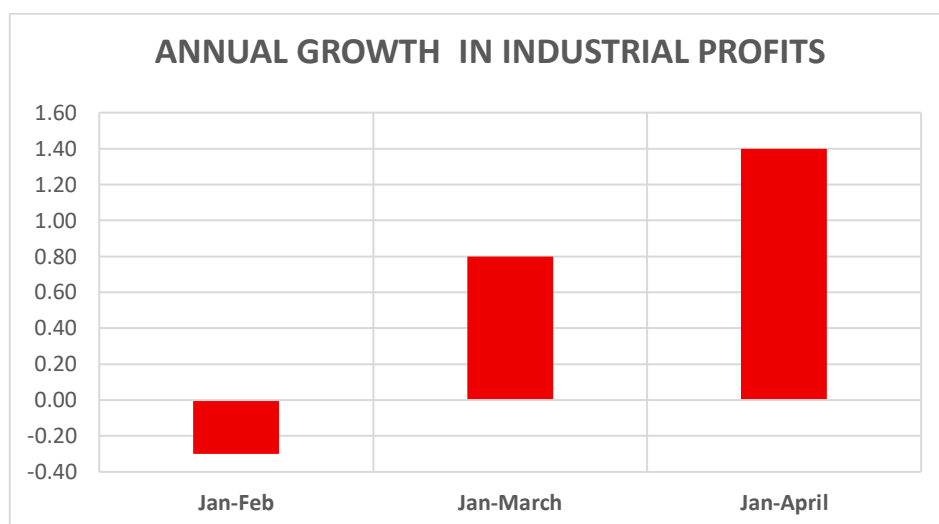


## UNLIKE THE US ECONOMY, PROFITS GROW IN THE CHINESE ECONOMY.

*I intended to analyse the geopolitical situation first, but as there are several key meetings this week, for example the Ukraine Russo negotiations in Istanbul, the results of which are unknown, I therefore felt such a review would be premature. Instead, as profit figures for China have just been released, I considered it worthwhile to analyse these first.*

Unlike the US profit data analysed in my previous article, in China, as Graph 1 shows, the trend in profits is upwards. From a negative yoy two-month figure of 0.3% (Jan-Feb) the figure had risen to 1.4% by the end of the four-month period (Jan-April). April on its own was even stronger [with a 3% rise](#) concentrated in the private sector compared to a 4.4% fall in the state sector, consolidating the trend where profits in 2025 have risen in the private sector and have fallen in the state sector.

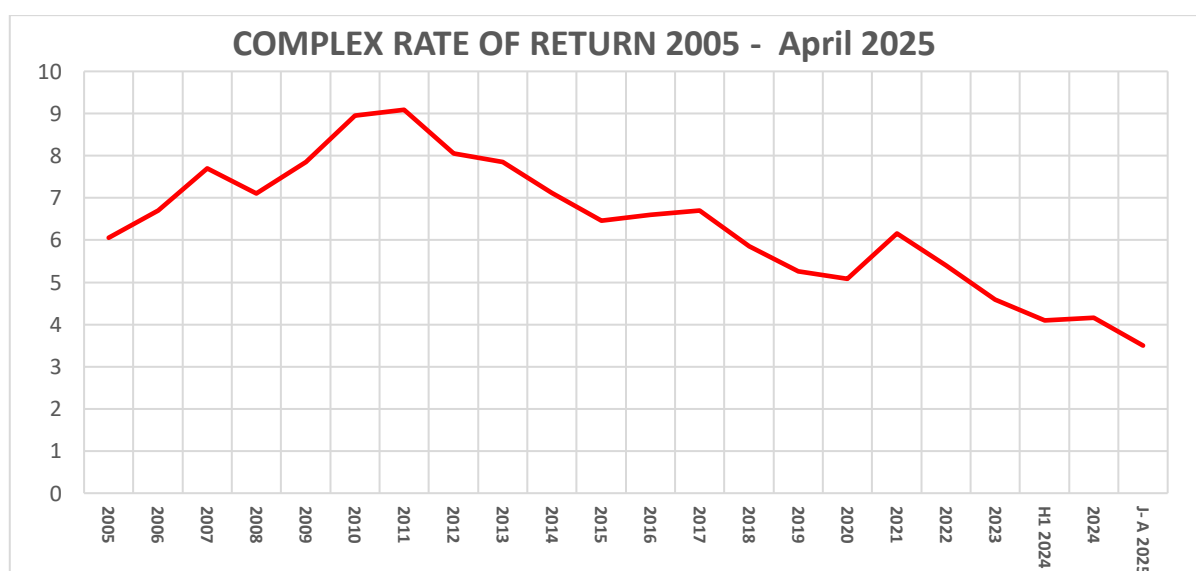
Graph 1.



(Source: [National Bureau of Statistics of China](#))

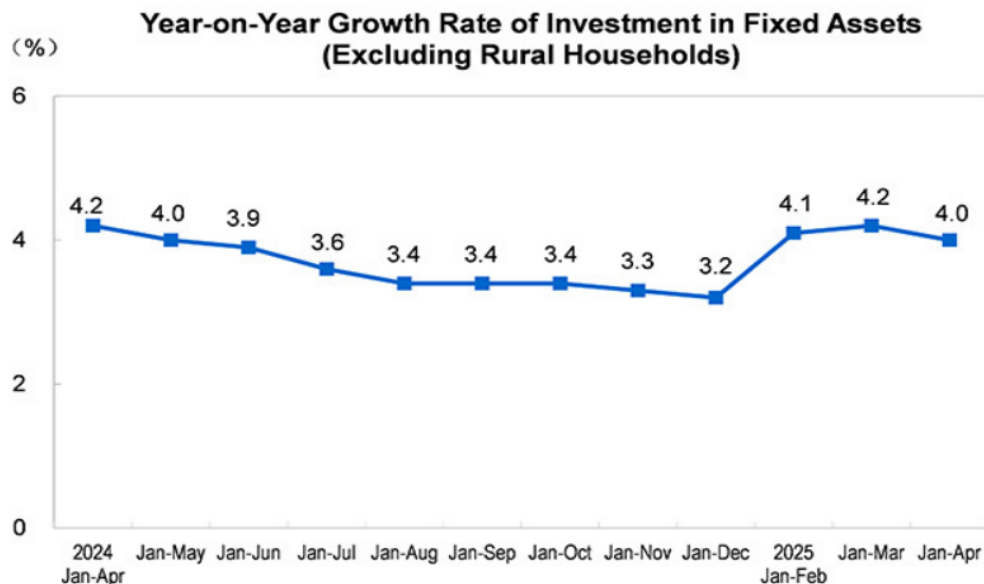
But due to heavy industrial investment this rise was insufficient to improve the Rate of Return.

Graph 2.



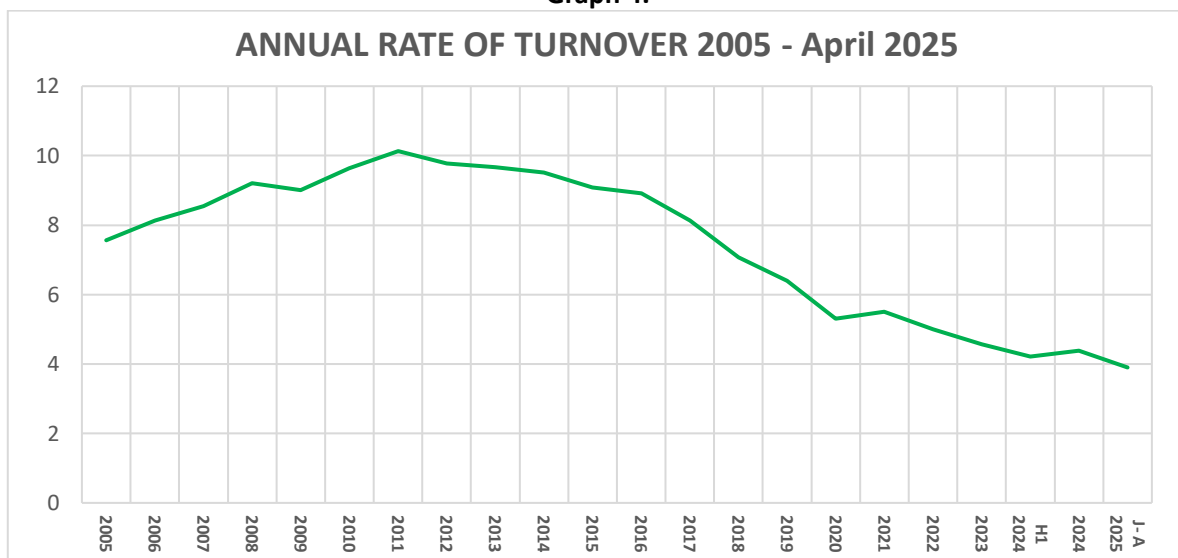
The fall in the rate of return was driven by the rise in investment: “[From the perspective of industries](#), the investment in the primary industry was 297.1 billion yuan, up by 13.2 percent year on year; that in the secondary industry was 5,177.8 billion yuan, up by 11.7 percent;” The strength of industrial investment, much of it state subsidised, helped offset the fall in real estate investment increasing total investment by approximately one percent from its 3.2% rate for the whole of 2024. Nonetheless, investment remains below the growth in GDP meaning investment continues to hold back GDP growth.

**Graph 3.**



The main factor depressing the rate of profit remains the depressed rate of turnover. When turnover decelerates it increases the amount of working capital needed to cover the extra days of turnover and it takes longer for profits to be realised via payment. More capital and less profit mean axiomatically a lower rate of profit. In addition, it increases credit stress, leads to insolvencies and bad debts for banks and even bank failures as this report demonstrates with the [disappearance of smaller Chinese Banks](#). And it's not only smaller banks, the state has also had to step in to re-capitalise some of the larger banks due to stresses caused by both the lack of turnover and real estate bad debts.

**Graph 4.**



On the other hand, [retail sales](#) rose faster than GDP at 5.1% and above the rates found in 2024. Valued in terms of Dollars at an exchange rate of 7.2, in the first four months of 2025 retail sales in China amounted to \$2.248 trillion compared to the [US figure](#) of \$2.359, a difference of 5%. However, given an undervalued Renminbi, in terms of volumes, the Chinese market is far larger than the US market, despite Trump boasting the US market is the biggest in the world, and furthermore, adjusted for prices, the Chinese market is growing at double the annual rate of the US. Given the headwinds facing consumers in the USA, it is only a matter of time before the Chinese market overtakes the US market in dollar terms.

Graph 5.



I have not discussed Chinese exports as the crucial May data is yet to be released. Up until April frontrunning the tariffs boosted China's exports by 8.1%. However, as the latest business survey shows, the Chinese economy is not escaping unscathed. [The Caixin/S&P Global manufacturing purchasing managers' index](#) came in at 48.3, missing Reuters' median estimate of 50.6 and dropping sharply from 50.4 in April. The foreign demand indicator in the index fell to its lowest level since July 2023.

### The trade war.

The 90-day deadline for the expire of the relief period from the extortionate (reciprocal) Trump tariffs is July 8. The deadline for the submissions on both sides to the Appeals Court on the [constitutional validity](#) of Trump's tariffs is June 9<sup>th</sup>. Thus, we are approaching the end game of the tariff war. Either these tariffs will be ruled unconstitutional bringing Congress into play, or they will remain and be enforced, or countries will reach some form of agreement with the Whitehouse. Anything and everything could happen given the unreality star Trump at the helm.

Negotiations with China are not going well. On Sunday Trump said China had **totally** violated the agreement on tariffs. On Monday China responded by saying it was the USA who had **severely** violated

the agreement. Despite the choice of adjectives, China cited examples of bad faith, whereas the USA did not. All we can conclude, is that when Trump blows up, it means he is not getting his way. Clearly, talks between the two are stalemated. China is becoming increasingly confident in the outcome of the tariff war and therefore it is increasingly assertive.

The EU US trade talks appeared to be similarly deadlocked until Trump and Von der Leyden had a phone conversation on Friday, where they agreed to *fast track negotiations*, whatever that means. Whether Trump then felt assured enough to pivot and slam China is unknown, but clearly he excels at divide and rule. Prior to that conversation Trump had broken the truce with the EU by jacking up tariffs on EU steel which prompted the EU to crystallise [two packages of countermeasures](#) totalling €21 billion & €95 billion respectively. Had the talks been progressing and constructive, it is unlikely Brussels would have prepared these retaliatory countermeasures.

Regarding Japan, there the talks are described as '[unhurried](#)'. Behind the scenes they appear shambolic with the US negotiations appearing to be a bunch of amateurs grandstanding with little on the table. On Friday the talks will be escalated to discuss an administrative framework. However, the Japanese side is doubtful the US can provide sufficient qualified trade negotiators on their side. Alongside these talks [Japan's chief tariff negotiator](#), Ryosei Akazawa will meet Scott Bessent to try and deepen the understanding between the two countries. Japan provides yet another example of how unprepared the US was for serious negotiations with its major trading partners and how precipitous Trump's actions have been.

Despite the tangible lack of progress both [Bessent and his deputy Faulkender](#) continue to stroke the markets with declarations that all is well and progressing. They both contend that *terms of agreement* with major trading partners should be reached before the truce expires in July. Still in office, 'Mogadon' Bessent, mimics every twist and turn by 'Taco' Trump rather than standing up to him, showing he serves the President rather than the economy, a fatal error.

Given that Trump seeks to insert himself in the middle of the negotiations by creating the impression that he alone can break deadlocks, he has a problem, it is said that up to 73 country leaders have turned down invitations to meet him in the Oval Office. Global leaders seem reluctant to expose themselves in front of the cameras given Trump's propensity for undiplomatic and point scoring antics, and no doubt as and when his desperation and frustration grows, so will his rudeness. *Seems Make America Great means Make Foreigners Small*. The same applies to foreign business leaders who are increasingly reluctant to visit the country due to rising hostility to foreigners by parts of the population and amongst the forces of law and order. Under the belligerent Trump the US is seen as unwelcoming.

The collateral damage from Trump's announcements has been significant. The loss of faith in the US economy and political decision making is taking its toll on the Dollar, taking its toll on US government debt as well as inward investment into the US markets, and this despite the extraordinary and deluded rise in share prices in May which turned that month into the seventh strongest May on record. There is an equation haunting the US markets, it is this, despite the above average yields on US bonds, the risk of a sharp dollar devaluation could be overwhelming, making foreign investors wary that in the end they will lose the value of their bonds and shares when it is converted back into their own currency. This reluctance will intensify the more the dollar's status as the reserve currency is eroded by a dollar crisis. Already the fall in the Dollar from its high in December continuing for 6 unbroken months in a row, exceeds the interest earned on Bonds by a growing margin.

On the other hand, China just joined ASEAN with the Gulf Cooperation Council to form a new super alliance that will develop everything from trade to de-dollarization and include an expansion of the Belt and Road Initiative. *“The Gulf Cooperation Council (GCC), China and the 10-member Association of Southeast Asian Nations (ASEAN) agreed to [“chart a unified and collective path](#) towards a peaceful, prosperous, and just future”, following their meeting in the Malaysian capital, Kuala Lumpur.”* One tangible piece of evidence for this is the [first freight train](#) to arrive in Iran from China. As expected, compared to King Trump’s earlier triumphal march through the Gulf, very little of what was discussed and agreed in Kuala Lumpur made it into the Western Media.

The difference between that meeting and Trump’s extortion of tribute during his visit to the Gulf States could not be starker. Here we have a collective and mutually beneficial agreement, an enduring commitment to economic co-operation and partnership in an uncertain world, as compared to King Trump returning to Washinton with his pockets bulging with swag or so he thinks. Qatar has already cancelled some of its Boeing orders, and as I have said, with their budgets suffering shortfalls due to low oil prices, the Gulf Kingdoms have little money to cover their own expenses never mind money to squander on the USA. The key takeaway is this, Trump’s visit to the region did not dissuade the Arab countries drawing closer to China and that is more important than the one-off and probably temporary billions Trump may have secured to support US industry.

Analysists like Michael Roberts who have been sceptical about the durability and vitality of the BRICS and associated countries, now need to reconsider their position. By degrees the BRICS are extracting themselves from the financial grip of the West and offering an increasingly formidable alternative to the chaotic and declining West.

### **Conclusion.**

Thus far, but it is still too early to be conclusive, China is weathering the trade war better than the USA. The economy is proving more resilient than the US economy. Profit is the best, and in the end, the only gauge. In contrast to China, the US profit outlook is deteriorating by the week as this 30<sup>th</sup> May [FactSet Report](#) details. *“During the months of April and May, analysts lowered EPS estimates by a larger margin than average. The Q2 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for Q2 for all the companies in the index) decreased by 4.0% (to \$62.91 from \$65.55) from March 31 to May 29.”* This adds to the fall in Q1 profits analysed in my previous post.

Even the EU is being forced to reconsider. Trump has presented them with an insoluble dilemma. Originally the EU and the US had entered into a common front against China and therefore Russia. Now the tariff war and other US threats is making Brussels consider whether the short-term pain dictated by the US outweighs the long-term pain from Chinese competition.

On the technological front China continues to make leaps and bounds in the Tech space with Xiaomi’s new chip being equal to the Best in the West. *DeepSeek* is now the world’s most popular Chatbot. Ultimately it was technology rather than tariffs which would have been the more important lever used by the West. But it appears that on both counts, the West has lost.

Brian Green, 3<sup>rd</sup> June 2025.