China's Road to Nowhere

08-02-2019

China during its period of massive income from massive world trade used large sums of it to extend its capitalist enterprise around the world through generous free or low interest investments in infrastructure improvements in the poorest countries, especially Africa.

This basically mirrored the actions of Britain, the US, and other imperialist nations. In order to exploit a nation's resources one needs transportation, etc., and in order to command a people, they must be made dependent (indebted) to you.

But the glory days are over. China's growth rate is the lowest in decades and its debt dangerously high. This week the Yuan made another nudge toward 7 to the dollar. That will undoubtedly occur before long. It's unclear what such a line in the sand once crossed will provoke, but all are certain it will be something bad.

So China is pulling back on its foreign loans and projects. It is showing more concern about the likelihood of being paid back, and bringing in more private investment in place of state expenditures.

Perhaps its most notable project in Africa is a standard gauge rail line from Mombasa (Kenya) to Nairobi, and from there to Uganda and possibly southern Sudan.

The original plan had China's Export-Import bank finance the project which would be built by a Chinese company and managed by another Chinese company once completed. The loan would be paid off from fare revenue.

But what once seemed so promising in 2013 now appears to be a costly failure. China has halted construction of the rail line 75 miles west of Nairobi and has refused to loan the $4.9 billion required to complete he project. So as it stands Kenya has a beautiful new rail line that extends out into nowhere.

The solution being discussed by Kenya and Uganda is to connect the China line to rail lines built during colonial times. But those are narrow gauge which would mean changing engines and cars where they are joined.

Had China a real planned economy it would be free of the chaotic fluctuations engendered by a capitalist market economy. But then it also wouldn't be out and about searching for people and resources to exploit primarily for its benefit.

Economic Info

-- A week with a lot of stuff happening. In some developments one can accurately predict how things will stand tomorrow, but when it comes to the mass movement of the world economy, a mass of inter-penetrating competing values (money, not morals), one can only detect a rise or fall in tenseness before something real happens. Fortunately, in late capitalism we know that the system is well passed its peak, so when something happens, it can only be another crisis coming on top of the never resolved last one.

The markets had their worst week of the year because, although the Fed did make its quarter point cut in the discount rate, it was termed a "mid-cycle adjustment" which means it has nothing to with concerns about the economy, so don't expect another cut anytime soon. The markets didn't like that or what Trump did the following day in threatening China with tariffs on $300 billion worth of goods. It's as if he deliberately rattled the economic cage to keep the cuts coming and the markets inflated until his re-election.

-- The rate cut was the first in 3,878 days, the longest stretch since the 1942-1954 period, 4,115 days. But the molasses-like GDP has managed 121 consecutive months of growth, the longest in history, while still being $4.9 trillion short of where it should be for a recovery from the slump that began in 2007. It must be noted that the only reason the Fed took so long for another cut is because it had cut the discount rate to zero between 2007-2009, and did not want to descend into negative rates like Germany and Japan. Little noted when the Fed announced its rate cut it also said he will halt its QT (quantitative tightening) two months earlier than planned. To complete the winding down from the 4 or 5 QE (quantitative easing) it must clear its balance sheet of all the federal and private securities it purchased, the total value of which amounted to about $4.5 trillion. What it has been doing and will now continue to do is to repurchase securities as they mature, that way they, in effect, maintain QE as if it were marching in place. It’s notable that the Fed carried little or none in reserves before 2007.

-- The financial turmoil caused the major treasury bonds to fall to the lowest yield in three years. Currently the 10 year yield is inverted in relation to the 1, 3, 6 month, and 1 year bonds.

-- The ISM manufacturing gauge for July fell to 51.2%, the lowest since August 2016. Construction fell 1.3?

-- The July jobs number came in at 164,000 and the June figure lowered to 193,000. That makes job growth so far this year the worst in 7 years when the economy approached technical recession. Average hours worked saw no growth in July. The 6 month average is now the lowest in 9 years. The 6 month average in weekly earnings growth had been 3.7% in January. It is now 2.5%.

-- Sears workers were provided with death benefits that could amount to more than $14,000 depending on term of employment. But now that Sears is bankrupt and is short of funds a court has determined that the most they will receive is

$135. A major disappointment, but still enough for a bunch of roses to toss onto the casket.

-- US, China, direct investment fell 18% in the first 6 months of the year. It still totaled $13 billion.

http://unrealeconomy.org/