Economics Briefs

Global 'Swords' Spending Up, 'Plowshares' Aid Down, in 2023

The Stockholm International Peace Research Institute (SIPRI) reported that global military spending rose 6.8% in 2023, after rising by 6.4% in 2022. It reached $2.44 trillion in 2023, SIPRI said.

The United Nations Commission on Trade and Development (UNCTAD) had reported April 15 that "aid specifically targeted at developing countries" dropped by 2% in 2022; and was likely to have fallen further by an estimated 2% in 2023. At the same time, UNCTAD said, there was a shift in that aid from grants towards loans, "amid rising international interest rates and growing debt distress."

Virtually all of the "Global NATO" nations in Europe, North America, and North Asia are pushing to continue driving up their military spending. The arms spending of their targets, Russia and China, has also gone up as they are threatened with superpower war—Russia's by 24% and China's by 7% in 2023 according to the SIPRI report. Thus, a global war-economy mobilization, publicly promoted by leaders like France's Emmanuel Macron, the UK's Rishi Sunak, and Germany's Olaf Scholz, hangs over developing countries whose development aid is being withdrawn.

World Bank: Poorest Countries In 'Historic Reversal' of Development

The World Bank circulated a poverty and inequality report at its annual meeting which is shown only in a few charts on its website, but was reported by Reuters April 15. It reportedly shows that in the five years 2019–24, the income-per-capita gap between the poorest countries and the wealthiest has increased, what the World Bank called "a historic reversal of development … for the first time this century." Reuters quoted one of the report's authors, World Bank deputy chief economist Ayhan Kose: "For the first time, we see there is no convergence. They're getting poorer. We see a very serious structural regression, a reversal in the world, and that's why we are ringing the alarm bells here."

The report evidently shows that there has been a net withdrawal of "public capital" —that is, sovereign and multinational bank development lending—from those 40 poorest countries in those five years; most of the countries are in Africa; Afghanistan and Haiti are also among them.

Separately, UNCTAD in an April 15 posting reported that "aid specifically targeted at developing countries" dropped by 2% in 2022 and by an estimated additional 2% in 2023. At the same time, it says, there was a shift in that aid, from grants towards loans, "amid rising international interest rates and growing debt distress."

This is the underside of the central bankers' "regime change" since 2019 in the NATO economies, where "rapid reflation" (subsidy of domestic consumption, subsidy of "green" finance and "green" production) has been the policy shift carried out by central banks and government financial officials working in tandem. That "reflation" policy has been joined, over those five years, by a dramatic shift, led by the Biden Administration, to military spending and investment in arms production and technologies for military advantage over Russia and China.

IMF Warns on Hedge Funds' Speculations in Treasury Derivatives

The International Monetary Fund's Global Financial Stability Report 2024 adds to the warnings of systemic threats in the increasing volatility and speculative nature of the U.S. Treasury market. It says hedge funds now control the Treasury futures market: "A concentration of vulnerability has built up, as a handful of highly leveraged funds account for most of the short positions in Treasury futures." This could be a systemic threat to the financial stability of the global economy, the IMF says.

The degree of concentration in the "basis trade" derivatives on Treasury futures, is such that a handful of very large hedge funds hold 30% of all futures positions on 5-, 10-, and 20-year Treasury securities, and 50% of all futures positions on 2-year Treasuries. And they are overwhelmingly concentrated in "short" positions, meaning their derivatives betting is that Treasury interest rates will rise further.

The embedded joke is that media of "The Street" have been reporting that "The Street" thought the Federal Reserve would cut interest rates seven times in 2024, while "The Street" itself has been betting on the opposite. The extreme concentration of Treasury futures holdings in a few very highly debt-leveraged speculative funds, means that if their speculations hit liquidity problems, so will the entire trans-Atlantic financial system.

Germany Hears of China's Machine-Building Industry and Young Engineers

A recent Berlin "Table Media" webinar, comparing the industrial performance of Germany and China, featured Claudia Barkowsky, head of the Shanghai liaison office of the German Machine Building Association (VDMA), giving a highly interesting insight into China's machine-building sector. Noting that not only Germany, but the West in general, has vastly underestimated China's dynamic, she said that China's machine-building capacity at present has already surpassed the combined capacities of Germany, Japan, and Italy. And China generated more young engineers every year than those three Western states combined.

China invests much more in innovation than Western countries, Barkowsky pointed out. Whereas for Germany to deploy up to 40 engineers on a new R&D project is a big thing, China may have as many as 400 engineers on a single project. China has continuously expanded its capacities in building standard machines in the past years, but it is now on the verge of becoming a serious competitor to the German special machine builders. In terms of standard machines, Chinese exports into the ASEAN countries are expanding massively, while German exports there are stagnating.

Generally, Barkowsky said, German companies with production sites in China are better off than those that only export to China; and going inland turns out to be advantageous for German machine builders, also because production costs are lower there than in the big metropolitan centers like Beijing and Shanghai. Chengdu, for instance, is an attractive place for Germans, being well connected in terms of infrastructure, such as railways and highways.

Barkowsky said that, all in all, German machine builders will not benefit from protective regulations such as those the EU Commission presently considers in Brussels, and that the Germans should become more dynamic to cope with the Chinese.

U.S. Economic Reports Are Being Manipulated, It Appears

Two "more than surprising" reports on the U.S. economy in recent quarters have appeared in rapid succession—one on employment, the other on GDP—in the context of two years of contradictions among the various reports on employment. With another monthly U.S. jobs report appearing as we publish, May 3, readers are warned that these reports are not credible.

The Labor Department's "Business Employment Dynamics" report published April 24, is part of a series thoroughly ignored by media, and watched only by Wall Street, Fed, and other economists. Yet its employer database is huge compared to the Department's monthly reports, and is finalized seven months later from accurate business filings rather than mere surveys. This particular report, covering the second and third quarters of 2023 (and not including government jobs), completely wiped out all the job gains which had been reported as a "booming labor market," and left instead, a net *loss* of hundreds of thousands of jobs in the private sector over the two-quarter period.

The report should finish the credibility of the Department's monthly headline grabbers, so riddled with contradictory sets of "data" and wild "adjustments" as often to be meaningless.

The Commerce Department's first estimate of GDP in the first quarter of 2024, released April 25, gave an annualized growth rate of 1.6%, just half of prevailing estimates, and less than half of the previous quarter's rate. Did the U.S. economy fall off a cliff? Or, was a slow growth report wanted, to help Wall Street and the White House reopen the Federal Reserve's door to cutting interest rates through the remaining election period?

'REPO for Ukraine Act' Will Become Boomerang for U.S.

The United States will have cause to regret the law Congress just passed authorizing outright seizure of $300 billion-plus in Russia's foreign reserves to give them to Ukraine, should the Biden Administration decide to push it. In immediate reaction to the "REPO for Ukraine Act," a Russian court froze $440 million in JPMorgan Chase's funds in Russia's VTB Bank. This is a pinprick to JPMorgan Chase, but there are many more American assets, financial and physical, in Russia to be seized.

Moreover, should Russia sue banks in Europe—including foreign affiliates of U.S. banks—and Euroclear in Brussels, which holds most of the Russian reserves frozen by the U.S. Treasury and the European Union, those banks could use the Takings Clause of U.S. law to get compensation for any losses they sustain—from U.S. taxpayers. Hundreds of billions, and de-dollarization, would be at stake.

Algeria Joining BRICS' New Development Bank

Algeria's Minister of Finance Laaziz Fayed said on April 28 that his nation is close to joining the "BRICS Bank" and has a timetable for membership agreed upon with NDB President Dilma Rousseff at the IMF meetings. Mr. Fayed told IRNA that the two discussed "financing structural development projects for Algeria's economy." Algeria's President Abdelmadjid Tebboune had announced the nation's intent to join the New Development Bank in July 2023.