has been made of the financial fallout or its absence from the bursting of this bubble by theorists such as Michael Roberts who point to the banking system being state owned. Financial fallout would certainly deepen the crisis and the damage to wealth, but its absence does not avoid the crisis. The main issue is that the ending of the property boom means the ending of the building boom and with it the demand for labour, for steel, cement, glass etc. In short it no longer acts as a driver both for the Chinese economy and the world economy.

Does that mean that China is out of drivers? Two drivers remain, import substitution and the arms race. Import substitution is the more important. Import substitution provides a huge market given how many foreign imports China sucks in as assembler to the world. Given that China has overpaid for those imports used to produce indigenous goods, because of its technological lag, their future substitution is a source of renewed profits because the transfer of value via imports is ended.

It is for this reason I have included a [second attachment from the Bureau of Statistics](#) which analysis the “Three New”, one of those lost in translation quirky titles. This report focuses on leading edge companies in China or traditional companies adopting advanced production techniques and processes, or in the words of the Bureau itself: *“The specific performance is as follows: first, the new industry directly generated by the industrialization of new technology application; second, the new industry formed by the traditional industry adopting modern information technology; third, the new industry derived from the promotion and application of scientific and technological achievements and information technology to promote the industrial differentiation, upgrading and integration”*. Their share of GDP is now 17.25% and they grew at a rate 3.8% above the average GDP growth rate.

From Ukraine to Taiwan, the USA provokes.

Russia continues its steady advance in Ukraine. Ukraine continues to pretend it is counter-attacking. In the meantime Russian tactics, that is the inhuman bombardment of the trenches and the rear aimed at maximizing Ukrainian casualties and minimizing Russian and allied ones, grinds on. By degrees, the Ukrainian fortifications built up over 8 years are being systematically crushed. Ukrainian military casualties must now be measured, not in the tens of thousands, but the hundreds of thousands. Within a few weeks the whole of Donetsk will be in the hands of Russia and the indiscriminate bombardment by Ukrainian and fascist forces of Donetsk city, including the use of anti-personnel mines, will be ended.

The HIMARS will make little difference. True they are hard to locate given their asymmetrical trajectory which means they are hard to track using counter-battery radar intended to pinpoint their launch site, and true they are accurate. But when equivalent technological adversaries are in action, any weakness can be exploited, and with Russia having identified a technical vulnerability with the terminal HIMAR radar, it has already deployed counter-measures around high value targets.

Despite the huge sacrifices made by Ukrainian forces, sacrifices which would overwhelm the US army, the White House is not satisfied it is getting enough corpses for its money. Tensions with the Zelensky regime have increased. This was reported by the [New York Times](#). The reason could be that Zelensky has turned to China for help. In a forty minute interview with the [South China Morning Post](#), the Ukrainian President

expressed his desire to hold direct talks with the Chinese President with the view to requesting Xi to help end the war with Russia.

It is highly unlikely Xi will respond, but if he does, he is likely to restate Russia's original demands to Zelensky who still appears in a state of denial. But imagine this; Ukraine which is NATO's ally is turning to NATO's enemy for comfort. What a decisive historical moment symbolizing the eclipse of the West. It seems that Zelensky, always in danger of being overthrown by his own military, despite his love story being splashed in *Vogue* while his troops are being splashed in their trenches, has woken up to the fact that he has allied himself to a loser. Declining Empires are always losers. Ukraine will go the same way as Iraq, Syria, Afghanistan, and Libya. In reality the Pentagon has not won a war against a major adversary for over a generation and true to form, it is losing in the Ukraine.

US foreign policy is shredded. The bait and trap tactic aimed at Russia was designed to weaken Russia to the point that it exposed China's Northern flank. Instead it has backfired causing economic turmoil in the West and depleting NATO armories. Support for this war in the West has ebbed as the economic realities of this provoked war has emptied workers pockets. This war fought in the name of a few thousand globalist capitalist families has provoked the anger of hundreds of millions of working class families, proving the adage once more; capitalists hesitate before you go to war because the war can turn on you. However, this is completely lost on arrogant US neocons like Pelosi and the Clintons. Truly the Democratic National Committee, the rotting head dominated by three politicians with a collective age of over 240, is a global threat not only a national threat.

This is the context in which Pelosi's trip must be seen. She claimed that she was standing up for democracy against an authoritarian state and blamed the Chinese response to her visit on her being a woman. And this from a Congresswoman who oversaw the clubbing to the ground of an innocent nation, Iraq, simply because an example was needed to show the world that nobody messes with the world's bully, oops super-power. The hypocrisy of the imperialist is always eye-popping.

No, Pelosi's agenda was more sinister. While Taipei welcomed her as a friend, little did they realize she intends to turn Taiwan into the Ukraine. The difference being of course, that should this occur, direct military involvement by the USA would be unavoidable. This is the reason the Pentagon urged her not go. The war in the Ukraine has set back its ambitions, it is not ready for a direct confrontation especially since Russia has used up little if any of its strategic muscle in the Ukraine.

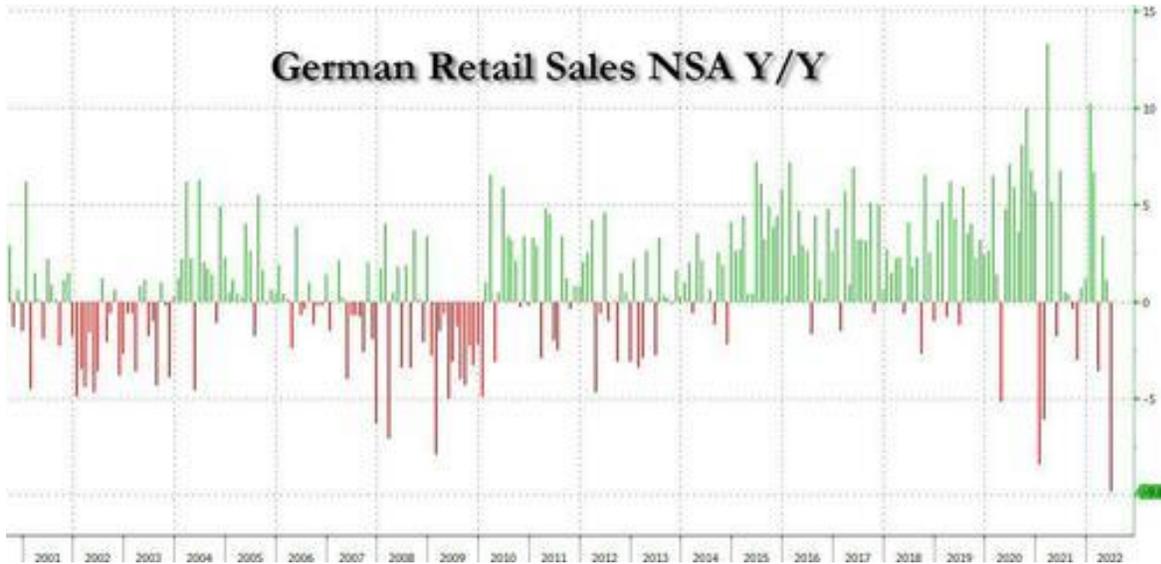
Here then lies the paradox. The Ukrainian war which was designed to improve the military terrain for NATO has turned into its opposite. It has not advanced the conflict with China but retarded it. This has played into China's hands, because each year the conflict with the US is delayed is a year won in which to build up its armies and reduce its technological lag.

A quick round-up.

In a previous posting I raised doubts about the flash GDP report for the Euro area which showed first half growth rising faster than pre-pandemic. *"In the second quarter 2022, seasonally adjusted GDP increased by 0.7% in the euro area and by 0.6% in the EU, compared with the previous quarter, according to a preliminary flash estimate published by Eurostat, the statistical office of the European Union. In the first quarter of 2022, GDP had grown by 0.5% in the euro area and 0.6% in the EU."* This flash estimate has come back to haunt Eurostat in double quick time. This week retail sales data was released for Germany.

In terms of volumes, the unadjusted fall of 9.8% in June compared with the same month last year, as the graph below shows, was the single biggest YoY monthly fall in Germany this century. In addition, despite a fall in order, employment remained 'robust'. Expect a sharp downward revision to Euro GDP in the next release as German retail sales add up to a quarter of all sales in the EU.

Graph 6.



In the UK as elsewhere, where economic forecasts turned into trendcasts then into downcasts, it has finally arrived at a rare slumpcast by the Bank of England. The BOE is predicting a Brexit amplified [five quarter recession](#) beginning soon with [living standards likely to fall by the biggest margin](#) since the Second World War. Clearly this stark announcement was political in intent, seeking to reign in Liz Truss the future Prime Minister, and provide her with a salutary wake-up call. Learner drivers are taught that when reversing they need to look through the rear screen and not forward through the front windscreen as learner Truss is doing, especially if the car is reversing towards a sinkhole. Truss has a war cry. To her loyal followers in the Tory party her chant is: "I say tax cuts, you say cut, cut, cut." At least she did not use the words "oven ready tax cuts" How ridiculous, she wants to add to the tax cut the slump will generate as jobs, income, and sales on which tax is levied are destroyed. Naturally, like Johnson where reality is fictionalized, she has dismissed the banks warning of recession.

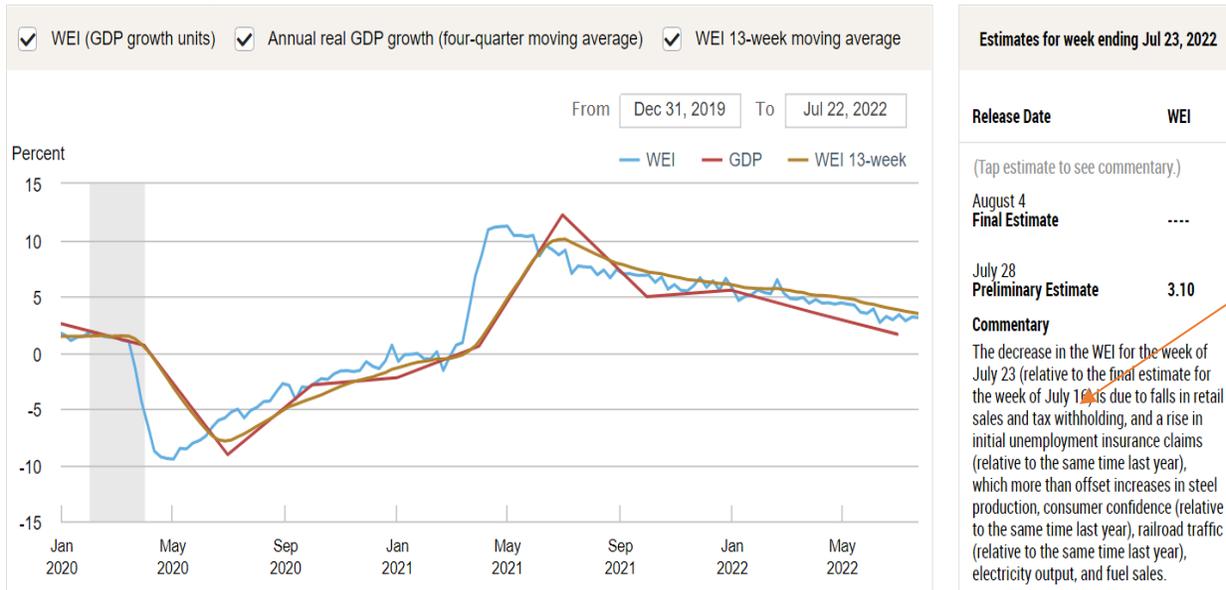
The BOE's outlook is in sharp contrast to the outlook from the FED in the USA as well as the Bureau of Labour statistics. Wall Street and the Biden Administration have become a latter day assembly line for Model T Frauds. On Friday the BLS announced that 528,000 jobs had been created in July, while May and June were revised upwards. This flies in the face of the data on withholding taxes which the New York Fed also uses to modulate its high frequency data rather than job creation. (Follow arrow in Graph Below) "[But nonwithheld payments](#) for those sources, which included a quarterly estimated payment for the current tax year, declined by \$8 billion (or 6 percent), and amounts withheld from workers' paychecks declined by \$5 billion (or 2 percent)." This is the latest report from the Congressional Budget Office on Tax receipts. Add in 3.8% wage inflation which should have effected tax bracketing and the fall in withheld wages is equal to around 5.8% in real terms, give or take a few points depending on IRS inflation adjustments to tax brackets. In the contrast employment went up by 3.6% or by 5.5 million from 153.6

million to 159.1 million. A discrepancy of around 9.4%. This was not due to job numbers being inflated by part-time workers as the [aggregate hours](#) increased even faster by 4.1%.

Aggregate hours rising faster than jobs without a change in the work-week may indicate the rise in multiple jobs. In June the number of multiple job holders rose to 7.541 million. This can effect withholding taxes if each job is taxed independently, but at 5% of all jobs this is likely to only dent the total divergence of 9.4% detailed above. I will make it my mission to deep dive into the relationship between withholding taxes and job creation shortly as these employment headline figures cannot go unchallenged.

Graph 7.

Latest Release 11:30 a.m. EST July 28, 2022



This inflation of job figures rules out a recession and provides the Biden Administration and the Democratic Party with ammunition to fight the November mid-terms, but it comes with a high price. Firstly it impacts the markets because of its effect on interest rates, and not only the markets but immediately the housing market. Bloomberg reports that the consensus for the next FED rate rise has risen from 0.5% back to 0.75%. 30-year fixed mortgage rates which had fallen below 5% rose to 5.16% after the release of the employment data. Secondly, it increases the cost of consumer credit as well as the burden on industry and distribution.

Some more leading indicators.

The latest [Chinese official PMI](#) data released this week fell to 49.0 indicating contraction in July. This was below the consensus estimate of 51.5. Significantly, the new order index contracted to 48.5. Although the rest of the economy fared better the composite PMI fell to 52.5 from 54.1 in June.

[Maersk the world's largest container line](#) reported a 7% fall in global container trade in the previous quarter and reduced its outlook for global traffic from 2 – 4% for the remainder of the year to 0% despite it seeing supply chains normalizing. The other bellwether is computer chips. [Bloomberg reports](#) that world trade in chips has slowed for 6 months in a row, the longest period of decline since 2018. In June the growth rate decelerated from 18% down to 13.3% which means by October, if the trend continues, the

growth rate could enter negative territory. This trend and its correlation with GDP are shown in Graph 8 below taken from Bloomberg.

Graph 8.

Tough Outlook

Warnings are growing for world economy

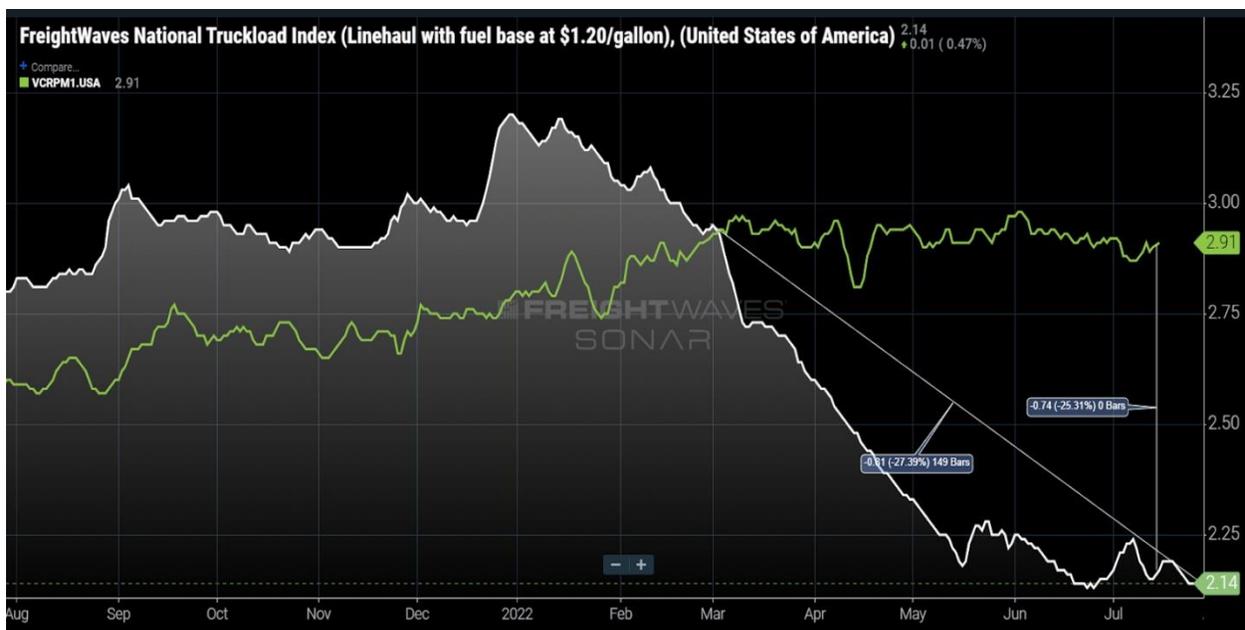


Source: SIA, Bloomberg Economics

Bloomberg

As new orders dry up, the only thing sustaining the global economy is the diminishing pipeline of backed up orders which producers are working through. Similarly, prices remain high because many prices were contracted when supply was tight. This can best be seen with freight rates. Contracted freight rates remain high but as [spot freight prices plunge](#) it will drag down contracted prices as they expire.

Graph 9. (Green for contracted freight prices, White for spot)



Conclusion.

The capitalists grab each other's throats when economic conditions deteriorate and economy stresses increase. Of course they don't use their own hands, instead they use their workers hands without any concern as to how many fingers are lost. Workers thus suffer a dual calamity, forced to make good their bosses' losses, and forced to fight the battles of the capitalist class.

This is where we are today. First stop Kiev next stop Taipei. The fight for global hegemony intensifies by the day and as it does the number of triggers increase. Pelosi shows how reckless and desperate Yankee imperialists have become. She did not so much her life in danger as the people who live on this overheating and scarred planet.

I would not have said this two months ago, but the sleeping giant which is the international working class is waking up. The imperialists have tried to blame the calamity of what is occurring onto Russia, but increasingly workers' attention is being drawn to the super profits the energy companies and others are making at their expense. They are recognizing inflation creates losers and gainers, that they lose and the corporation's gain. They identify inflation to be a fraud committed against them and they are clamouring for justice, for something to be done such as price capping and windfall taxation which politicians are shying away from, because you see these companies threaten an investment strike, as if.

We need to nurture this emerging class consciousness which is translating into more intense forms of class struggle. Capitalist classes besieged by their own workers cannot fight each other. This is the only way to prevent the looming capitalist war over hegemony.

NO PEACE BETWEEN CLASSES
NO WAR BETWEEN NATIONS!

Brian Green, 6th August 2022.