“VIRUSES OF MASS DESTRUCTION.”

The war of words between China and the USA took a turn for the worst, when the neo-con loaded Biden Administration tasked the CIA with the verification of the origins of the Covid virus by insinuating it could have escaped from a Chinese laboratory where it had been modified. This is not a question of science but of politics. Its not about whether or not this is a laboratory caused pandemic, but of demonising China one way or the other. That is what the CIA does, it is both a spying agency and an agent-provocateur, one which tends to find causes celebre to justify war.

The Chinese were rightly indignant about the CIA being put in the frame. The prelude to both the Vietnam war (Gulf of Tonkin episode) and the Iraq war was based on, either knowingly presenting a redacted version of intelligence, or falsified versions, justifying war. It is likely that the spur for this intervention is the failure of US economic sanctions to unsettle the Chinese economy. Instead these sanctions in the longer run have the potential to harm the US economy more than the Chinese economy.

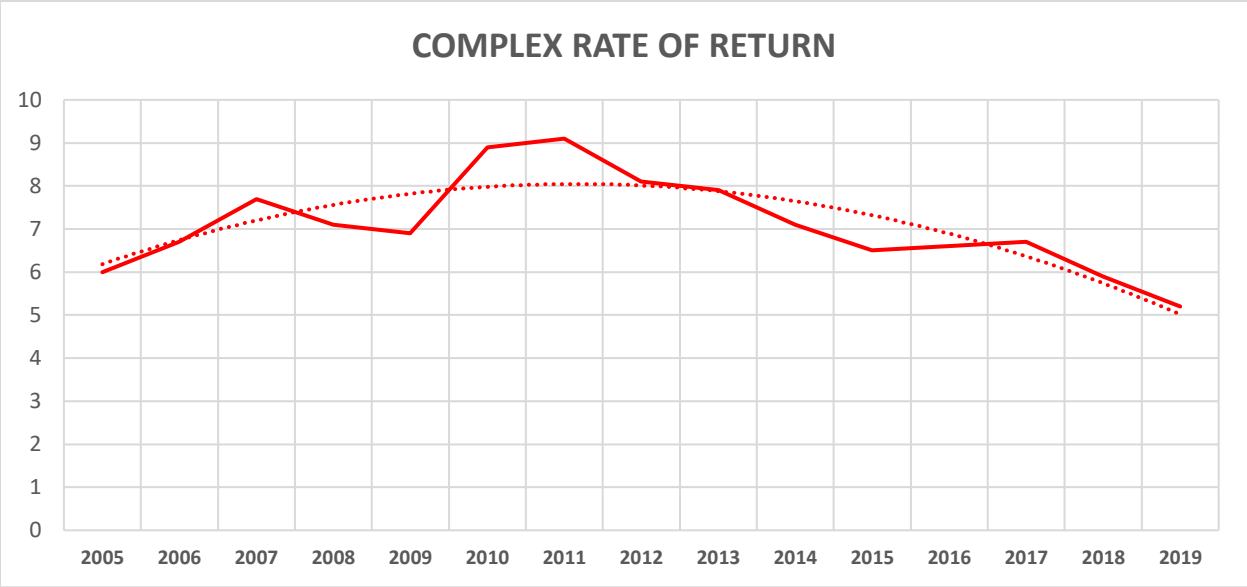
It cannot be ruled out that the virus did escape from the Wuhan lab. As I wrote at the beginning of the pandemic in an article titled *When War Looms Protect the Truth at All Cost* the CIA was aware of increased governmental chatter in the last two months of 2019 suggesting a medical emergency could be unfolding. “*The Times of Israel reported that U.S. intelligence agencies were aware of the disease as early as the second week of November and shared the information with President Donald Trump's White House, NATO, and Israel. The U.S. administration did not deem the report "of interest" while Israeli officials discussed the possibility of the threat but ultimately took no action*.” https://www.salon.com/2020/04/17/us-intel-on-threat-ofcoronavirus-shared-with-israel-and-nato-in-november-report_partner It could also be the case that the crack down by the Chinese government in early 2020 was designed to contain public reaction while it gathered together its medical response to a threat it had previously identified. https://theplanningmotivedotcom.files.wordpress.com/2020/04/xi-vs-trump-the-viral-lies.pdf

However, the primary purpose of this article is different. It seeks to explore the resilience of the Chinese economy as it transitions into a war and self-reliant economy. It will look at the profitability of the Chinese economy, its productivity rates, its investment rates and so on. It will avoid a qualitative analysis, that is comparing the quality of its production and sciences relative to the West, South Korea and Japan. That said, while China is characterised as a middle-income developing nation, such a characterisation is flawed. When comparing the metropolitan areas of China to that of the West, it becomes clear that China is on par with the best in the world. What drags China down is the greater disparity between its metropolitan areas and its rural areas, the source of its profitable and exploited reserve army of migrant labourers. https://www.brookings.edu/research/global-metro-monitor-2018/

Seven measures of resilience.

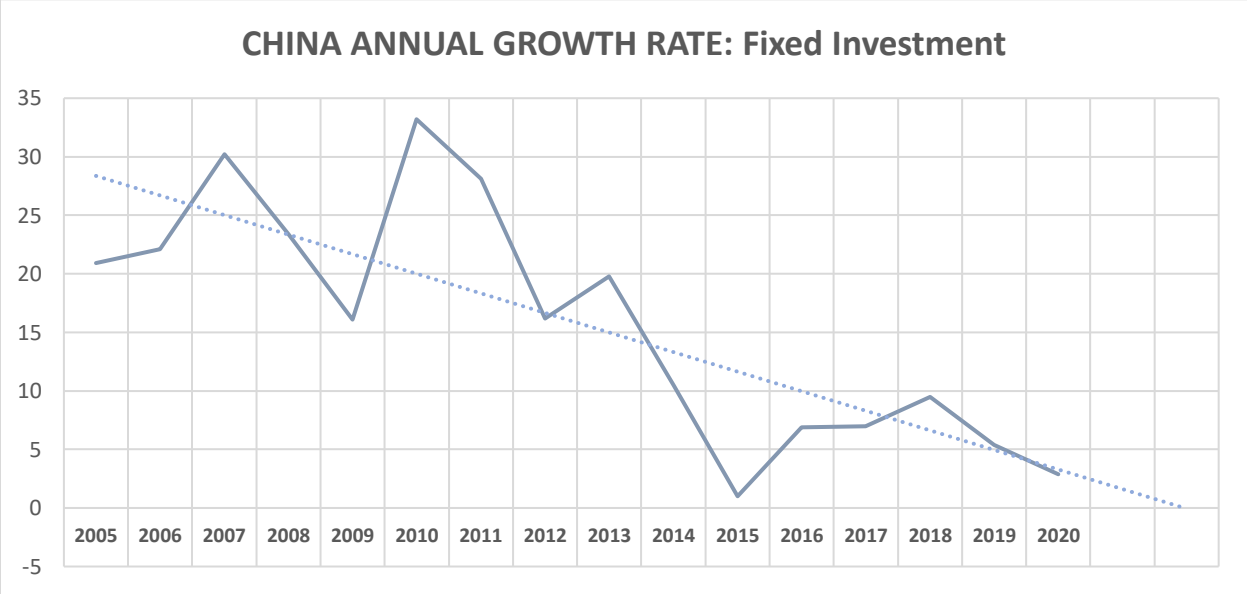
The first metric to be observed is the beating heart of the Chinese economy, its profitability. This is detailed in Graph 1 below. It covers the two industrial departments found in the economy equivalent to the goods production sector in the USA plus utilities. It is relatively larger than its US equivalent. We note that profitability peaked in 2011 at the height of the investment boom which followed the financial crash of 2008, an investment boom that allowed the world economy to escape the clutches of this crash. However, within three years, the investment boom was yielding lower and lower returns. By 2019 it had fallen to 5.1% from 9.1%, a fall of over 40%, comparable to the fall in the USA dating back to 2014.

Graph 1.



The data for this graph can be found at the end of the article, Table 13-3 taken from the Chinese Statistical 2019 Yearbook. (It is labelled as Table 1.) This rate of return is not strictly comparable to Western Data as the assets over which profits are measured include financial assets. It is likely that over the last 5 years, stripping out financial assets, it could be about a third higher at around 7% in 2019, thus significantly higher than the US rate of profit for that year. However, what is important is the trend, and it is this trend that has influenced the annual growth rate of investment in China.

Graph 2.

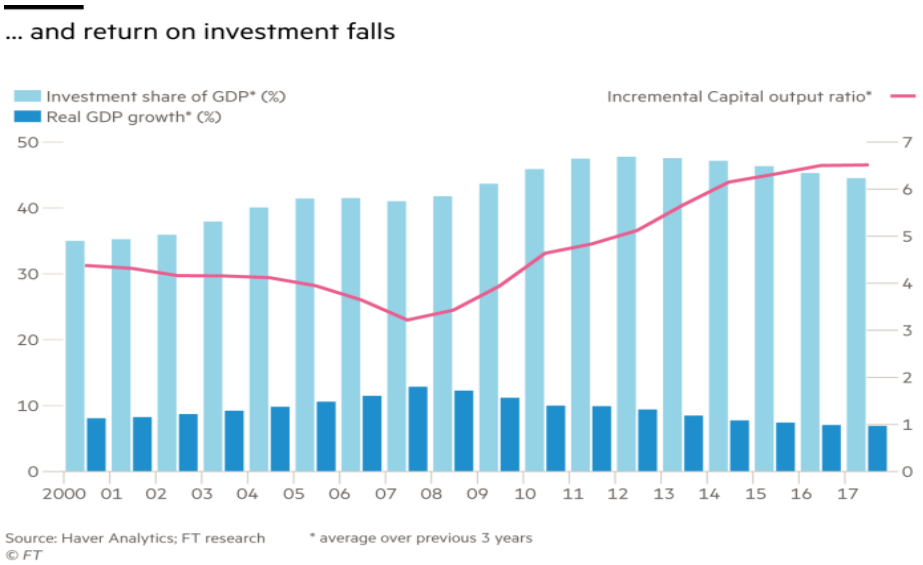


The >25% annual increase in investment in 2010 and 2011 was unprecedent in the annals of capitalist production. By 2012 and 2013 if fell back to between 15 and 20% and finally in 2015 to almost zero. Since then it briefly recovered before falling back to 5% in 2019, the year before the pandemic. The predictive

trend shows a fall to 0% by 2021. This will not happen as the move to a war and technologically self-reliant economy is heavily dependent on fixed investment.

The rapid rise in China's rate of investment clearly raised the capital to output ratio, a proxy for the composition of capital. This is shown in this clever graph courtesy of the Financial Times. It shows that the capital to output ratio, a proxy for the rising composition of capital more than doubled between 2009 and 2017.

Graph 3.



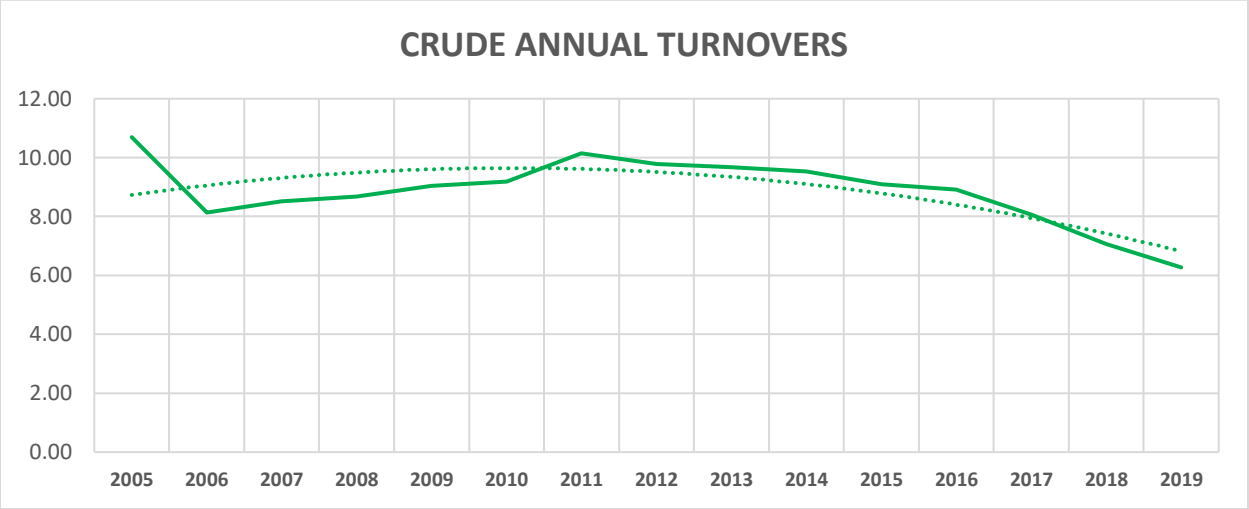
https://www.ft.com/content/b54cda40-3659-11e8-8b98-2f31af407cc8

Another detailed graph can be found in the Worldbank Policy Research Working Paper 9298 June 2020, titled *"Chinese Productivity Slowdown and Future Growth Potential".* Figure 17 on page 16 shows that the capital to output ratio rose from under 2 in the mid-1990s to nearly 3.5 currently. This rise was particularly swift after 2009. https://openknowledge.worldbank.org/bitstream/handle/10986/33993/Chinas-Productivity-Slowdown-and-Future-Growth-Potential.pdf?sequence=1&isAllowed=y

In terms of the annual rate of turnover, the Chinese economy exhibits the same deceleration in the turnovers found in the rest of the world economy. This has coincided with a fall in global profitability, investment and international trade. This fall in turnover is at the heart of the malaise affecting the global economy. Falling turnovers means fewer annual pulses to convert labour into value, and therefore annualised surplus value.

As Graph 4 shows, annual turnovers fell from 10.14 in 2011, when the Complex Rate of Return peaked, to just 6.3 in 2019. I use the term crude because the denominator used here is the least accurate, consisting of inventory plus bills receivable. It provides results within a range of 20% when compared to the turnover formula, with a bias towards overstatement. Nevertheless it does show a 40% fall in turnovers, implying an extension to the period of circulation from 36 days to 58 days, a significant increase. In addition, this fall in turnovers of 40% tracks the fall in the Complex Rate of Return amounting to 43% over the same period.

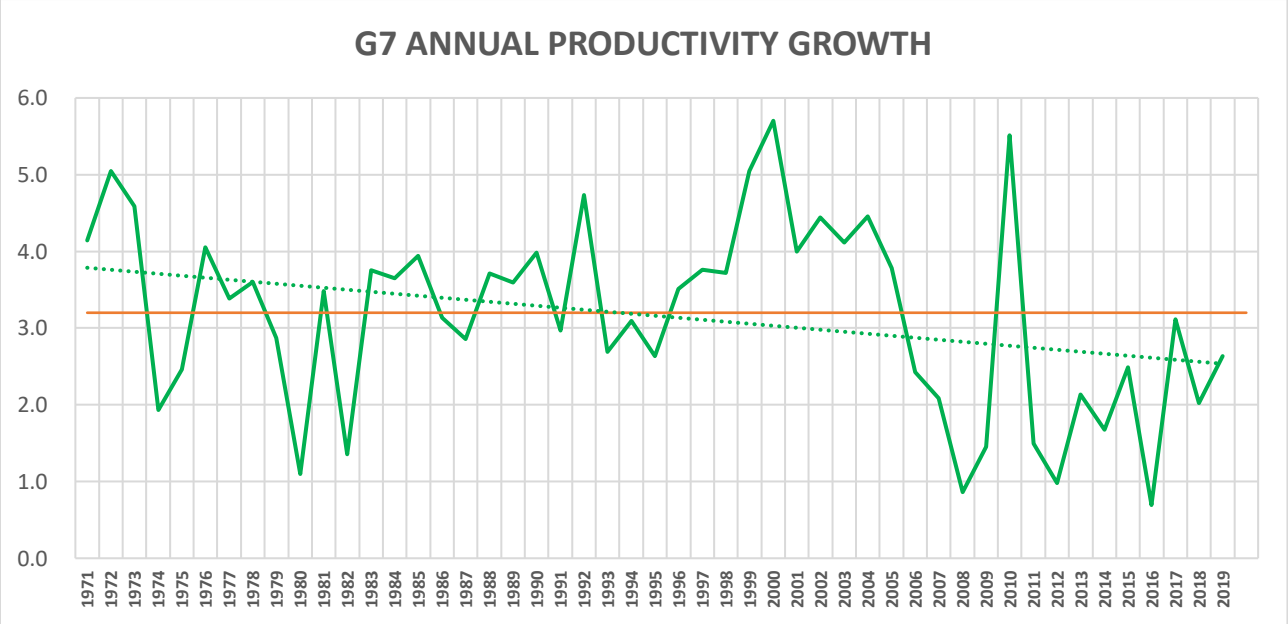
Graph 4.



Turnovers also have a profound effect on the measurement of productivity. I will not be presenting a graph on China's productivity. These can be found in the above Worldbank document and in the following International Labour Organisation. Both documents have much useful information besides the information on productivity and its trends. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_758749.pdf (Note 1.)

Instead I will use the annual productivity changes found in the G7 over 50 years to demonstrate the importance of the movement in turnovers in the determination of productivity. The average growth rate since 1971 in productivity was 3.2% which is represented by the red line. But annual changes have been highly volatile, jumping above and falling below the average. Finally the long-term trend in annual productivity has declined from 3.9% to 2.5% (the dotted green trend linear trend line).

Graph 5.



https://stats.oecd.org/Index.aspx?DataSetCode=PDB_LV

The evidence below the red line is quite emphatic. In all cases bar 2012, the troughs in productivity coincided with the end of the industrial cycle. 1974, 1980, 1991, 2001, 2008 and 2016. The evidence above the red line is less clear but the peaks tend to coincide with either the resumption of a new industrial cycle or the high point at the end of the cycle, though there are exceptions. Thus we have 1972, 1980 and 2000, in each case the year preceding the recessions that followed. 2008 is the exception, productivity growth unusually decelerated into the recession. But the resumption of the industrial cycle did produce a spike in 2010. Similarly coming out of 2016 when productivity hit its nadir, 2017 saw a jump of 2.5% in productivity.

Thus the sharp volatility found in Graph 4 cannot be accounted for by technical changes alone. For example, the 2.5% jump in productivity in 2017 cannot be due to a sudden improvement in the technique of production over the previous 12 months. Far too short, rather it is due to improved market conditions. One thing is for sure, it is not only the fluctuations in turnover within a cycle that affects productivity, but also the longer-term structural changes in turnover which has arrested the potential growth in productivity as well. The fact that turnovers have fallen for 8 years in China, 10 years when including the 1st quarter of 2021 when turnover fell to 6.14, is highly significant. This consistent and lengthy fall suggests something else is afoot. Until turnovers increase there will be a continuous drag on the potential increase in the rise in productivity, the rate of surplus value and subsequent profitability. (Note 2.)

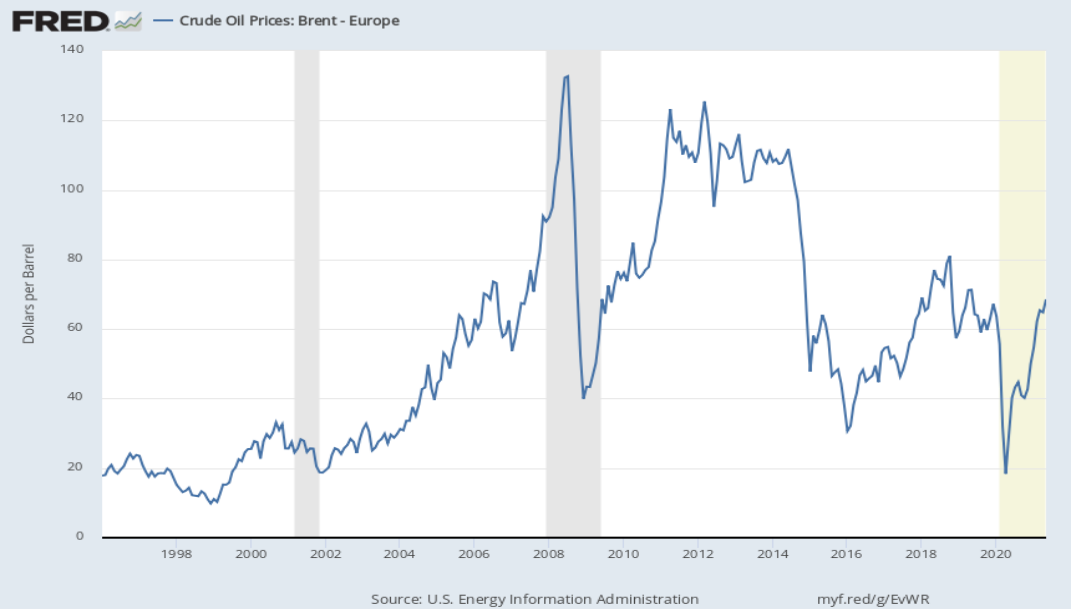
Is there a possible realisation problem?

It was the wave of investment unleashed in China that saved the world economy after the financial crash. Like Atlas, China carried the global economy on its back. "*No wonder China's economic growth contributed 50% of global GDP growth during the crisis period (IMF, 2010), even though its income level accounted for less than 10% of world GDP."* This observation is cited by the St Louis FED https://files.stlouisfed.org/files/htdocs/wp/2014/2014-007.pdf The IMF puts China's share of global growth thereafter at 28% which was an understatement given the multiplier affect on other countries such as Germany, Brazil and Australia. Many countries slipstreamed behind China's growth. Further, the IMF report recognised that China had become the new locomotive for the world economy, and when it ran out of steam, as in 2014/5 the repercussions resonated throughout the world economy. It is worth noting that profitability peaked in the USA in 2014. https://www.reuters.com/article/us-economy-global-kemp-column-idUSKBN1XF211 (Note 3.)

It is likely that China over-extended itself as debt mushroomed. It also paid the price for raising demand at a time when supply bottlenecks abounded. This gave rise to the super commodity cycle that erupted during this time. The prices of softs and hards, oil being soft, copper and iron being hard, soared. The oil price in particular rose above $100 (2011) only to halve in price in the second half of 2014 as China's investment boom petered out. This over-stimulus backfired when higher input prices raised Chinese cost prices thereby eroding profit margins and with it the rate of return. It accounts for part of the fall in the Chinese Complex Rate of Return post 2011.

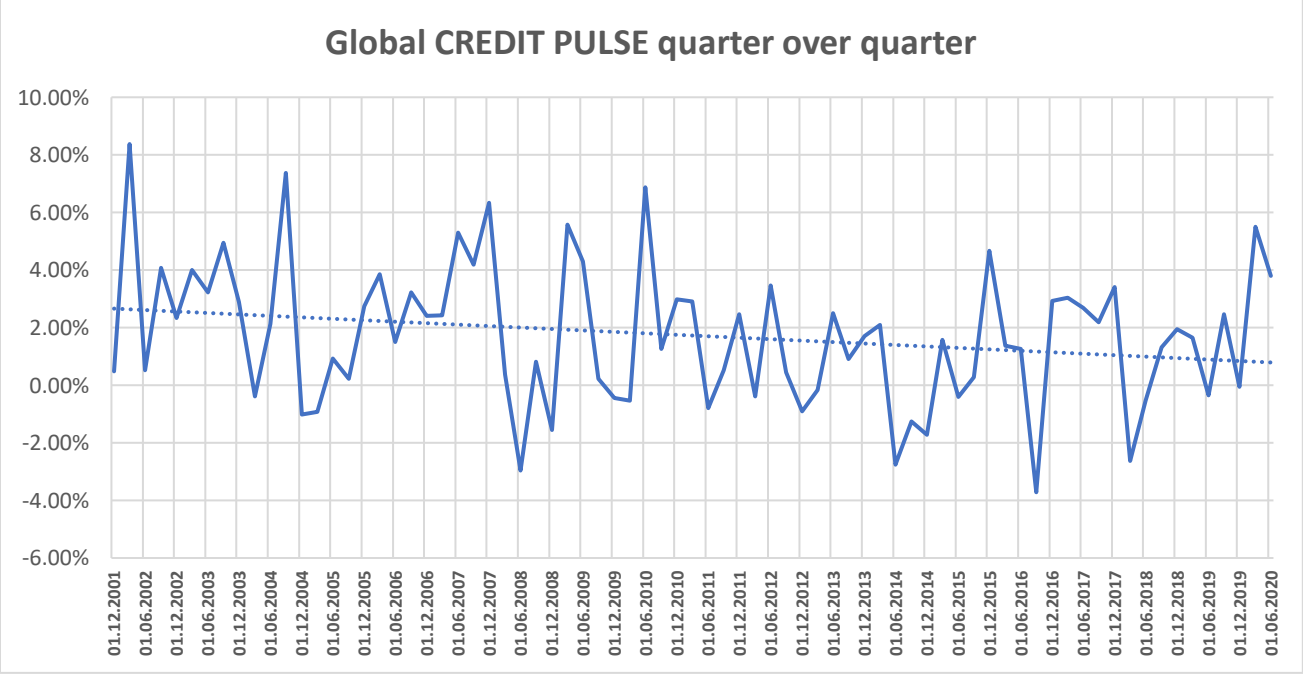
Many Marxist analysts are too Western Centric when examining the events following the Financial Crash of 2008. Without accounting for the effect of Chinese economic policies no sense can be made of these events. Following the scaling back of Chinese investment to virtually 0% in 2015, the world economy barely escaped a global recession (what I have termed the pseudo recession). This can be seen in the oil price chart below. Oil which rose to over $120 during the height of the investment boom fell to just $30 in 2016.

Graph 6.



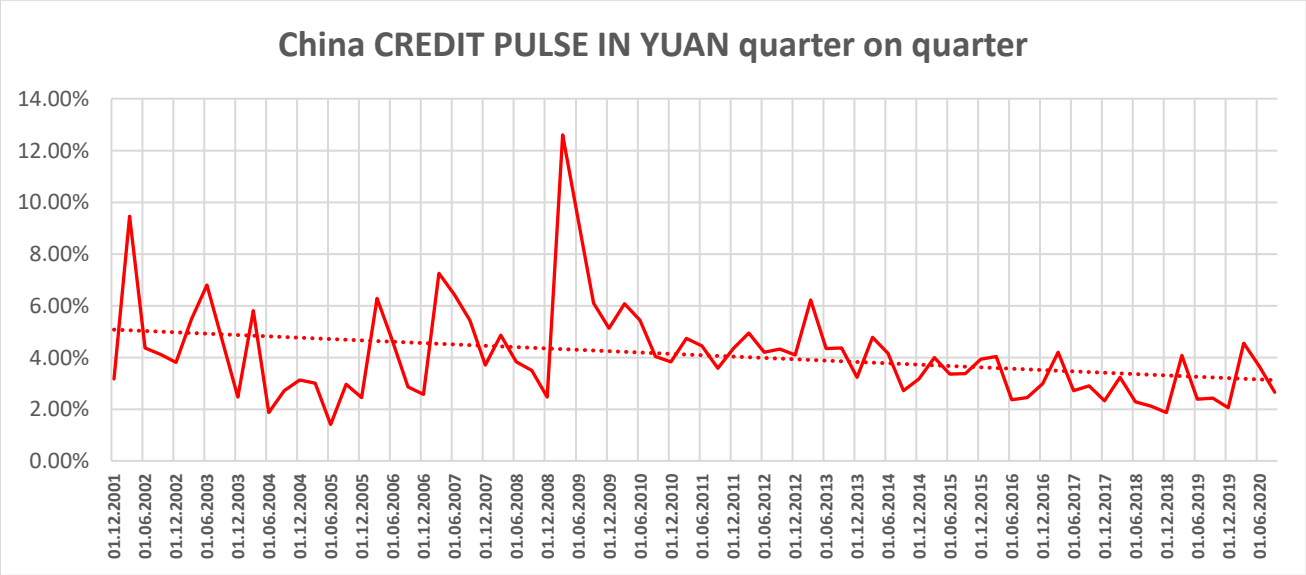
Another indicator of the slowdown in investment and therefore productive consumption world-wide are "credit pulses", arrived at by deducting nominal GDP from total credit growth. This data is prepared by the Bank of International Settlement. Graphs 7 and 8 detail the fall in credit pulses. Credit pulses do not generate extra consumption, rather they shadow the actual increase in consumption both productive and unproductive.

Graph 7.



https://www.bis.org/statistics/totcredit.htm

Graph 8.



In the previous two articles on Modern Marxist Monetary Theory MMMT, we noted the bulk of money comprises revenue, or what is the same thing the monetisation of legacy value. Normally this accounts for over $9 in every $10 of the money supply (M2). However in rapidly expanding economies with the employment of additional labour, there would be a shortfall in the money supply, were it not for the growth of credit money (bank money loans).

What the two graphs above show is that over the last twenty years there has been a fall in the growth of credit money. The quarterly global growth based on the trend line has fallen from 2.8%, or 11% annually, to under 1% quarterly or under 4% annually. In China it has fallen from 22% annually to 13% annually. The annual average global rate has been 7% and for China it has been double that at 16%.

What the subsiding of Chinese investment has revealed, is that outside China and perhaps India, investment globally has been lacklustre. And it is probably this overall below-trend investment, particularly by the larger international corporations, to which must be added, the diversion of investment into financial products and away from production, which is responsible for the fall in rates of turnover.

Conclusion.

Biden this week extended the scope of the bans on Chinese corporations. This time the focus has been on US financial institutions. There had been a growing financial rapprochement between US Financial Groups and Chinese Groups because the US groups want to take advantage of the profitable opportunities that exist within the vast Chinese financial sphere. It is likely that the US state department has set its face against this movement and Biden will sign off on it.

All of these moves to embargo the Chinese economy add to cost prices around the world. This week the G7 financial ministers are set to agree a new tax regime for multi-national corporations. This marks the definitive end to the era of neo-liberalism with its endemic tax dodging. Together, taking all these factors into account, and adding them to the ongoing disruptions caused by the pandemic, the impact on future post-tax profits will be significant. Profit rates, already depressed, will be driven even lower. The financial markets, basking in the glow of vaccinations, has yet to pay attention, (but will they next week?).

The tensions between China and the US is not simply because China refuses to recognise its place in the world as a contract manufacturer. It is also because since 2014, there has been a growing crisis of profitability around the world. Thus it is no longer bigger slices all round as the profit cake grows in size, but of protecting your slice from being reduced when the cake shrinks. This has been the eternal if not infernal predicament of capitalism, its tendency towards crisis, during which disruptive change intensifies. This is the economic arena in which the US and China are now locked, with both presenting glass jaws.

While China churns out new weaponry, the US has discovered that its much-vaunted weaponry, is well, not so vaunted. Plans are afoot to scrap the F22 and scale back the F35 while having to fall back on older systems like the F15. Having belittled the Russians for failing to develop a stealthy fighter, the SU-57, they have come to recognise it is one thing to hide your plane, quite another to shoot down your opponent's plane which is likely to be more agile than your missiles. Trophy weapons only perform well against primitive militaries. And so the military balance is less favourable to the US than was earlier thought.

It is also worth noting that the technologies that have given the US its edge, particularly micro-processors appear to be reaching their limits. There is growing disquiet that as chip etching gets finer and finer, leakage is increasing. It is likely therefore that 7nm may be the practical limit to downsizing the transistors found on chips. *"But we believe there is a more fundamental cause: ever-smaller feature sizes that push closer to the limits of CMOS scaling, coupled with ever-increasing complexity in architectural design,"* https://www.theregister.com/2021/06/04/google_chip_flaws/ This means that China will no longer be chasing a galloping target.

None of these developments in weaponry and technology will delay military intervention by the USA, instead it will speed it up. Time is not on the side of the USA. Nor is it on the side of the working class, the only antidote to this growing capitalist madness driven by an insatiable addiction to profit.

Note 1. According to the World Bank, the current slowdown in labour productivity growth has been the steepest, longest and broadest yet, based on data going back for decades (World Bank 2020) quoted by the International Labour Organisation in their document.

Note 2. There is also a statistical part-reason that explains the slowdown. In the 2012 revision to the presentation of the System of National Accounts, in-house software and Research & Development were recast as capital instead of costs. Thus their value was moved from intermediate sales to final sales. This had the effect of reducing intermediate sales while boosting final sales. Let us assume the following base case. Gross output (total sales) = 300, intermediate sales = 200 and final slaes = 100. In this case the rate of turnover would be 5 using the formula. Now let us assume that of the 200 in intermediate sales, 10 represents in-house software and R&D. The following would now apply. Gross output = 300, intermediate sales now equals 190 and final sales 110. In this case turnover rates would fall from 5 to 4.5. As these two items grow in size as capitalism develops intellectual labour there effect becomes more pronounced. However, this only explains a fraction of what is holding back turnovers.

Note 3. It is interesting to note that Western economic policies post 2008 were designed to repair the finances of the rich and went mainly into financial products. Thus the stimuli were most probably larger than China's in terms of Dollars, but because China's focus was on stimulating production, its effect on the world economy was much more pronounced. Truly a case of the real versus the fictitious.

Table 1.

13-3 Main Indicators of Industrial Enterprises above Designated Size

(100 million yuan)

Year / Region	Number of Enterprises (unit)	Total Assets	Total Current Assets	Accounts Receivable	Inventories	Finished Goods	Total Liabilities	Business Revenue	Business Cost	Selling Expenses	Administrative Expenses	Financial Expenses	Total Profits	Annual Average Employees (10 000 persons)
1998	165080	108821.9	46600.9	12612.7	15054.0	5975.0	69363.8	64148.9	52797.5	2290.7	4644.7	2415.7	1458.1	6195.8
2000	162885	126211.2	54338.2	14789.8	16034.1	6293.2	76743.8	84151.8	68654.0	2985.8	5414.2	1961.0	4393.5	5559.4
2005	271835	244784.3	111031.4	26646.2	31379.1	11087.6	141509.8	248544.0	209862.5	7209.4	10950.3	2671.0	14802.5	6896.0
2006	301961	291214.5	132310.1	31692.2	36999.3	13141.4	167322.2	313592.5	264696.6	8592.7	12807.2	3375.2	19504.4	7358.4
2007	336768	353037.4	163259.6	38690.6	45288.7	16024.4	202913.7	399717.1	334598.6	10728.1	15943.7	4287.9	27155.2	7875.2
2008	426113	431305.6	195681.8	43933.8	54108.6	19518.9	248899.4	500020.1	423295.8	12893.3	20199.8	6021.8	30562.4	8837.6
2009	434364	493692.9	223038.7	51399.8	56724.8	20495.0	285732.8	542522.4	457510.0	14137.4	22169.7	5898.9	34542.2	8831.2
2010	452872	592881.9	279227.3	61441.2	69790.1	23841.1	340396.4	697744.0	585256.8	17520.3	28873.0	7024.7	53049.7	9544.7
2011	325609	675796.9	327778.7	70502.0	80583.1	28478.6	392644.6	841830.2	708092.0	20259.6	32165.2	8913.5	61396.3	9167.3
2012	343769	768421.2	368200.7	84043.1	88324.7	31919.2	445371.8	929291.5	784541.2	22908.7	35888.1	11295.6	61910.1	9567.3
2013	369813	870751.1	413490.9	97402.7	97119.2	34535.8	505694.3	1038659.5	880679.7	25945.2	39431.9	12008.3	68378.9	9791.5
2014	377888	956777.2	445742.4	107437.0	102874.4	38359.5	547031.4	1107032.5	943369.6	28001.1	41121.0	13482.3	68154.9	9977.2
2015	383148	1023398.1	469207.3	117246.3	102804.0	39501.2	579310.5	1109853.0	944857.3	29150.2	43125.3	13494.2	66187.1	9775.0
2016	378599	1085865.9	500852.8	126847.2	106962.7	40492.8	606641.5	1158998.5	984668.4	31174.9	45490.7	12650.6	71921.4	9475.6
2017	372729	1121909.6	534080.9	135645.1	113305.4	42393.7	628016.3	1133160.8	956120.0	31343.8	46717.8	12832.9	74916.3	8957.9
2018	378440	1134382.2	554165.1	143418.2	116671.3	43119.1	641273.8	1049490.5	881200.2	30924.4	46125.1	11904.9	66351.4	7942.3
Beijing	3197	48009.5	17938.5	4473.1	2617.6	990.8	21437.1	21958.8	18191.7	1199.4	1088.8	204.7	1530.0	89.7
Tianjin	4292	20939.6	10728.5	2694.0	2234.4	803.4	12133.6	18107.1	15218.3	493.6	773.1	160.9	1200.7	101.0
Hebei	14943	44371.8	20295.7	4308.2	4533.4	1592.3	26715.3	39562.9	34171.8	869.7	1331.8	568.4	2211.7	285.2
Shanxi	3875	37707.0	15233.9	2691.3	2157.2	783.1	27194.0	19805.0	15704.5	620.8	1044.6	690.7	1355.9	187.1
Inner Mongolia	2832	30626.9	10632.1	1968.9	1640.1	621.1	19460.4	14351.0	11111.1	434.3	561.4	462.4	1409.4	83.1
Liaoning	6621	35637.8	17859.1	3924.5	4393.5	1476.8	22562.2	27820.5	23317.1	774.6	1121.3	445.7	1460.3	183.2
Jilin	5963	17968.0	8371.8	1533.4	1868.9	649.3	10126.4	14206.0	11547.6	659.1	703.1	145.6	817.0	106.9
Heilongjiang	3740	14981.6	6679.9	1425.7	1343.7	416.1	8732.5	9322.7	7457.4	313.6	492.8	124.3	487.0	87.0
Shanghai	8130	42661.8	24768.0	7365.6	5228.8	1650.1	20060.7	39814.8	32032.8	1465.4	2633.0	96.6	3338.4	192.5
Jiangsu	45675	119690.9	66896.9	22059.9	14426.7	5534.3	62924.3	132155.4	112306.3	3755.3	5761.7	1047.2	8491.9	926.1
Zhejiang	40586	77666.7	42716.0	12840.7	9056.6	3665.2	43113.7	71445.8	59962.6	2161.7	3949.2	759.9	4452.1	652.7
Anhui	19421	37599.7	18564.2	5802.1	3808.6	1501.0	21612.4	40004.8	34180.7	1017.2	1545.2	442.6	2448.2	288.6
Fujian	17470	36232.5	18861.6	4898.6	4351.0	1742.8	18523.4	51889.2	44687.9	1233.4	1786.2	412.2	3537.1	400.4
Jiangxi	11630	24085.5	11391.4	2798.0	2585.8	990.4	12454.3	32304.8	27979.3	660.4	998.6	223.4	2157.8	233.8
Shandong	38333	102275.6	52528.1	9914.3	11485.3	4458.4	62247.1	96584.6	83142.5	2653.7	3463.0	1289.5	4872.2	696.0
Henan	22081	50431.7	23696.6	5468.7	4594.0	1668.4	28263.9	47459.1	40601.6	1045.7	1533.3	709.3	3053.4	480.3
Hubei	15598	39895.1	18555.4	4734.4	4051.0	1591.1	20307.7	43271.6	36286.8	1287.6	1812.4	405.7	2755.4	293.0
Hunan	16055	27195.3	12443.9	3589.3	3060.5	1012.2	14011.6	35420.9	29488.1	1137.7	1708.4	383.9	1726.9	297.8
Guangdong	47456	124284.2	75060.2	22927.0	15784.3	5858.8	69812.1	138022.0	115987.9	4750.0	7732.2	686.9	8309.7	1282.6
Guangxi	6058	17158.8	8432.6	1764.2	1928.2	822.0	10813.5	19069.6	16360.3	423.8	628.1	202.0	1100.1	138.9
Hainan	337	3090.5	1284.7	220.1	200.9	72.4	1600.0	2231.5	1728.6	131.8	75.6	43.9	145.3	10.1
Chongqing	6772	19172.5	8982.2	2990.7	1775.1	699.4	11053.7	20052.5	17012.5	615.7	845.2	193.9	1218.7	154.8
Sichuan	14205	44075.9	19059.7	5107.4	3860.8	1429.9	24885.2	41246.8	34321.7	1363.8	1674.1	561.6	2717.9	295.0
Guizhou	5583	15068.0	6723.3	1039.5	1345.0	338.2	9293.4	9538.6	7243.8	335.9	403.8	214.5	879.2	82.5
Yunnan	4260	20562.1	7528.1	1230.3	2397.7	559.2	12479.4	13640.5	10634.6	382.9	503.1	302.0	925.2	83.0
Tibet	123	1570.0	423.7	42.1	32.1	8.1	833.2	259.8	201.1	9.0	20.2	8.1	17.4	2.0
Shaanxi	6426	32432.5	12254.6	2402.8	2287.6	947.0	17486.7	23476.5	18479.7	590.7	957.4	342.3	2436.3	146.8
Gansu	1917	12148.6	4448.3	814.3	1239.3	424.6	7896.8	9021.1	7763.0	142.2	255.9	217.0	270.4	49.8
Qinghai	586	6337.5	2022.4	426.9	357.4	123.3	4355.6	2234.6	1818.0	57.0	109.1	111.9	62.7	17.2
Ningxia	1250	9657.0	3208.3	674.9	704.8	217.0	6410.8	4444.7	3717.5	86.2	178.3	167.7	174.2	28.4
Xinjiang	3025	20947.6	6575.3	1287.1	1321.1	472.4	12472.7	10767.2	8543.4	252.3	434.1	280.1	788.8	66.6

a) The indicators were Revenue from Principal Business and Cost of Principal Business in 2017 and before, and are Business Revenue and Business Cost since 2018. The same applies to the tables following.

Brian Green, 5th June 2021.