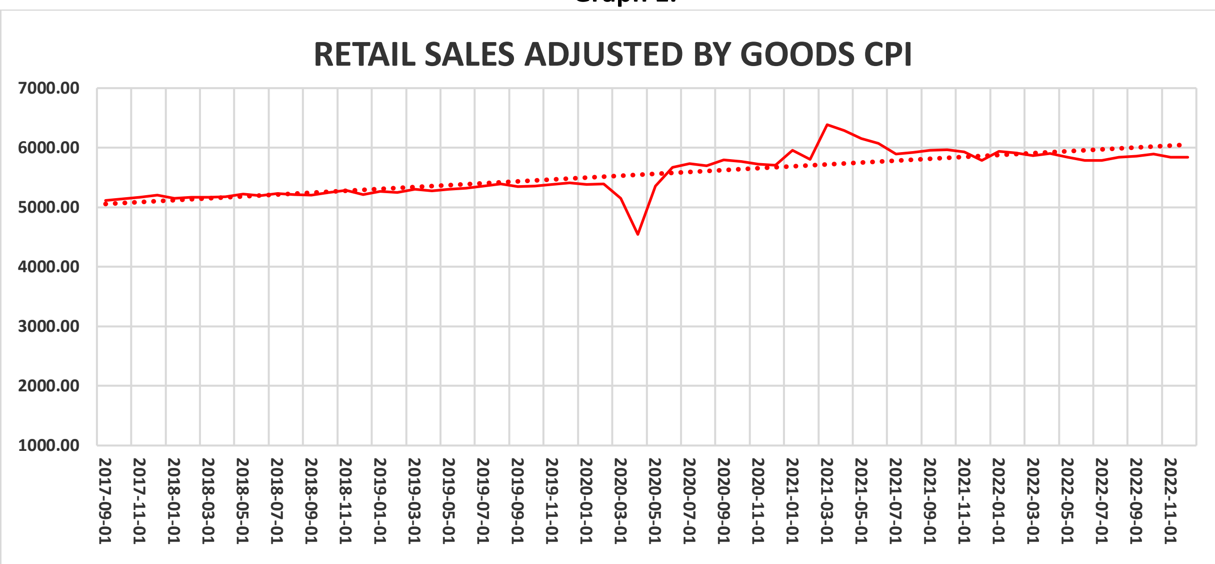
THE US vs CHINA: DESPITE THE GROWING ECONOMIC HEADWINDS, THE USA CONTINUES TO STIR UP POLITICAL WHIRLPOOLS.

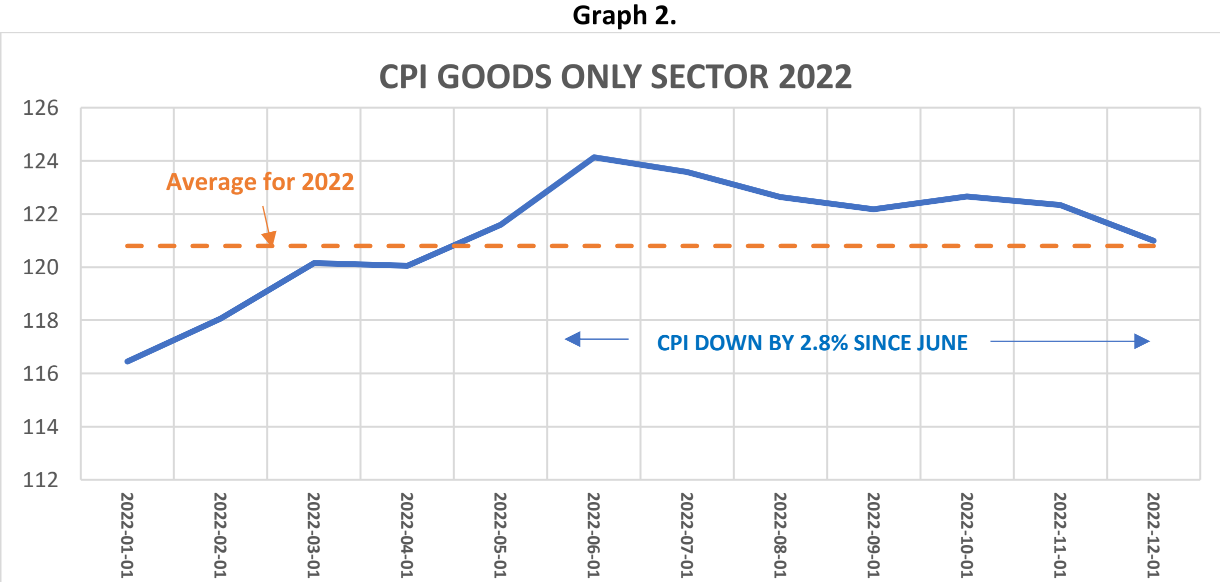
*This article is divided into three parts. **Part A** looks at the current data releases in both economies which shows underlying weaknesses deepening. **Part B** looks at two exceptional articles on China and Apple Published in the Financial Times this week, here and here. **Part C** examines the excellent pamphlet produced by New Left Review titled Washington's New Cold War containing three essays. The focus is on the escalating economic strife between China and the USA, fostered by the USA.*

US retail sales fell nominally by 1.1% in December following a revised 0.6% fall in November. This is the first back to back fall in official retail sales since the onset of the pandemic. However, because the goods CPI for retail fell (Graph 2), the volume of sales was flat (for greater detail see Graph 3.)

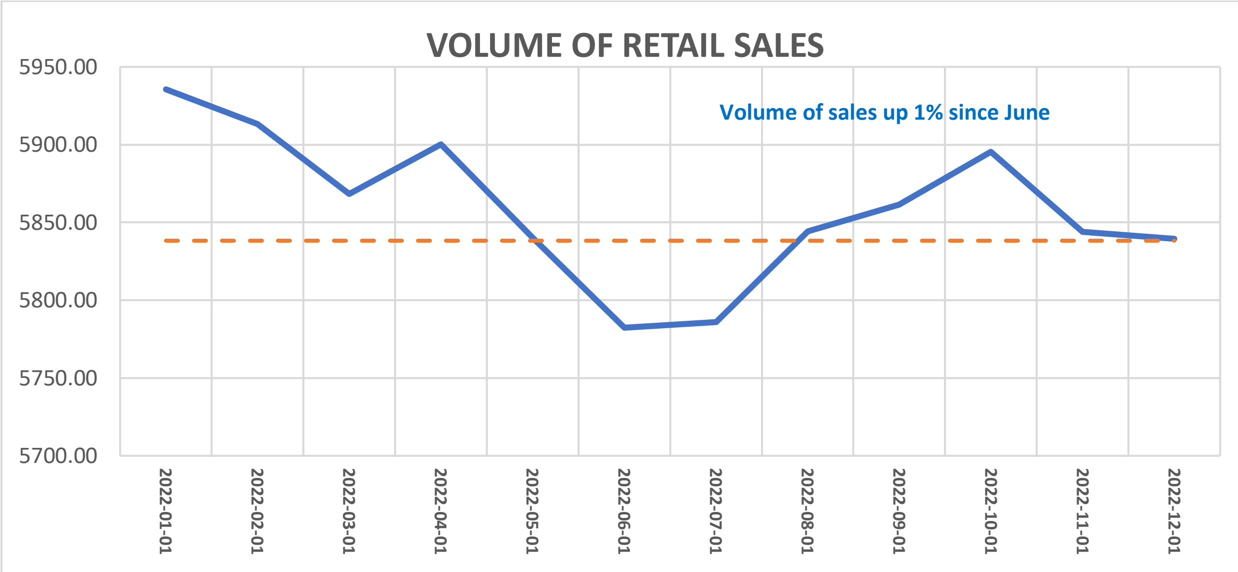
Graph 1.



Graph 2.



Graph 3.



Graph 1 shows that the volume of sales are now trending below their five year average. In addition Graph 3 shows that December sales fell to the average for the year. This shows ongoing deterioration in the retail sector. (Nonetheless, the December figure in volume terms is still up around 8% compared to 2019.)

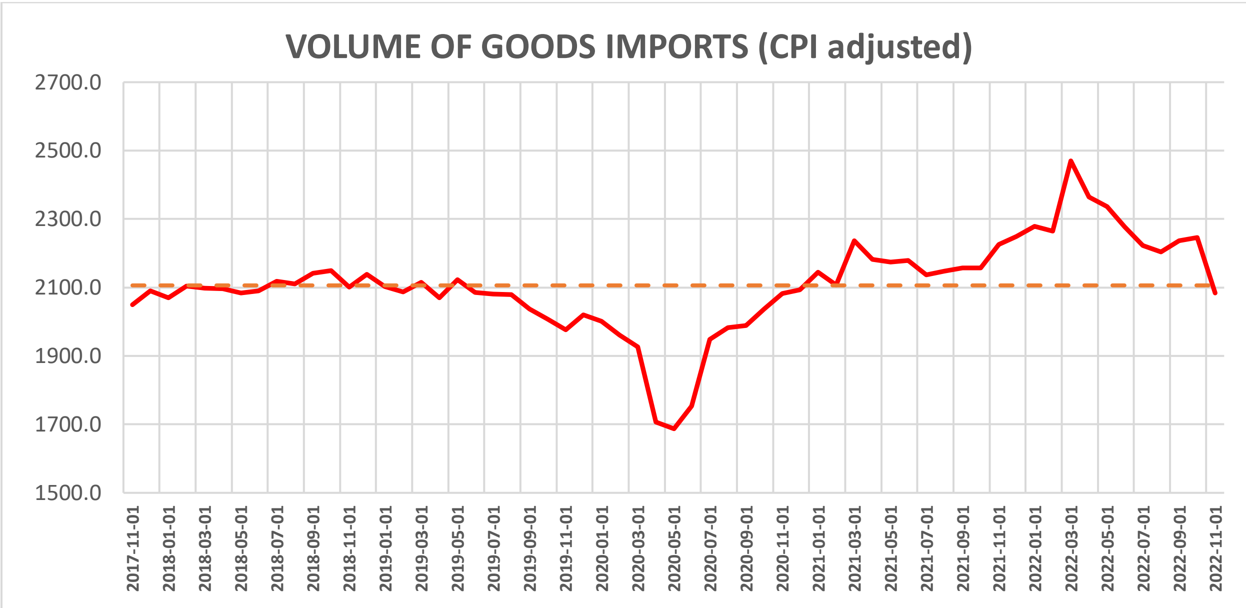
However, we should not discount nominal sales figures as they feed directly into profit margins. In this sense they are the more important metric. Although the Producer Price Index is also now falling, the fact that unit sales are falling in Dollar terms will feed back into profit margins throughout the supply chain. The period of profit gouging is well and truly over.

This time round, the variance between the official data and that of sales reports are reduced. Costco sales were up 6.2% December and 8.1% last quarter. "*Retail sales during 2022's November-December holiday season grew 5.3% over 2021 to $936.3 billion, falling short of the National Retail Federation's forecast amid continuing inflation and high interest rates, NRF said today. While holiday growth was less than expected, sales for the year grew 7% over 2021 to $4.9 trillion, meeting NRF's forecast of between 6% and 8% growth for the year.*" In real terms the holiday season as far as goods went was down 1%. According to Mastercard SpendingPulseTM, U.S. retail sales excluding automotive "increased 7.6% year-over-year this holiday season, running from November 1 through December 24." (Boosted by eating out) *The Redbook Index* covering 900 stores run by general retailers also saw nominal growth of 7.6%. (In the first half of January sales rose by a smaller 5.15%).

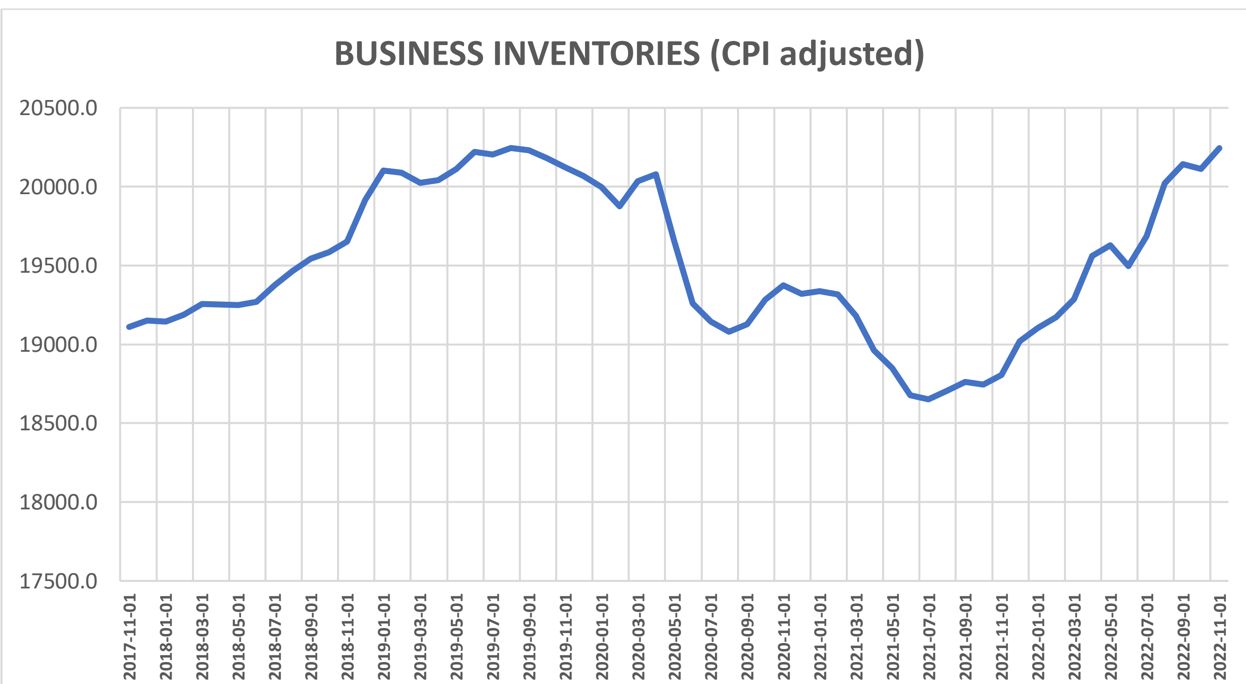
As we see below, most indicators are back to 2019 levels. Graph 4 shows that the imports of goods has fallen back to the average for 2019. Likewise Business Inventories (combined manufacturing, wholesale and retail) are back to 2019 levels (Graph 5). No supply issues wot. While Manufacturing is now going into reverse starting to trend below 2019 levels despite all those shells and missiles needing to be replaced (Graph 6). Forget the hype about reshoring, December' s manufacturing output is no higher than in 2017.

In all difficult to see who produced those additional retail sales, it does not appear to arise from manufacturing, nor imports nor falling inventories. This data is more in line with the tax data issued by the Congressional Budget Office which I reported on previously, but it is perplexing how GDPNow can now forecast a rise in GDP of 3.5%, or how the Census Bureau can posit December's retail sale volumes being 8% higher than in 2019 (a product of cumulative over-inflations?). Nor is it likely that the jump in GDP is due to growing services when the various PMIs (surveys) consistently shows services to be well below 50.

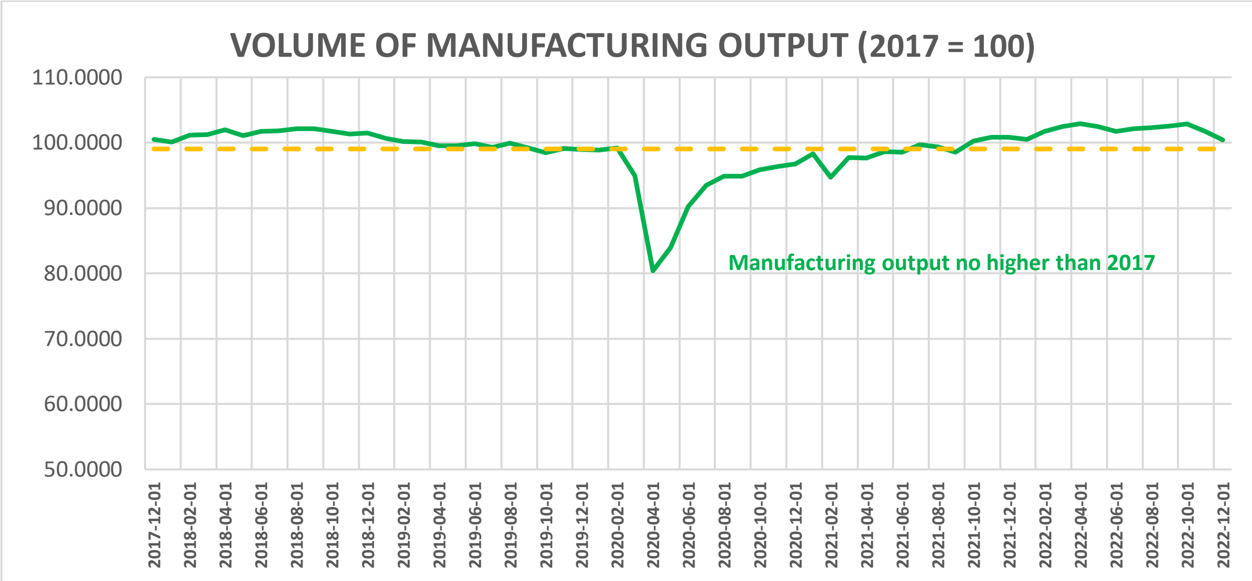
Graph 4.



Graph 5.

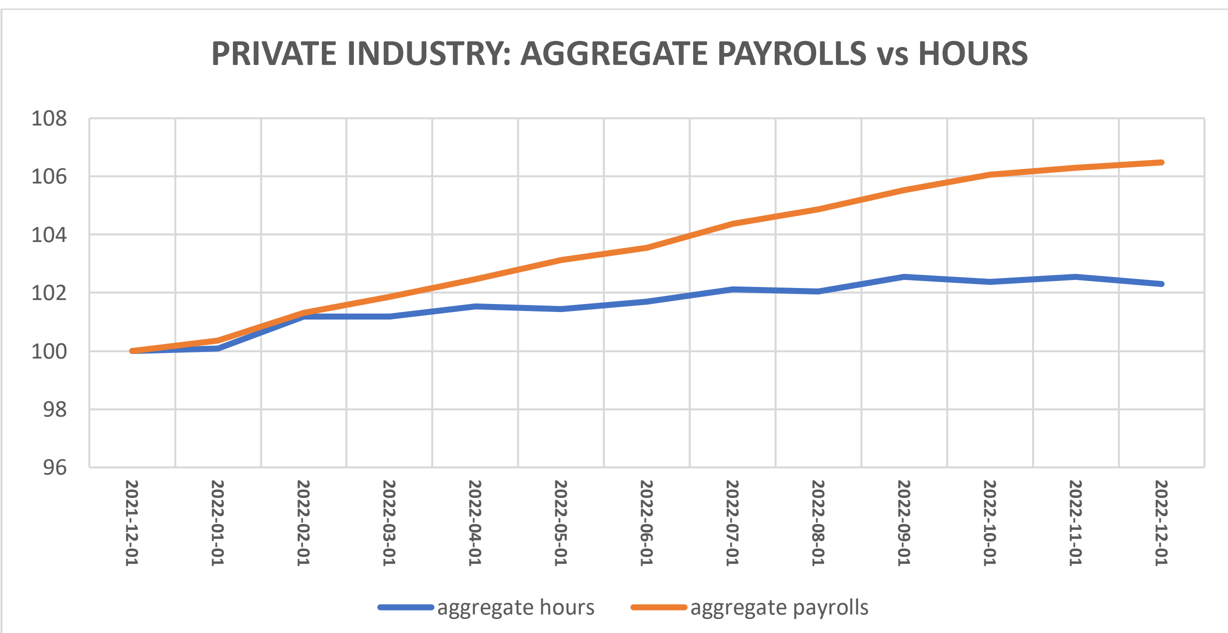


Graph 6.



As for the iconic employment data bewildering the FED, the unflustered weekly payroll and hours data, that is unflustered by seasonal adjustments, tell a different story. Aggregate hours have been trending down since September despite the rise in payrolls.

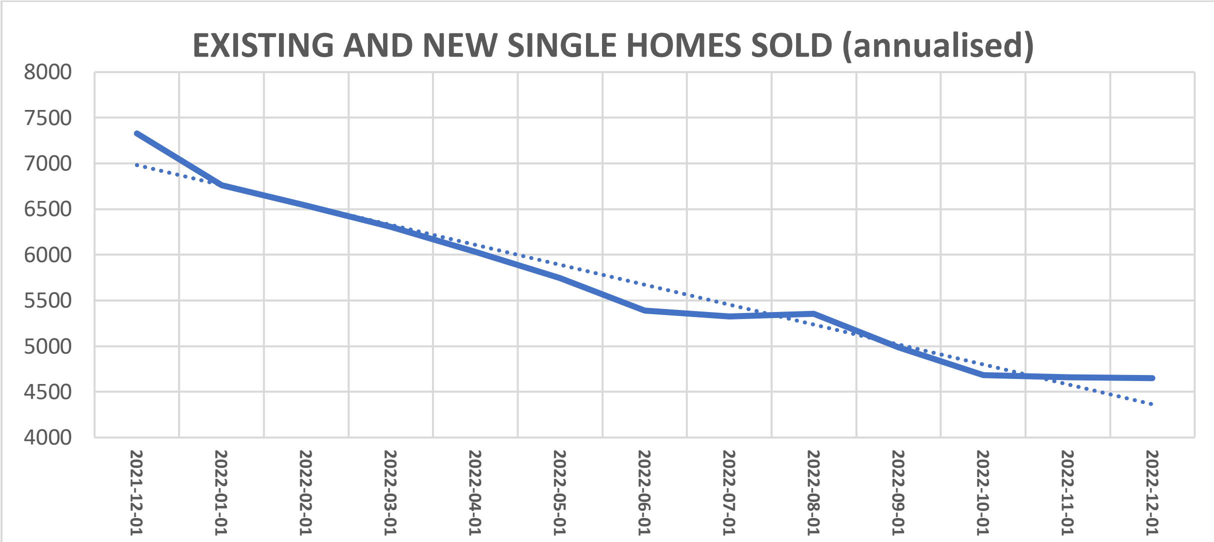
Graph 7.



(Sources: FRED Tables AWHI for hours and CES0500000017 for payrolls.)

Finally though mortgage rates have now come down due to the fall in the 10-year bond yield, encouraging new mortgage applications, it appears that this has succeeded only in stabilizing the fall in housing sales (Graph 8 below). However, over the year the number of exiting home sales fell by 34%, worse than during 2008.

Graph 8.



While house price rises have fallen below inflation, the fall in prices has not yet reached the magnitude where it will provoke a financial crisis due to a significant minority of properties being forced underwater. But where a purge has already occurred has been in the ranks of the realtors (real estate agents) whose numbers have fallen sharply.

Elsewhere in the economy the first signs of financial distress are appearing. In the realm of higher risk credit card issuance by the likes of *Discover Financial Services* (DFS), charge-offs have rocketed to 4%. Severely delinquent auto loans (overdue +60 days) have now reached 2009 proportions. But it is in private equity where the dice will fall. This opaque, lightly regulated industry, which did over a $1 trillion worth of deals in 2021 alone, and which by some estimates holds or should be holding $7 trillion in assets, has copied the 2008 recipe book of dicing and splicing assets to dilute its rotten core so as to continue fund raising. It is here that the first cracks will appear as has been already seen in *Blackstone's* closing of some of its property funds to withdrawals. Although the banks are sitting on over $600 billion of losses stemming from losses in the bond and stock markets, it is in the sphere of the lightly regulated financial markets - private equity and possible venture capital - where debts are most elevated, that the blood bath will emerge over the next few months as debt becomes more expensive and financing dries up.

It is likely that the FED has only one more 0.25% rate rise in the tank, possibly another. While this will entertain the markets it is likely that the damage caused by higher interest rates has already been done. With inflation (excluding owner occupier rents) running at under 2% since June and with interest rates heading towards 5%, real interest rates are hurting an economy long addicted to zero rates. It is clear from all the graphs above that the economy weakened sharply towards the end of the year, with high frequency data in January showing this trend to be ongoing.

China.

It is too early to draw any conclusions regarding the Chinese economy despite its very weak 2022 performance due to lockdowns. Only by March can any firm conclusions be drawn. Here I intend to focus on standards of living against the background of social unrest in China and the CCP's numerous U-turns.

Preliminary Accounting Results of GDP for the Fourth Quarter and the Whole Year of 2022

	Total (100 million yuan)		Growth Rate over the Same Period Last Year (%)	
	Q4	Q1-Q4	Q4	Q1-Q4
Gross Domestic Products	**335508**	**1210207**	**2.9**	**3.0**
Primary Industry	**33497**	**88345**	**4.0**	**4.1**
Secondary Industry	**132601**	**483164**	**3.4**	**3.8**
Tertiary Industry	**169411**	**638698**	**2.3**	**2.3**
Farming, Forestry, Animal Husbandry, and Fishery	35057	92582	4.1	4.3
Industry	106845	401644	2.5	3.4
#Manufacturing	88897	335215	2.3	2.9
Construction	26365	83383	7.0	5.5
Wholesale and Retail Trades	31905	114518	0.3	0.9
Transport, Storage, and Post	12792	49674	-3.9	-0.8
Accommodation and Restaurants	5231	17855	-5.8	-2.3
Finance	23775	96811	5.9	5.6
Real Estate	18466	73821	-7.2	-5.1
Information Transmission, Software and Information Technology Services	12108	47934	10.0	9.1
Renting and Leasing Activities and Business Services	11883	39153	5.6	3.4
Others	51082	192831	5.7	3.8

The Y/Y Growth Rate on GDP

	Q1	Q2	Q3	Q4
2017	7.0	7.0	6.9	6.8
2018	6.9	6.9	6.7	6.5
2019	6.3	6.0	5.9	5.8
2020	-6.9	3.1	4.8	6.4
2021	18.7	8.3	5.2	4.3
2022	4.8	0.4	3.9	2.9

Notes: The Y/Y growth rate is the growth rate over the same period last year.

[National Bureau of Statistics of China]

As we can see real GDP growth for the whole of 2022 amounted to 3% which I believe to be inflated due to an underestimation of inflation. It is difficult to see how an economy integrated into the world economy with a currency that weakened during the year, could enjoy a rate of inflation only a quarter of that found in the rest of the world economy. In any case, as real national income rose by only 1.9% during 2022 (Graph 9) this is difficult to reconcile with GDP growth of 3%

Graph 9. (China 2022 Inflation rate)

(Source: [Inflation.eu])

Clearly the issue of inflation looms large when investigating standards of living. In Graph 10 below, the Bureau of National Statistics of China provides both nominal and real improvements in standards of living. It shows a real improvement of 1.9% during the course of 2022. Even considering that inequalities ensured the improvements were concentrated in higher income households, the average increase of 1.9% still seems inflated. (I will return to China at a later date.) What is clear is that there has been a sharp slowdown in the rise in standards of living which is eroding the social contract between the CCP and society.

Graph 10.

Per Capita Disposable Income and Its Growth of Urban and Rural Residents in 2022

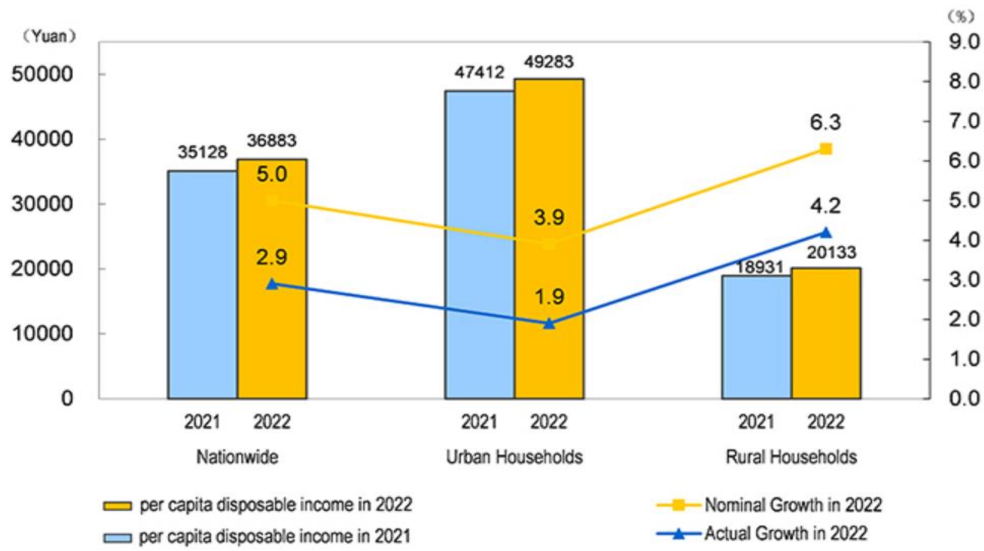


Table 2 Income and Expenditure of Urban and Rural Households in 2022

Item	Absolute Value (yuan)	Nominal Increase (%)
Total Per Capita Income of Urban Households	**49283**	**3.9**
Grouped by Income Source		
Income of Wages and Salaries	29578	3.9
Net Business Income	5584	3.8
Net Income from Property	5238	3.7
Net Income from Transfer	8882	4.5

National Bureau of Statistics of China

The two *Financial Times* articles covering the relationship between Apple and China.

Originally Apple was considered a dullard when it came to producing its products. This changed under Tim Cooke's supervision. Suddenly in 2007 Apple vaulted from nowhere to the Number 2 slot in the Gartner Supply Chain Top 25 Index. From then on Apple was to dominate the Index based on the excellence of its global supply chain.

What was the secret? One word, China. The Chinese government and Taiwanese corporations based there entered into a close relationship with Apple. The Chinese state, both provided and shaped the infrastructure around these giant plants, reducing their cost prices. And above all, the Chinese State provided, in some cases even press-ganged, a cheap and compliant workforce. In turn Apple provided the expertise, often seconding its own engineers to China to ensure that the production facilities were raised to the standards demanded by Cook and his team.

What became a nightmare for the highly policed and poorly paid Chinese workers, often couped up in concentration camp type plants where up to 200,000 were set to work, became a profit nirvana for Apple. *Apple products; such elegant use values, such despicable exchange values, pixelated 'commodity-fetishism'* is all I have to say. China and Apple had become fused, with Apple increasingly dependent on the industrial ecosphere which only China could provide.

The two articles concern themselves with the question as to whether Apple can extricate itself from China given the rising tensions between China and the USA. The answer appears to be no. Neither Vietnam, India nor Mexico are able to provide an alternative, at least not this decade. It should be recalled that Apple has built its infrastructure in China over two decades. The fact is that China is the junction, as in railway junction, where all the global supply chains converge. These chains head into and out of China, which is why China consumes over 50% of global industrial inputs.

Here we find the most compelling takeaway from these two articles. It is the contradiction capital always gets itself entangled in. On the one hand the USA and its leading corporation are dependent on China's industrial prowess and capacity. On the other hand the Biden Administration and his State Department is seeking to strangle this industrial prowess, or at least prevent it from increasing in sophistication. Many have said this interpenetration of economies resulting in the increasing dependency on each other for profit, prevents another world war. That globalisation has carried capitalism beyond the realm of nation-states and thus world wars, because they no longer make any economic sense. That in the end, the developed global supply chains will bind the global economy together, preventing its fracturing.

I disagree. Trump may have smashed Huawei to boost Apple, while Xi sat on his hands, but the obverse can also be true, Apple could in turn be sacrificed to preserve US economic hegemony. Politics tends to take a longer view than economics. The US State Department, and the various political factions buffeted by competing economic interests, ably dealt with in Review below, have coalesced around the recognition that in the longer term, the US could lose its hegemony to China.

It's all predicated on whether or not China achieves technological equivalence. If it does then Huawei for example will come roaring back trampling Apple. In which case Apple will lose if the USA does nothing or it will also lose if the US does something such as forcing Apple to divest from China to slow down Chinese technological development. Apple is really in a 'lose lose' situation. There is an interesting observation in the *Financial Times* articles which describes, how when Covid struck and US engineers could not fly to China, they were replaced by Chinese engineers who turned out to be of equal caliber. Thus as a consequence of Apple developing its technology in China it has deepened Chinese industrial talent as well. Apple is in the firing line because the US will not hesitate to defend its hegemony should its technical supremacy be jeopardized. Wall Street take note.

There are two other compelling takeaways from these two articles. Both humble the view that China is somehow socialist. The first is the manner in which the state sector in China serves the private sector both local and foreign. Here is clearly demonstrated that state capitalism does not exist as a thing in itself and for itself. Secondly, how the Chinese state and corporate management combine to oppress and exploit the Chinese working class. When asked about the recent unrest at one of its plants run by Foxconn, Cook refused to answer the question. As the F.T. reported that silence represented the most awkward 45%

seconds in Cook's business life. The US State Department has a big mouth when it comes to condemning Chinese human rights, but when they serve its corporations, they like Cook stand tight-lipped.

It strikes me the ranks of those who consider China socialist are thinning out as more and more exposures around the management practices found in China are revealed, and, as Xi once again cozies up to the private sector hoping they can solve China's deepening economic problems.

The New Left Review Essays

Prashad, Vijay; Foster, John Bellamy; Ross, John; Veneziale, Deborah. Washington's New Cold War Monthly Review Press. This is a remarkable pamphlet. It shows that an authentic Marxian voice is present in the United States. Based on the strength of this pamphlet I have now subscribed to the magazine.

John Ross in the first essay provides an analysis of the events leading up to the Ukrainian war which is sorely missing from the various mainstream anti-war movements who are still in thrall to pro-imperialist propaganda, who consequently place an equal sign between Moscow and Washington. He shows how NATO, the US military puppet, both prepared for and provoked the 2022 War. *"After the 2014 coup, state spending was diverted away from improving social welfare and redeployed toward building up the military. From 2015–2019, Ukraine's military budget increased from $1.7 billion to $8.9 billion, constituting 6% of the country's GDP in 2019. Measured as a percentage of its GDP, Ukraine spent three times more on its military than most developed countries in the West."* By the end of 2021, "*Most combat-ready units of the Ukrainian Army, numbering up to 150 thousand people, were concentrated close to Donbass. They could break the resistance of local troops within days, with the complete destruction of Donetsk and Lugansk and [the] death of thousands."*

He then goes on to highlight the similarities between the escalations in Ukraine and what is now occurring in the Pacific. "*For the first time since the commencement of United States-China diplomatic relations, President Biden invited a representative of Taipei to the inauguration of a U.S. president."*

"Speaker of the House of Representatives, Nancy Pelosi—the third-highest ranking U.S. official in order of presidential succession—visited Taipei on August 2, 2022.

The United States has called for Taipei's participation in the UN.

The United States has intensified sales of military armaments and equipment to the island.

U.S. delegations visiting Taipei have increased.

The United States has increased its military deployment in the South China Sea and has regularly sent U.S. warships through the Taiwan Strait.

U.S. Special Operations Forces have trained Taiwanese ground troops as well as Taiwanese Navy sailors.

As is the case with Ukraine and Russia, the United States is fully conscious that the One China policy affects China's most fundamental national interests, and it has been the basis of U.S.-China relations for the fifty years since Nixon's 1972 visit to Beijing. To abandon it crosses China's red lines."

The thrust of Ross's article is the dichotomy between the decline in the US economy and the continuing might of its military. "*They are, first, the permanent loss of the overwhelming weight of the U.S. economy in global production, and, second, the preponderance of U.S. military power and spending. This asymmetry* *creates a very dangerous period for humanity, one in which the U.S. may attempt to compensate for its relative economic decline through its use of military force." On the contrary, the fact that the United States is losing ground economically both to China and to other countries is pushing it toward military and military-related political means to overcome the consequences of its economic defeats."*

He goes on to discuss how the USA has never had an economic rival comparable to China not even the USSR. He cites an interesting comparison of the latent possibilities for accumulation which vastly favours China. "*However, this figure greatly understates China's lead: once depreciation is taken into account, China's net annual capital creation was 635 percent higher than that of the United States—the equivalent of $3.9 trillion, compared to $0.6 trillion."* Therefore, "*…it is clear that the United States has lost its global economic predominance. From a purely economic standpoint, we are already in a global era of multipolarity."*

He then turns to the Ukraine. "*The aim of the U.S. in Ukraine is precisely to attempt to bring about a fundamental change in Russia's policy and install a government in Moscow which no longer defends Russia's national interests—and one which is hostile to China and subordinate to the U.S. If that were achieved, not only would China face a greatly increased military threat from the U.S., but its long northern border with Russia would become a strategic threat; China would be surrounded from the North." "Today, we see a pattern similar to 1931, which marked the beginning of the lead-up to the Second World War. Though support for an aggressive world war certainly does not have majority support in the United States…"* He also dwells on the opposition from the Global South because of the negative global effects of the Ukrainian war, to this we can add India.

I would like to pause at this point and discuss the Ukraine. Soledar has fallen and Bakhmut is tactically surrounded with up to 20,000 Ukrainian troops trapped there under intense fire. All along the front the Ukrainian army is on the retreat. It is likely that in January between 50,000 and 100,000 thousand Ukrainian troops will have fallen. The desperation of Zelensky is clear to see when he demands the West hands over 1000 tanks to prevent a rout. However, Germany has rejected his plea. It recognises that throwing good tanks after bad tanks into Ukraine will make no difference. The Ukrainian army has been beaten and all talk of Ukraine mounting a spring counter-offensive is nonsense, a ploy to continue the war in Ukraine at the expense of the Ukrainian people and its soldiers. Many, many women who fled the Ukraine leaving their husbands and sons behind, will return to a country full of gravestones. What the Washington neo-cons have set in motion is a tragedy beyond description, and their arrogance and greed must not go unpunished. This includes the CIA led Zelensky government which sold out Ukraine for a handful of gold.

Putin has instructed his army to reconquer the whole of the Donbass by March. This looks achievable. The so called "invasion of the Ukraine" was supposed to strengthen NATO and its resolve. It could have, had NATO prevailed in Ukraine, because after all, this was a NATO war fought for by Ukrainian soldiers. But they are losing and this is leading to splits in NATO itself with many European members now recognising they will end up being the fall guys. Strategically, this defeat represents a huge set back for the ambitions of US imperialism especially towards China, and following a string of earlier defeats, the view is growing in the oppressed nations of the world, that the US is increasingly a spent power.

Does Ukraine represent a 1905 magnitude political crisis for the US Empire? Close but not quite close enough.

Turning to the second article. I found Deborah Veneziale's article the most interesting because it examines what is transpiring at the heart of the US government. The article comes to three conclusions. "*First, in the Biden administration, two elite foreign policy groups that used to compete against each other—liberal hawks and neoconservatives—have merged strategically, forming the most important foreign policy consensus within the country's elite echelon since 1948 and bringing U.S. war policy to a new level. Second, in consideration of its long-term interests, the big bourgeoisie in the United States has reached a consensus that China is a strategic rival, and it has established solid support for this foreign policy. Third, the so-called democratic institutions of checks and balances are completely incapable of restraining this belligerent policy from spreading due to the design of the U.S. Constitution, the expansion of far-right forces, and the sheer monetization of elections."*

"After the U.S. defeat in Vietnam, the Democratic Party temporarily reduced calls for intervention as part of its foreign policy. However, Democratic Senator Henry "Scoop" Jackson (also known at the time as "the senator from Boeing"), a liberal hawk, joined with other anti-communists and staunch interventionists, helping to inspire the neoconservative movement." (They supported Reagan's initiatives)

"Paul Wolfowitz, who had been a former aide to Henry Jackson. In 1992, just a few months after the disintegration of the Soviet Union, Wolfowitz, then undersecretary of defence for policy, introduced his Defence Policy Guidance, which explicitly advocated for the United States to maintain a permanent unipolar position. (This position guided both Bush Presidents and Clinton)"

The liberal hawks until 2008 tended to reside in the Democratic Party and their foreign policy proposals were distinct from the neo-cons. *"First, liberal hawks tended to believe that the United States should influence the United Nations and other international institutions to carry out military intervention, while neoconservatives tended to ignore multilateral institutions. Second, liberal hawks sought to lead military interventions alongside Western allies, while neoconservatives were more willing to conduct unilateral military operations and flagrantly violate international law. As Niall Ferguson, a historian at Harvard University, put it, the neoconservatives were happy to accept the title of the American Empire and unilaterally decide to attack any country as the world's hegemonic power.*

"Under Biden, the CFR consensus resumed, and the neoconservatives and liberal hawks have become completely aligned on the country's strategic orientation." "In reality, behind the White House and Congress, a bipartisan policy planning network consisting of nonprofit foundations, universities, think tanks, research groups, and other institutions collectively shape the agendas of corporations and capitalists into policy proposals and reports."

She details the fusion between economics and politics in the field of foreign policy. "*In the field of foreign policy, the most influential U.S. think tank since the Second World War has been the Council on Foreign Relations (CFR), which is funded by an array of ruling class sources. include leaders in energy (Chevron, ExxonMobil, Hess, Tellurian), finance (Bank of America, BlackRock, Citi, Goldman Sachs, JPMorgan Chase, Morgan Stanley, Moody's, Nasdaq), technology (Accenture, Apple, AT&T, Cisco), and the internet (Google, Meta), among other sectors,"*

She talks about how pervasive the narrative set out by the neo-cons and hawks has become, marginalizing and even ostracizing those corporate voices who oppose this reckless behaviour and the drive to exclude China from economic intercourse. *Few influential individual capitalists in the United States are willing to openly stand against the chorus demonizing China, and those who do are disciplined or ostracized.* "*The* *global management consulting firm McKinsey & Company, which has favoured greater economic engagement with China, has faced increasing criticism for these views, being smeared by the New York Times as "helping raise the stature of authoritarian and corrupt governments across the globe." Consequently, McKinsey's influence in U.S. business circles has been greatly weakened."*

She then goes on to discuss the success the US State has had in lining up the US population behind its imperialist ambitions. "*Today, hostility toward China has become widespread across the U.S. population. The impression that China is the arch enemy of the free world and the greatest threat to the United States has been emphatically reinforced by mainstream media outlets and internet platforms, while freedom of speech for those who oppose this dangerous trend has been increasingly restricted."* (She correctly identifies this mood as reminiscent of the McCarthyite period in the 1950s.)

The final article is by John Bellamy Foster who is making a name for himself in analysing the unfolding ecological crisis and the solutions to it. His article basically discusses the two options capitalism offers the peoples of our world - a nuclear winter or a scorching summer. This article focuses on the nuclear winter. What is novel about his article is that he focuses on the fire storms that would rage in the event of even a limited nuclear war, and how these fire storms would propel soot particles into the stratosphere which would blanket the earth blocking life giving sunlight for years. He views these fire storms to be the single biggest nuclear threat to global life - animal, aquatic and plant - which means there is no acceptable threshold for a nuclear war.

This observation has never been more important. Due to the setbacks in the Ukraine, and due to the rise in both the quality and quantity of Chinese arms, the likelihood of the deranged hawks in Washington reaching for nuclear weapons has never been higher. Given the probability of a complete collapse of the Ukrainian army in the near future, the response of Washington is frighteningly unpredictable.

Conclusion.

The recognition in Davos that capitalism is facing a polycrisis, that it is being assailed in all directions and that it is not coping, was widespread. Not so much the 1990s version of the *End of History* malarky as the new version where *History Ends Capitalism*. The capitalist intelligentsia is becoming restless as material conditions stare them in the face. A degree of angst is building up. A dread for the future. But that is to be expected as the treads of history spin faster. With each passing day capitalism becomes more undone, but unless that provokes the international working class into action, it could be catastrophic.

This article shows that even as the *economic headwinds* strengthen, the imperialists are still willing to unleash *political whirlpools* which could suck humanity into the abyss. This is how the greatest mode of production to date, in exhausting its potential also demands that it be replaced, or else!

Brian Green, 21st December 2023.