

THE DRIFT TO WORLD WAR 3. **The division and re-division of the world economy.**

Historically, dating back to the industrial revolution, only two countries have been hegemonic economic powers. Britain, up to 6th April 1917 when the USA entered the First World War to prevent a German victory. From then on, the USA has continued to dominate the world economy, if not industrially, then financially, despite being tested by the USSR up to the 1970s and challenged by Japan in the 1980s. However, for the first time in a century, the USA is being overtaken by a rising new power, China. If history is to be a guide, as it always should be, this change in hegemony is always convulsive.

The economic sun is setting in the west and rising in the east. In a world where the working class is dormant but not passive, the imperialists continue to flex their muscles. The USA will not relinquish its leading role without a fight. There are many who would declare this conforms to human nature which is inherently competitive, which of course includes military competition. This vacuous tautology of course does not explain why we do not fight all the time. It does not explain why capitalists cooperate at certain stages only to fight at others. Why the US would rebuild Japan and Germany after the war having bombed them to pieces during the war. Or how Britain could defeat Germany only to be overtaken economically by a now friendly Germany.

The answer lies in the dilemma, that while the capitalists may benefit from capitalism, they are not the masters, and increasingly the mistresses, of their house. If capitalism was an economic system without disruptive cycles and with endlessly expanding markets, the capitalists would never leave the bulging table where they feast on the labour of their workers, to go outside and square up to each other with fists raised. But capitalism, history's first industrial society, is a crude and crisis prone economic mode of production. It cannot progress except through a process of boom-bust.

A more scientific way to describe the boom bust cycle is to describe it as the cycle of production-destruction. Immediately the question is posed, but why should production end in destruction. It seems so impractical, so wasteful, so inhuman. The reason is that the cycle of boom always results in over-production. But this over production is very specific. It is not overproduction in terms of the needs of society, it is overproduction purely in terms of profit. Simply put, at the end of the boom phase of the cycle, production has become unprofitable.

Of course, society would love to consume this overproduction. Needs abound while poverty silences the poor. But this overproduction is owned by the capitalists, not society, and acting as capitalists they seek every means to avoid selling it at a loss. Profit which brought them together is replaced by losses which drive them apart. This is experienced as an intensification of competition.

Capitalists now gang up to dump the losses on to their competitors. Centrifugal forces are unleashed. Nation states are dragged into the fight. Barriers go up. Governments re-arm. Lies proliferate. Barbarism stalks the land. The capitalists who have been forcing their workers to pay for their losses now seek to force the workers of other nations to pay for the losses as well, up to and including forcing their capitalist masters out of business. War threatens. Workers are put at risk.

Hence, we see that what is to blame is not the ugly personality of the capitalist but the cruel nature of the system. It is capitalism that turns the outstretched hand into a fist. Of course, we have been discussing the underlying processes. To this must be added the concrete today. As the hegemonic economic power, the USA has always enjoyed the ability to extract super profits from the workers of the world.

It is this fountain of profit that is now threatened by the ascendancy of China. The US could tolerate China when it was a mere sub-contractor to its corporations, an economic underling, handing over profits via an unavoidable discount. Ten years ago, the US produced 25% of high tech but enjoyed 75% of the profits. Between 2000 and 2013 while Chinese corporate revenue jumped 73% when measured by capital, its rate of return on invested capital fell 1.3%. On the other hand, US corporate revenue rose by only 23.5% but its rate of return on invested capital increased by 6.7%. The fall in profitability in China was mirrored in the rise in profitability in the USA. (*PLAYING TO WIN: THE NEW GLOBAL COMPETITION FOR CORPORATE PROFITS*, McKinsey global institute, September 2015)

But these days China seems to have forgotten its place. It is developing its own independent economy. It is becoming the new competitor on the block. From a source of profit, it is turning into a source of potential loss, as it creates its own international champions. For the US capitalists, the international market is suddenly overcrowded.

Above all a question mark has appeared over King Dollar. Will Prince Yuan become a competitor? By dominating the world economy for a century, the US has amassed a huge hoard of financial wealth on which the world depends and which is the prime source for speculation. This treasure trove is underwritten by the dollar which acts as the de facto reserve currency for international trade and investment flows. 60% of all central bank reserves are held in dollar form, 80% of all letters of credit to finance international trade are denominated in dollars (BIS), and most minerals and foods are traded in dollars.

Again, this is an anomalous situation as far as China goes. China is the biggest global trading nation due to its exports, though the US is still a larger importing nation. As such, it could be expected that the Chinese Yuan should play a leading role in trading finance, which it does not. But this is beginning to change. A bigger slice of products is now being traded in Yuan. Shanghai will displace London as the centre for trading products such as oil and copper, because China has become the biggest consumer of products like oil and copper.

By degrees the Yuan will ascend up the value ladder. But it will not act as a reserve currency for as long as the Yuan is pegged to the dollar preventing it floating freely, and Chinese capital markets remain Chinese centric rather than open to international flows. The internationalisation of the Yuan is ultimately tied to China emerging as a globally competitive economy that stands on its own two technological feet therefore providing the world with products that have been "created in China". This will happen, but not yet, not for another 5 years, and for as long as this disparity exists, the US will be able to exercise a degree of financial leverage over the Chinese economy offsetting China's industrial advantages.

How much of an economic threat does China pose?

The USA is still considered a larger economy than the Chinese economy. However, the gap in dollars is smaller than generally assumed as the USA GDP figures incorporate more double counting or duplications, than do the Chinese figures. It goes without saying that double counting always inflates GDP figures. For example, the inclusion of R&D, in-house software, imputed rents for owner occupiers, the financialised US health care system, all increases US GDP figures by at least 20% relative to China. Adjusting for these inflated figures reduces the gap between the two economies by half from 60% to 30%. On this basis, given an expected long-term growth rate of 2.25% for the US and 6.5% for China, China will overtake the USA in dollar terms by 2024.

This may be the background to China's mission statement "Made in China 2025", inspired by Germany's "Industry 4.0" plan. Behind the labels is the centralised state funded plan to achieve

technological parity with its competitors within 8 years. China is in an anomalous position. No major capitalist country has grown so fast to dominate the world industrially, while remaining a technological laggard.

The Chinese authorities are aware that their industrial base is patchy, that it is suited to mass assembly production techniques based on multiple low skilled steps, carried out by cheap migrant labour. The industrial base is often described as “big but not strong”. (<http://www.ijrbmsm.org/papers/v3-i12/6.pdf> *Measurement of Technological Progress in China's Manufacturing Industry and Analysis on its Influencing Factors*, XI Yanling International Journal of Research in Business Studies and Management Volume 3, Issue 12, December 2016, 49-56)

Until this changes China will not move from “made in China” to “created in China” (XI Yanling). What this means is that China needs to create its own international multi-nationals capable of competing with the best of the west and South Korea in industries such as cars, food, chemicals, aerospace, pharmaceuticals, chip production, or most of the high value industries. There are exceptions. China is beginning to dominate the telecommunication industry both in service equipment and user equipment in the run up to 5G. Until China does, all the observations on patent issued needs to be heavily qualified.

Where there are exceptions, such as in the case of the race to 5G, the US has banned Huawei and ZTE from selling equipment to US networks. In the case of ZTE it has gone further and banned US vendors from supplying components to ZTE. Clearly Trump is seeking to enlarge the trade deficit. What is being done under the guise of “preventing espionage” is really the naked protection of financial interest. The collapse of ZTE is a salutary reminder to China of its ongoing dependency on Western technology.

A lot has been written about China topping the league of patents. This has been given too much importance. Patents are like seeds, but seeds are a long way from the harvested crop. Between the two lies the question of sufficient arable land, adequate inputs, experienced farmers and agriculturists and so on and so on. Until these patents are translated into new products or improved techniques of production they are merely latent with possibility.

The problem facing the US economy is not so much the trade deficit as it is the fact that the Chinese market is now bigger the US market when measured in dollars. (In 2016 the Chinese retail market overtook the US market and by the end of this year will be 20% bigger than the US. <https://www.emarketer.com/Article/China-Eclipses-US-Become-Worlds-Largest-Retail-Market/1014364>) By the end of the decade it will be a third bigger than the US, which means that even at the top end it will be bigger. In all cases, whether it is automobiles, smartphones, white goods etc. the Chinese market will be bigger. If forced to choose, most multi-nationals will opt to stay in the Chinese market. If on the other hand, China follows Trump’s lead, so that only Chinese equipment can be used under the pretext of national security, western companies stand to lose more than Chinese companies. China therefore has the capacity to divide the Western powers as it plays one of the other with the lure of its market.

The same applies to the irreplaceable manufacturing base on which the world economy depends. This is the single most important element in the Chinese economic arsenal. Today many of the production chains that span the world, comparable to train tracks, converge on China which acts as the central junction. To replicate this base would take many years and be uneconomic, and in the case of the US, impossible. Even countries like Vietnam, to which some industry is being relocated because of lower wages, cannot replace China. Hence the bargaining position of China is not without its strengths.

Some may question whether a world war is possible in the first place. The world economy is so intertwined. This is true but up to a point. There are three viable international blocks. North America, the EU and China. Only China is well placed to become an autarchic economy with the complete range of industrial skills needed to survive in a fractured world. The EU and the US could achieve this with great effort, but it will come at huge cost to their economies.

But what really disturbs the US is an alteration in the international division of labour. The United States stands at the apex of this division, dominating its intellectual head, a position it only relinquished briefly to the Japanese in the second half of the 1970s and 1980s with the march of the Toyotas and Sony's seemed irresistible. The final comment on the Japanese challenge belongs to the Soviets, who in responding to US accusations of spying at the time, declared that the unclassified Sony camcorder contained more advanced technology and miniaturisation than anything found anywhere in the US.

The US successfully pushed back the Japanese onslaught by adopting the manufacturing techniques refined in Japan which had their origin in the USA during the war. It also ruthlessly restructured its industry through foreign outsourcing to reduce costs. And most importantly, the government organised and led the effort to re-energise the high-tech industry in the USA by utilising the earlier "offset programmes" developed by the Pentagon to combat the alleged quantitative advantages of the Warsaw Pact countries. *"Developed under the leadership of then-Under Secretary of Defense Bill Perry in the late 1970s, there were two primary components to the Offset Strategy. First, the DOD generated technological superiority by investing its robust research and development (R&D) budget into specific information-based technological enablers and 'force multipliers' like global positioning services (GPS), intelligence, surveillance and reconnaissance (ISR) platforms and a range of information and networking technologies that would improve the efficacy of extant U.S. weapons platforms."* (see http://www.rsis.edu.sg/wp-content/uploads/2015/06/PR150608_Americas-Third-Offset-Strategy.pdf for a good review of the implications and consequences of offset strategies.)

What is important was the commercialisation of this offset programme which re-established US technological superiority in the sphere of information technology, the technology that was to dominate the epoch. Faced with the growth of China the US is once again embarking on a third offset programme which is aimed at reducing China's quantitative advantages. The difference this time, is that unlike Comecon, China outproduces the US many times over.

In dollar terms China's industrial output was \$4.6 trillion in 2016 versus \$3.6 trillion (CIA and IMF) and for manufacturing it was \$3.1 trillion and \$2.2 trillion. (<https://fas.org/sgp/crs/misc/R42135.pdf> Congressional Research Service, *US manufacturing in international perspective* 21 February 2018.) China's industrial/manufacturing output in value terms is bigger than the US and Japan put together. More to the point, as the congressional investigation found, between 2008 and 2016 China's value production increased by 94% compared to 3% for the US. At these growth rates China's share of global manufacturing will increase from about 27% today to over 40% by 2025, a figure only once achieved in the last century, the US after World War 2 when its competitors had either been blown to pieces or bankrupted (U.K.).

Hence the question is posed, can the quantitative differences be overcome by US qualitative advantages? The converse is actually more pertinent. Can the US restore its industries faster in a war footing than the Chinese can improve its technology? The answer favours the Chinese.

Today the Chinese are embarking on the same centralised offset programme as the US engaged in the 1970s, and it is essentially linked to *Made in China 2025*. Its purpose is the transformation of Chinese

industry into a world class industry no longer dependent on Western, Japanese and Korean technology. One capable of re-equipping, what is now, a professional army weaned off graft.

Will it succeed? After all, western technology is not waiting for China to catch up. The answer is that China does not have to close the gap completely in time. Just as the mediocre Sherman tank in WW2 did not cost the US the war in Europe, so too China. Germany with its all-round technological superiority except for heavy bombers and the nuclear bomb, did not win the war because of the limitations of its industry. But China has another card in its deck, Russia.

The superiority of Russian military technology.

In 2014 an event occurred which changed the US perception of Russian military capabilities and its political stance towards Russia. Instead of Senator McCain's comment that Russia was little more than a glorified gas station, Russia humbled the US navy. Arrogantly intending to intimidate Russia, the US parked the destroyer USS Donald Cook on Russia's front lawn in the Black Sea. This was a 4th generation destroyer armed with cruise missiles and multiple anti-aircraft missiles managed by the Aegis Combat System, the most advanced and costly radar-weapons system in the US arsenal.

It was a provocation Putin could not ignore. The Russian Airforce sent a couple of run of the mill SU 24 fighters to greet it. While the planes did not carry any weapons, they did carry an electronic counter-measure pod codenamed Khibiny. The SU 24s promptly disabled all the electronic systems on the destroyer rendering it defenceless. To press home the advantage, one of the SU 24's then made 12 bombing runs on the destroyer before disengaging. The captain got the message and turned the ship around, scurrying back to Rumania where 27 crew members promptly requested to be relieved of active duty. Clearly to sailors, who had been told they were invincible, the recognition they were not, was too much. The Indian Defence Force had already come to this conclusion years before these sailors when they tested both US and Russian weapon systems.

The same revelation occurred in Syria. According to one US general stationed there: "Russian capabilities were eye watering". Even Israel was given a lesson in humility when the Russians disabled two F15s that over strayed the mark, switching everything off except their civilian VHF channel which was used to order them home. When the US tested Russia's new tank in Syria by getting a jihadi group to fire a missile at it, the Russians retaliated by crippling the latest plane in the US arsenal, an Israeli F35, through the deployment of two advanced "pelican birds". Hence it is the calibre of Russian weapons that has set the terms of engagement in Syria, which has frustrated the Western strategy of regime change in Syria.

The Soviet Union has left the Russians a legacy of superb weaponry that Russia has built on recently. This has been recognised by the USA which is using its biggest weapon, its financial muscle, to weaken Russia economically. The economic war being waged on Russia has nothing to do with rigged elections, or spying or cultivating Trump, this is merely neo-con misdirection amplified by a servile media. It has only one purpose, to weaken Russia economically to deprive it of the means to develop and amass weaponry which not only matches the USA, but in many decisive arenas, outperforms it. And it is this outperformance that exposes the underbelly of the US military industrial complex which has grown fat on over-developed, overpriced and difficult to deploy weaponry, like the F35 which can barely fly or the B2 bomber that is scared of a little rain.

The new Balkans

The Arab world is to the world what the Balkans were in 1913. It has been Russian technology that has swung the war decisively in favour of Assad and changed the balance of forces in the region against

Israel and Saudi Arabia, the hammer and anvil of US foreign policy there. If British white helmets plant false flags seeking to exploit any mass revulsion over gassing, it is to deal the western imperialists back into the war. The result is that this part of the world is a flash point, a world war waiting to happen. A region of where managed incidents and agreed responses can quickly break down.

This is recognised by the Chinese. If Xi has declared himself Napoleon, it is because of the two challenges the Chinese leadership face. On the domestic front he faces the restructuring of Chinese industry, whose mechanisation under Made in China 2025 will see a hundred million workers lose their jobs, and externally, growing economic tensions with the USA. The Chinese leadership have two choices, to utilise Russian technology or to sacrifice Russia to buy time and gamble on developing their own military technology in time.

A degree of animosity has existed between Russia and China, beginning with Stalin's malicious instruction to Mao in 1928 to disarm the coastal working class resulting in their massacre at the hands of Chiang Kai-shek. This was further aggravated by Stalin's haughty attitude to the Chinese after the war and their later split over rapprochement with the West which Mao felt would leave China vulnerable. More latterly Russia is concerned by the growing economic might of China, that China may covet its under-populated east and the propensity of China to rob it of its technology through reverse engineering.

However, it would be in the interest of both countries to set aside their differences, for Russia to provide China with advanced technology and for China to provide Russia with finance. The US is intent on encircling China in a ring of steel. If Russia falls, if it is turned into another Venezuela by means of sanctions, or worse, a Ukrainian orange revolution, then China will be surrounded by the West. The Chinese leadership's main strategy has been to play for time, to build the economy qualitatively and not antagonise the west, but this strategy has run out of time.

On the other side, the West has overplayed its hand. Had the Trump administration held off with sanctions on China, had it placated China, seduced China into believing it was not threatened, then the possibility existed the US could have precipitated regime change in Russia before turning on China. Instead the Chinese recognise that the trade war against them and the prior aggression towards Russia are two sides of the same coin. "Deal maker" Trump has been rumbled. His failure to recognise the urgency of divide and rule demonstrates that this deal maker is out of his depth, politically.

The commentary by the Chinese Press and officials after Syria was bombed by the US, Britain and France represented a change in tone. China recognised the attack as an attack on a sovereign country without a UN mandate and before the facts were established. In substance it was close to the Russian position. It condemned the language used against its ally and cautioned against escalation which could suck in more powers into the fight. China has not only been the champion of free trade, it is fast assuming the role of the champion of international law and treaties.

Syria in antiquity was the terminus for the Silk Route, the same route that Beijing is hoping to replicate with its belt and braces programme, which is designed inter-alia to break US encirclement by creating a band of countries dependent on Chinese largesse. This route also ran through Afghanistan. The war in Syria has overshadowed developments in Afghanistan. Over the last twelve months the US has been sucked back into Afghanistan as the Taliban advance. Its Airforce alone has tripled its bombing of that devastated country. As Pakistan and US relations become more rancorous, Pakistan is realigning itself with China. While a clash between the US and China in Syria is unlikely, the same can't be said in Afghanistan. The US stands to be driven out of Afghanistan, just as the Soviets were, and the victor will be the Chinese.

In conclusion.

This posting is a commentary. It does not offer support to the Chinese or the Russians. The progress to a world war in the end can be stopped only by the intervention of the international working class weaned off nationalism and recognising their enemy is at home, their own capitalist class. It uses the word dormant to describe the political circumstances of the working class, a political state of being which is more excitable than a class rendered passive. It recognises that recent events and the threats they potentiate, has stirred up a debate about the future of humanity. There is a growing recognition that all these incidents, that all these flashpoints can boil over and what was controlled and proportionate can escalate into the uncontrolled. More people recognise they can no longer stand idle on the side lines.

The preparation for war includes the nuclear element. Until recently it was felt, that nuclear weapons, because of their yield made wars unwinnable. Now, new, low yield low radiation nuclear weapons are being produced, particularly by the US, not to stop wars but to start wars. The combination of stealth, hypersonic vehicles and these bombs are considered a war winning combo even against nuclear adversaries. Hence while the old nuclear weapons may have prevented war these new low yield weapons make war more probable.

It is for all these reasons that we must declare that the biggest threat to the planet is capitalism. Within the family of capitalism, it is the US that is the rampaging rogue elephant. For a century the US was the home of reaction, destroying all regimes, elected or not, that it felt was incompatible with its economic interests. It assumed the role of the international policeman regulating its world order. As this order fails the US will become not so much a rogue state threatening a region, but a threat to the entire world. Russia and China will act as a moderating force, though they will be cast as the opposite by the corrupt and decadent western media. But their efforts will be in vain.

Only the workers of the world have the power to prevent another world war. Such a war will not suddenly erupt. It will be preceded by rising political tensions and escalating incidents. The minority who rule the world are not fools, though many are foolish. They know war is fraught with peril, particularly its potential to rouse their working classes. It is not so much a case of staring into their adversaries' eyes to see who blinks first, as much as it is looking over their shoulders to see what their workers are doing.

Capitalism is currently facing a bigger crisis than in 1913 or in 1938 because it faces four simultaneous issues, each writ large. The first is the crisis of reproduction. Six months ago, the OECD, the IMF and the World Bank declared that the world economy had finally taken off with all onboard, now they have to take back these words as clouds gather once more. The second is global warming which is not being slowed down, never mind reversed. The third is the introduction of Artificial Intelligence and its culling of jobs and its surveillance of society. Finally, as we have been discussing, the threat of war with The US and the EU on one side and Russia and China on the other.

It is debateable whether capitalism can survive or outlive these challenges. What is critical is whether the working class rises up to establish its historical interest, to build a new society no longer based on competition, therefore war. This means ending the ten-thousand-year reign by private property in the means of production and life, which has fuelled so much war and so much suffering.

