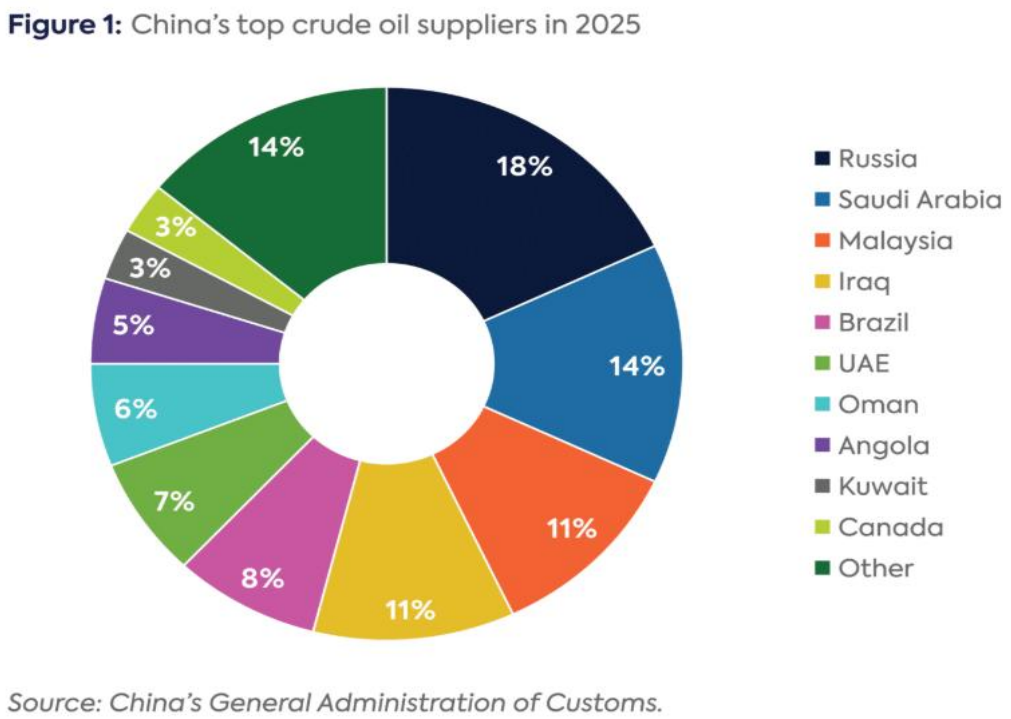
THE CHINESE ECONOMY IN THE RUN-UP TO THE IRAN WAR.

The narrative is changing. More US commentators such as Tucker Carlson and Colonel Douglas McGreggor, who are always ahead of the pack, are describing the Iran war as a US attack on China. This begs the question, how robust is the Chinese economy and how will the war affect it.

Michael Roberts in his recent blog is quite complimentary about the Chinese economy. Yes, it is the strongest most robust major economy in the world. And no, it is not overly dependent on the Gulf for oil. China's energy self-sufficiency rate in 2024 was 85%, far higher than any other Asian economy. Nevertheless, China is a large importer of oil and gas. The breakdown of countries it imports from can be seen in the graph below. However, only 30% of its oil imports comes from the Gulf region. China has stockpiled 1.21 billion barrels of oil equal to a year's supply of crude from the gulf.

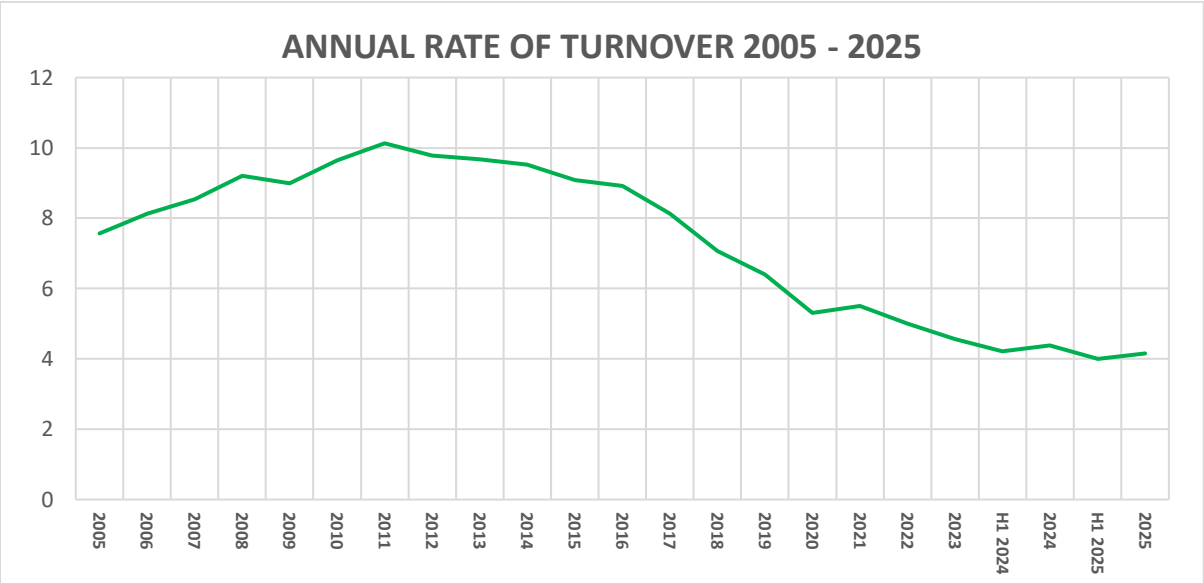
Graph 1.



While Michael Robert's is optimistic about the prospects for the Chinese economy, I am far less optimistic. Readers know that I use three major metrics to evaluate the health of the Chinese economy. They can be seen in the graphs below. They are the annual rate of turnover, the complex rate of return (profitability) and its reflex, investment. (The Complex Rate of Return refers to the fact that in China financial assets are added to fixed assets plus inventory, it is not limited to fixed assets only. Therefore, direct comparisons with western rates of return will provide false comparisons)

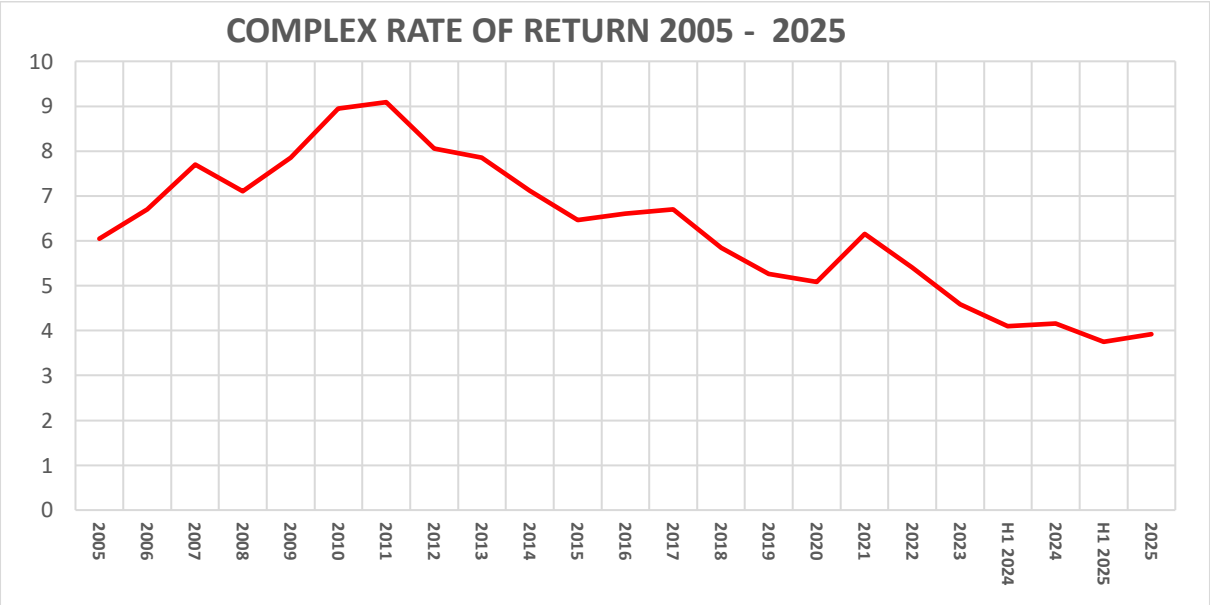
Graph 2 describes the rate of turnover. There was a slight uptick in the second half of 2025, but the rate remains below 2023 and is less than half that found ten years ago. This is primarily due to the length of the payment period, always an indication of oversupply, low investment and indebtedness. A slow rate of turnover always requires more working capital and causes a delay in the realisation of profit, both of which depress the **relative** rate of profit.

Graph 2.



There is always a close correlation between the rate of turnover and the rate of profit. In fact, having researched numerous countries over decades, until the rate of turnover improves significantly there can be no recovery in the rate of profit. Nor may it be added, can there be a recovery in wages, falling profitability acts as a ceiling on wage rises despite the CCP's claim to the contrary.

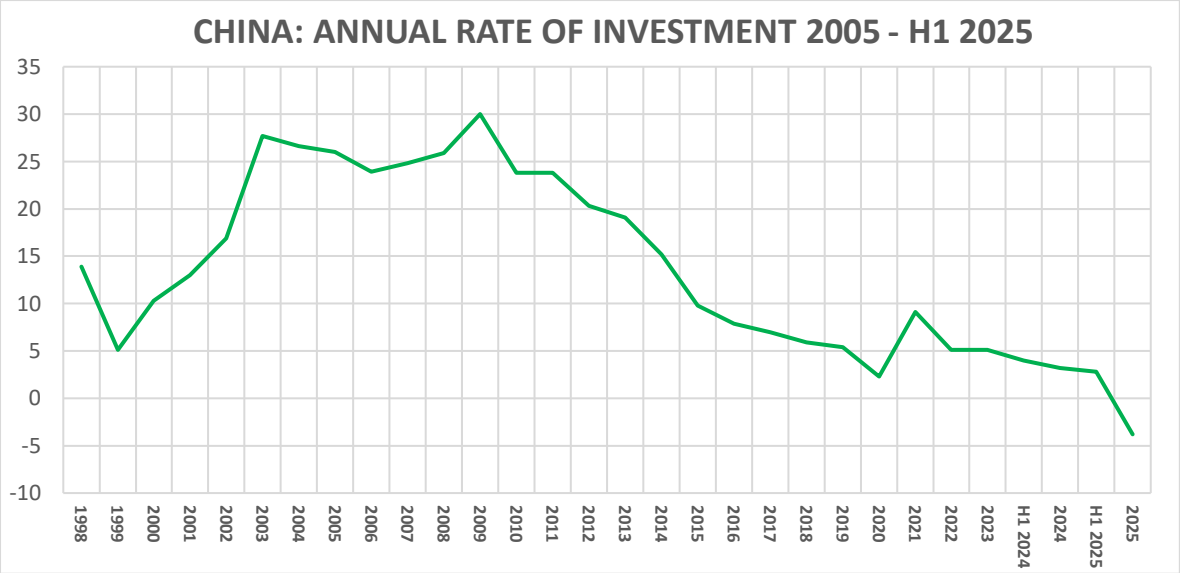
Graph 3.



Where I do agree with Michael Roberts is the cause and effect between profitability and investment. I always get bemused when some Marxists claim that it is investment that drives profits rather than profits which steers investment. There is no such confusion on the part of the capitalist investor. They only invest if it is profitable to do so. And yes, they are sometimes forced to invest defensively when a competitor has introduced a new technique of production which is robbing them of profit. But when viewed globally the behaviour of investors is governed by the return they expect on their investment.

Below we can see how investment has collapsed in line with falling profitability. For the year as a whole investment was down 3.8% for the year. This means that investment which amounted to 41% of GDP in December 2024, is not only holding back GDP growth, but investment as a share of GDP could have fallen as low as 35% of GDP by December 2025.

Graph 4.



This fall in investment is focused in the private sector. "*Specifically, non-governmental investment in fixed assets decreased by 6.4% year on year.*" It also would be an incorrect judgement to attribute this fall only to the drag of real estate. Manufacturing investment itself rose by a paltry 0.6%. And most importantly, investment in Hi Tech declined as the table below shows. And this despite the aim of the two sessions draft work report which said: "*To firm up the foundations of the real economy, we must modernize the industrial system with advanced manufacturing as its backbone.*"

Manufacture of special-purpose machinery	-7.1
Manufacture of automobiles	11.7
Manufacture of railway, ship, aerospace and other transport equipment	17.5
Manufacture of electrical machinery and apparatus	-10.3
Manufacture of computers, communication equipment and other electronic equipment	-3.2

The draft works report (page 22) places great emphasis on investment and the allocation of funds in 2026. We will have to wait to see if it turns investment around. "*A total of 755 billion yuan will be earmarked in this year's central government budget for investment. We will also allocate 800 billion yuan raised from ultra-long special treasury bonds to implement major national strategies and enhance security capacity in key areas. Central government subsidies for investment will be raised on a per-category basis.*"

As for the productivity figures providing a rise of 6.1% that seems excessive giving the status of investment and the fact that value added by industry as a share of GDP contracted by 0.9%. This means industrial value added only rose by around 4% which coupled with an increase in employment of 1% suggests a productivity rise of 3%, still good but only half that of the official 6.1% figure.

Of course, this was not reflected in the Statistical Communiqué linked below reviewing the last five-year plan which ended in 2025. It seems that it is President *Xi Jinping Thought* not profitability, which is the more profound, more powerful and consequential. *"The year 2025 marks the conclusion of China's 14th Five-Year Plan and represents a significant year in the process of Chinese modernization.*

Faced with profound and complex changes at home and abroad, under the strong leadership of the Central Committee of the Communist Party of China (CPC) with Comrade Xi Jinping at its core, all regions and departments took Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era as the guideline, fully implemented the guiding principles of the 20th CPC National Congress and its subsequent plenary sessions, followed the decisions and arrangements made by the CPC Central Committee and the State Council, fully and faithfully applied the new development philosophy on all fronts," However, what is undeniable, is that the law of value takes no prisoners, especially Stalinists.

The following graphs are taken from the ***STATISTICAL COMMUNIQUÉ OF THE PEOPLE'S REPUBLIC OF CHINA ON THE 2025 NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT*** covering the previous five year plan ended 2025.

Figure 1: Gross Domestic Product and Growth Rates 2021-2025

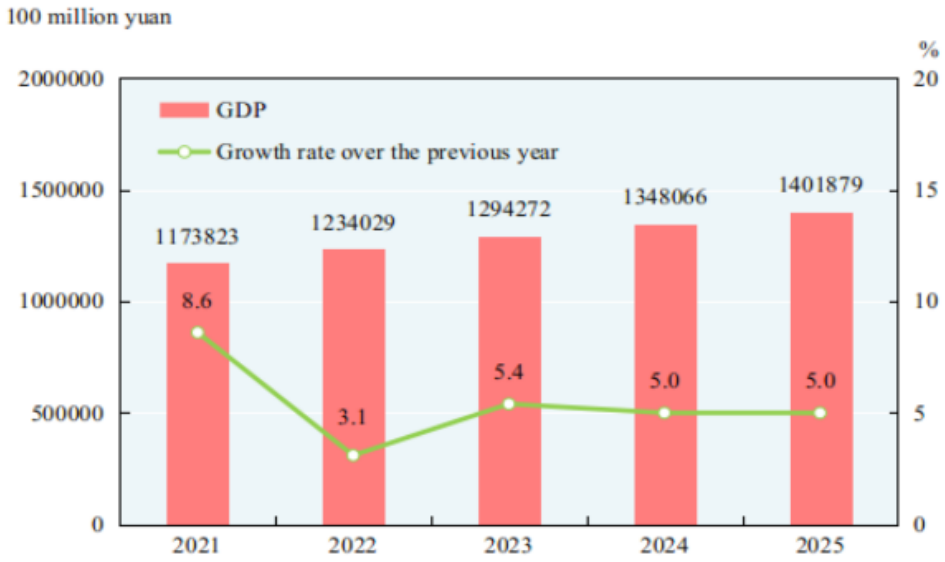
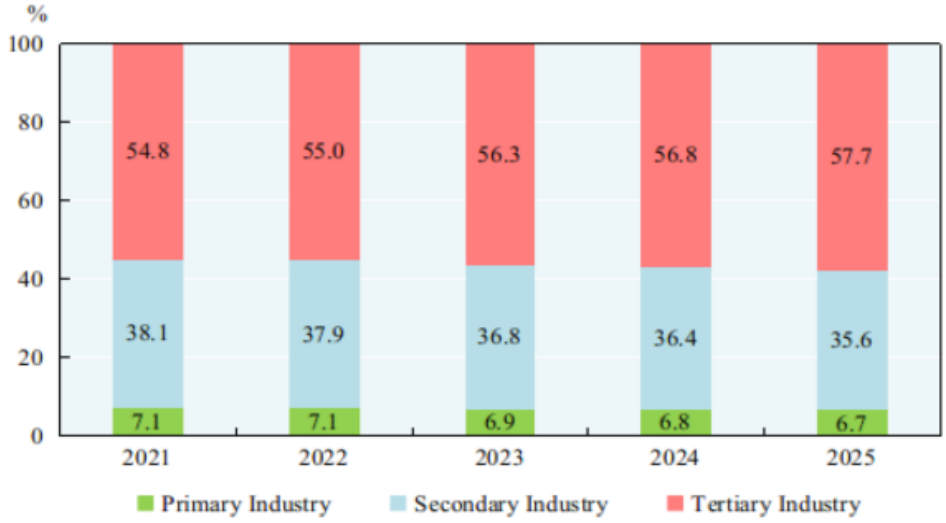


Figure 2: Shares of the Three Industries' Value Added in GDP 2021-2025

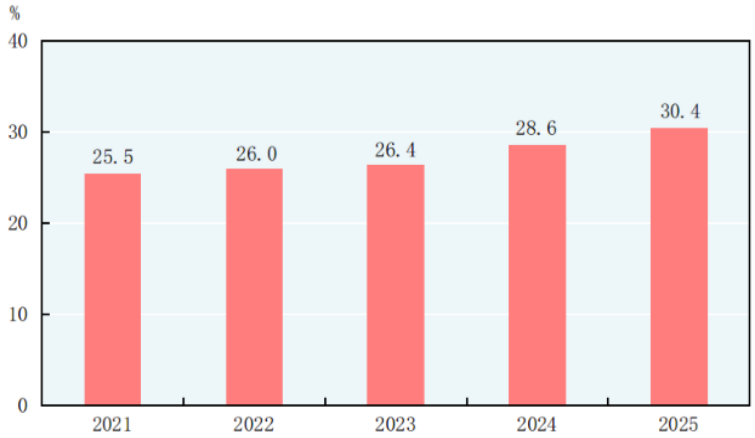


Turning to matters social with a bit of humour directed at this dour Stalinist. Here is a quote from President Xi during the two sessions praising the *Healthy China Initiative*. *China is a socialist country, and a developing nation with a huge population and relatively large urban-rural and regional gaps, Xi said, adding that it is essential to proceed from China's actual conditions to advance the Healthy China Initiative*. Words, words, words. Here is the reality of healthcare in China taken from the above Statistical Communique: "*By the end of 2025, there were 1.107 million medical and health institutions in China, including 38 thousand hospitals. Of all the hospitals, 12 thousand were public, and 26 thousand were private."* Seems this socialist paradise is only 30% socialist.

And in case anyone is under the illusion that China is a socialist society, it's more a case of rare earth bowls with the emphasis on rare rather than the Maoist *iron bowl*. *China's social security system was further expanded last year. By the end of 2025, 1.08 billion people were covered by basic pension insurance and 1.33 billion by basic medical insurance. Last year, a total of 1.21 million units of government-subsidized housing were started or secured as part of broader efforts to improve social services, the NBS noted.* Basic medical insurance and pension insurance gives new meaning to basic. Basic health insurance does not cover the private hospitals and top up pensions are needed because the basic pension is inadequate to live on especially the rural stipend. As for 1.21 million social homes, at this rate it would take over a century to build enough social homes to make a difference.

On a more positive note, the greening of the economy progressed. Improving by 1% p.a. on average.

Figure 25: Proportion of Clean Energy Consumption in the Total Energy Consumption 2021-2025

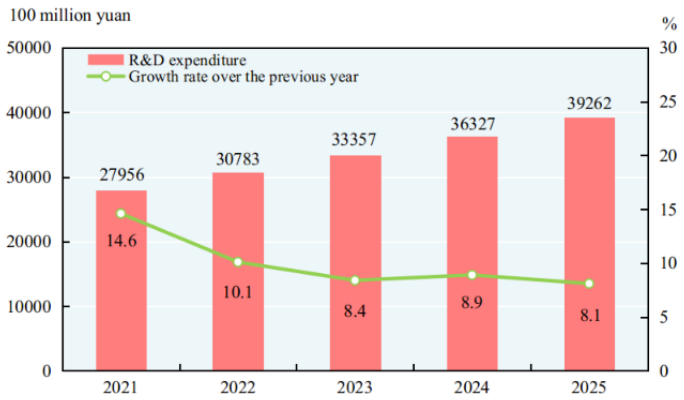


The flow of ideas on the other hand seemed to slow. Domestic patents declined in 2025 despite a rise of 8.1% in spending on R&D. However, the crude total is not synonymous with commercial patents.

Table 17: Number of Patents Authorized and Valid Patents in 2025

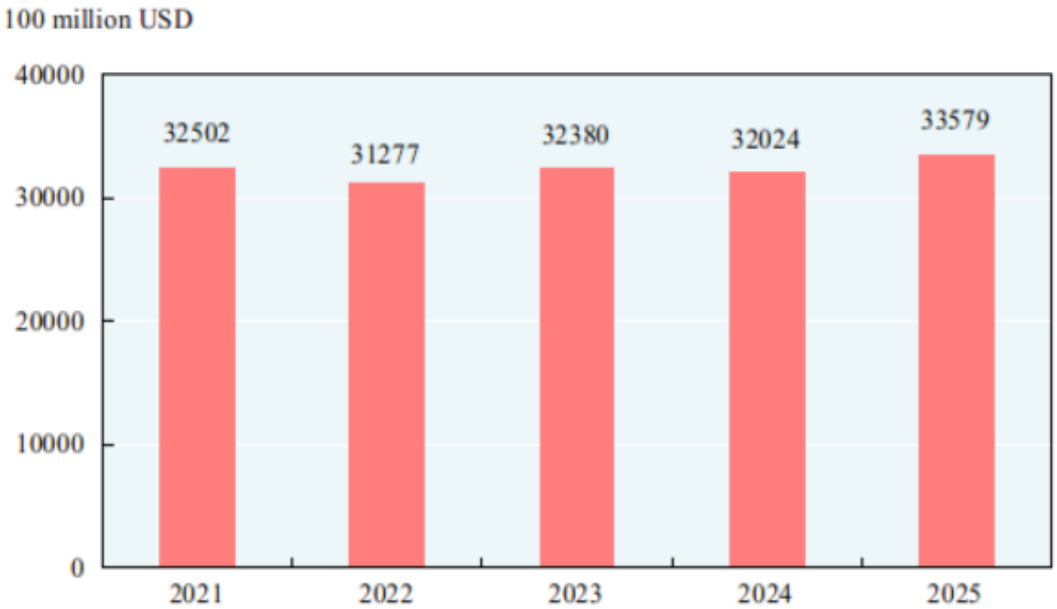
Item	Patents (10,000)	Increase over 2024 (%)
Number of invention patents authorized	97.2	-7.0
Of which: domestic	89.7	-3.7
Number of utility model patents authorized	146.1	-27.3
Number of appearance design patents authorized	66.6	3.6
Number of valid invention patents at the end of the year	631.8	11.1
Of which: domestic	532.0	13.6
Number of valid utility model patents at the end of the year	1153.0	-1.1
Number of valid appearance design patents at the end of the year	317.1	3.2

Figure 21: Expenditure on Research and Experimental Development Activities (R&D) and the Growth Rates 2021-2025



China's foreign reserves remain robust. It and Japan are the two dominant creditor nations. This is partly due to the success of Chinese exports. It grew by 5.5% or $1.2 trillion providing the major boost to GDP because flat imports did not deduct from GDP growth.

Figure 7: Year-end China's Foreign Exchange Reserves 2021-2025



Unlike the trade flows, the investment flows were more sombre. Direct investment into China fell by 9.5% while outward investment rose by only 1.8%. Clearly foreign firms are fearful of competition by local firms in the Chinese market. Also, a tariffied global economy is taking its toll.

Table 14: Total Value of Foreign Direct Investment and the Growth Rates in 2025

Sector	Enterprises (units)	Increase over 2024 (%)	Actually Utilized Value (100 million yuan)	Increase over 2024(%)
Total	70392	19.1	7477	-9.5

Table 15: Total Value and Growth Rates of Non-financial Outbound Direct Investment in 2025

Sector	Value (100 million yuan)	Increase over 2024 (%)
Total	10404	1.6

THE IRAN WAR.

The war with Iran was inevitable. From a US globalist perspective, crushing Iran makes military sense because the Gulf connects the U.S. European Command or EUCOM with the U.S. Indo-Pacific Command or INDOPACOM via US Central Command or CENTCOM primarily based in the Gulf. In other words, CENTCOM is the bridge between Europe and Asia. And it is compromised by Iran, Yemen and Hezbollah.

I reject the argument that the war in Iran is Israel's war. From a strategic point of view, this is a US war designed to unite the above three commands to make possible an attack on China. The connecting waterways around the Gulf of Hormuz and Aden are essential for any military effort in the South China Sea. The US has 84,000 soldiers based in Europe located on 13 army bases. The USAF has concentrated planes in Britain on 4 major airbases. Britain serves a hopping stage for planes arriving from the USA.

All this interconnected military infrastructure has been built up over 70 years, and this vital centrepiece is threatened by Iran. For all intents and purposes, therefore, the Middle East acts as the Eastern flank of EUCOM and the Western flank of INDOPACOM. No general or admiral, seeking to shape the theatre of war will allow their flanks to be compromised. This is why I have insisted that the war on China begins with an attack on Iran.

China knows this and Russia knows this. This is why they are supporting Iran. China was very coy about its support for Russia in its war in the Ukraine. But clearly Russia could not have prevailed in this war without China's help. China knew full well that the Ukraine war was not only aimed at Russia but at China as well. A defeated Russia with a regime favourable to the West would have completed the encirclement of China.

Instead of achieving its goals, the war of attrition in the Ukraine has depleted NATO arsenals, it has weakened not strengthened the West. The Iranian war exposed shortages resulting from the Ukraine war while further depleting US arsenals, and as a bonus to China, it has destroyed key US assets such as its THAAD radars. It appears that the US may have lost half of its THAAD batteries. The extent of the damage to forward warning stations in the Gulf can be seen in this podcast. By day 5 the US had already fired over 800 Patriot missiles equal to two years production at current rates. In the early days of the war it appears that Iran has devoted more missiles to attacking US assets than Israel itself, the ratio being 60:40.

The longer the war goes on, the more munitions the US expends fighting it, the less able the US will be to attack China. In short, the US miscalculated both with Iran and with Ukraine. Quick victories turned in costly wars of attrition consuming vast amounts of ordnance. Instead of making the war against China more viable it has made it less viable. It is therefore in China's interest to ensure the war in Iran continues for as long as the Iranians can endure.

At the two sessions the Chinese military was discussed at length. The Chinese President continued to tighten his authority over the People's Liberation Army, the PLA. Three more generals were sacked in the run up to the two sessions. A further 19 delegates did not appear. Xi made it clear in his speeches and remarks that he demands unequivocal loyalty from the army. *Since the 18th CPC National Congress in 2012, the Party Central Committee has led the armed forces to improve political rectification and*

advance political loyalty in the military with unprecedented resolve and intensity, achieving significant results, Xi said.

Of course, it cannot be ruled out that factionalism exists within the CPC with some Chinese oligarchs favouring a rapprochement with the West in order to pursue their sectional interest. But XI faced them down just over ten years ago and no doubt he will face them down again. There is similar factionalism in Moscow which the US delegates have sought to exploit by meeting with former investment banker Dmitriev, but once again Putin has squashed that initiative despite John Helmer saying the opposite.

Conclusion.

The war in Iran is part of a global war intended to weaken China. Whether it is Ukrainian attacks on Russian energy plants, or drone attacks on Russian tankers as far away as Africa, the purpose is to starve China of its energy supplies. This is reminiscent of the US oil and iron embargoes against Japan forcing the attack on Pearl Harbour.

However, unlike Japan, China has many more advantages than Japan did at the time. It's the world's largest industrial economy probably producing more than 40% of global output. It has prepared for this moment for over a decade. It is able to decouple from the world economy in a way Trump can only dream of. Yes, the US may be energy independent, and no, there has not been an attack on US soil for centuries if we ignore a few Japanese balloons during World War 2, and it is this perception which feeds the hubris on Wall Street. As I write, the unconcerned markets believe the US is invincible in this war and they believe Trump's words that the US will emerge victorious.

But the US has been weakened. It has expended munitions in quantities it cannot afford. Its entire military infrastructure in the Gulf has been trashed. Only Turkey remains. It thought decapitation would result in a short war; it has not. Today is day 12. Any non-nuclear attack on China has therefore been pushed back years while the US tries to restock its armouries. A task made problematic by an industrial base inadequate for this purpose.

Above all, the world economy was already teetering on the edge before the war. What little growth there was, is unhealthy, supported by fiscal deficits, arms spending and capital gains. That sets the scene or stage. The capitalists do not fight amongst themselves when the going is good, when the cake is expanding, and with it their slice of the cake. On the other hand, when the cake is shrinking, they plot and manoeuvre against each other trying to steal each other's slices. This is what is happening now. It was the reason why Trump phoned Putin to try to get Putin to double deal over the Iran war. Here are two podcasts which analyse the purpose behind the call. John Helmer is masterful when it comes to exposing the skull doggery going on, while the Duran provides a more balanced analysis showing Putin to be in the driving scene not inclined to be played by Trump. In pursuit of their narrow interests the capitalists make a career of stabbing each other in the back.

The workers of the world need to understand the fundamental rule of war; countries go to war do so because not going to war would be more costly. That describes the US, as its grip on the world economy slips. This is the rationale for the current spate of wars. All Trump does is to personify the US Empire as he and it enters its twilight years.

Brian Green, 10th March 2026.